

# Standard Bank South Africa PMI®

## South African private sector business conditions remain weak

### Key findings:

- PMI rises to 50.1, signalling little improvement in business climate
- Higher new business and employment offset by lower output
- Slowest rise in wages in six-year survey history

This report contains the latest release of data collected from the monthly survey of business conditions in the South African private sector. The survey, sponsored by Standard Bank and produced by IHS Markit, has been conducted since July 2011 and provides an early indication of operating conditions in South Africa. The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI®).

The PMI is a composite index, calculated as a weighted average of five individual sub-components: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

The Standard Bank South Africa PMI rose from 49.0 in June to 50.1 in July, signalling broadly no change in overall private sector operating conditions at the start of the second half of 2017. The latest figure is the second-lowest in the past 11 months and below the six-year long-run survey average of 50.7.

The rise in the PMI in July reflected renewed growth in new business, employment and stocks of purchases and a slower fall in output.

Private sector business activity in South Africa declined for the fourth successive month in July. The rate of contraction slowed

since June, but was still the second-fastest registered since April 2016.

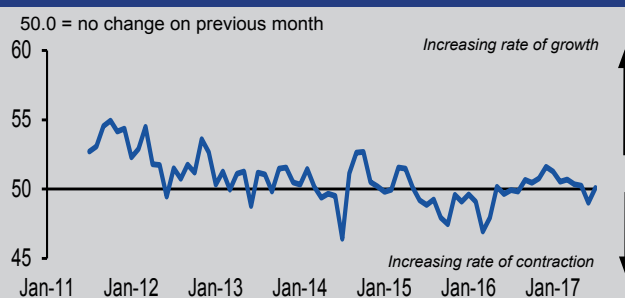
Output declined despite a renewed rise in new work. New business grew at the fastest rate since March, albeit one that was modest overall. A further decline in new export sales weighed on growth of total new orders.

Private sector employment also rose in July, following the first decline in a year in June. Though marginal overall, job creation helped firms to cut the level of outstanding business for the second consecutive month.

Purchasing operations were stepped up in July as the volume of incoming new business grew. Input buying in the private sector rose for the first time in three months, albeit at a weak rate. Subsequently, stocks of purchases also expanded slightly and for the first time since April. Suppliers' delivery times lengthened, albeit only slightly.

Inflationary pressures in the South African private sector remained relatively weak in July. This mainly reflected a survey-record low rate of wage inflation during the month. Purchase prices increased at the strongest rate in six months, albeit one that remained weaker than the six-year long-run survey average.

Standard Bank South Africa Purchasing Managers' Index™ (PMI®)



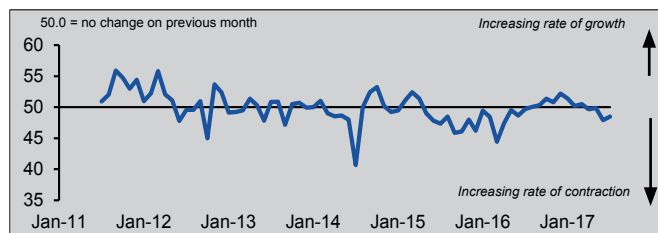
		Purchasing Managers' Index	
		Unadj.	Seas. Adj.
2017	May	49.9	50.2
	Jun	47.1	49.0
	Jul	49.7	50.1

The Standard Bank South Africa Purchasing Managers' Index™ (PMI®) is a composite indicator designed to provide an overall view of activity in the South African economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Standard Bank use the above marks under licence. IHS Markit is a registered trade mark of IHS Markit Ltd.

## Output Index

Q. Please compare your production/output this month with the situation one month ago.

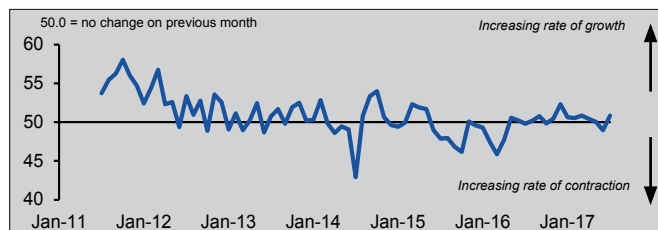
Private sector output in South Africa declined for the fourth successive month in July. The rate of reduction eased from June's 14-month record, but remained sharper than those seen in April and May. Survey respondents linked lower activity to a slowdown in market conditions. Around 16% of surveyed firms reported decreases in output during the month.



## New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

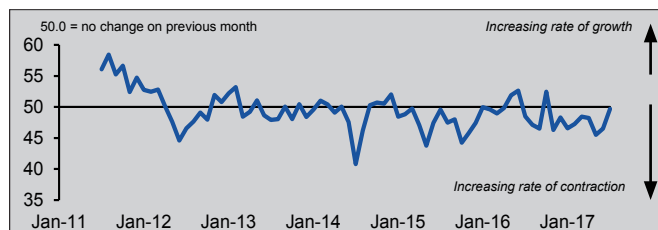
Intakes of new work at South African private sector companies rose in July, following a marginal fall in June. New business has risen eight times in the past nine months. A number of firms reported that new projects had resulted in incoming orders. That said, the rate of growth in the latest survey period was only marginal.



## New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

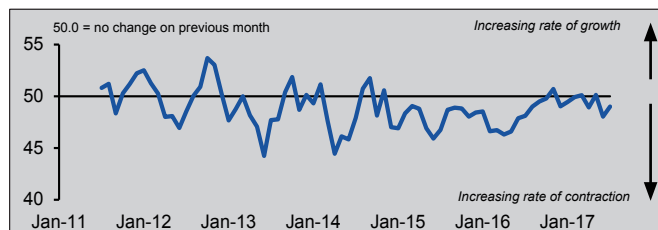
The volume of new export business in the South African private sector fell for the ninth consecutive month in July. Firms mentioned a lack of international demand. That said, the rate of contraction slowed further from May's 19-month record, and was the weakest in the aforementioned sequence of decline.



## Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

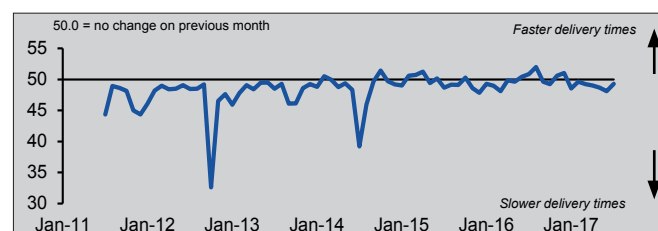
The seasonally adjusted Backlogs of Work Index remained below the no-change mark of 50.0 for the second month running in July, signalling a further drop in outstanding business at South African private sector firms. That said, the rate of contraction eased from June's 12-month record to a marginal pace.



## Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

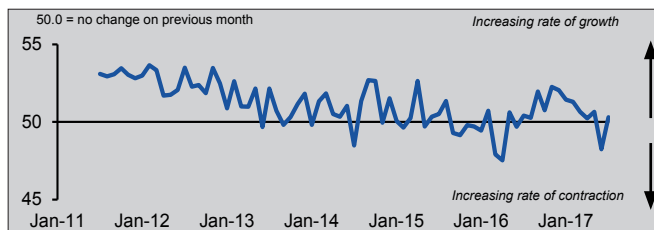
July survey data signalled another deterioration in supplier performance in the South African private sector economy. Average lead times for inputs lengthened for the seventh successive month. Survey respondents linked delays to shortages of raw materials and payment difficulties. That said, the extent to which times lengthened was the weakest in four months.



### Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

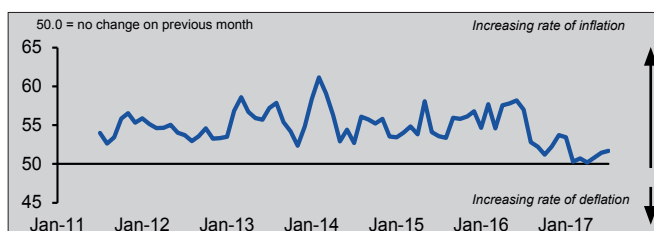
Private sector employment in South Africa rose in July, as signalled by the seasonally adjusted Index moving above the 50.0 no-change mark. This followed a decline in June, the first contraction since June 2016. Firms linked recruitment to work on new projects and the completion of contracts. That said, the rate of job creation was only fractional.



### Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

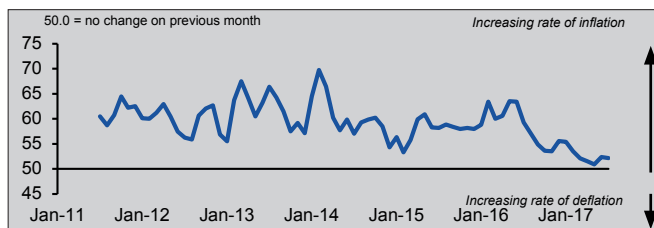
Prices charged for private sector goods and services in South Africa continued to increase in July, in line with the trend shown throughout the six-year survey history. The rate of inflation accelerated for the third consecutive month, to the fastest since January. That said, the seasonally adjusted Output Prices Index remained well below its long-run trend level of 54.8.



### Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

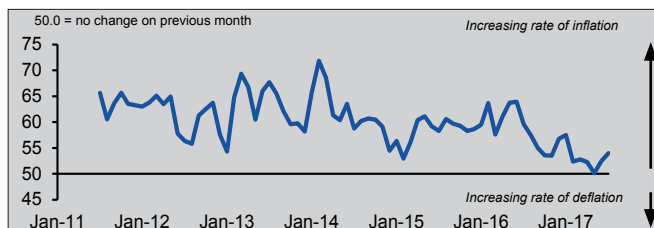
Overall cost pressures in the South African private sector economy remained weak in the context of the six-year survey history in July. The seasonally adjusted Overall Input Prices Index was above 50.0, signalling inflation, but was little-changed from June and the fourth-lowest in the series history.



### Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

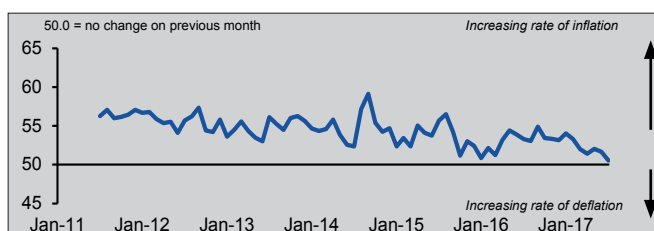
Average purchase prices paid by South African private sector firms increased at a faster pace in July. Around 11% of respondents reported higher purchase prices, partly linked to raw materials and fuel. The seasonally adjusted Purchase Prices Index rose to a six-month high, but remained well below its long-run average of 60.2.



### Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

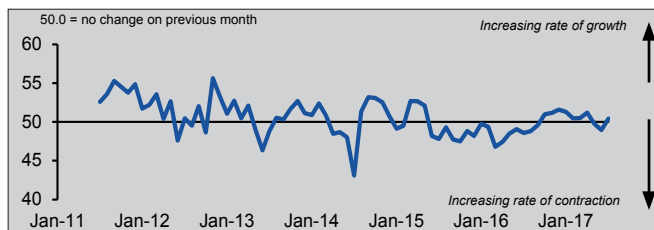
The seasonally adjusted Staff Costs Index remained above 50.0 in July but fell to a record low, signalling only a fractional increase in wage costs for South African private sector companies. Only 5% of survey respondents reported increased average labour costs during the month, while the vast majority (93%) signalled no change.



### Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

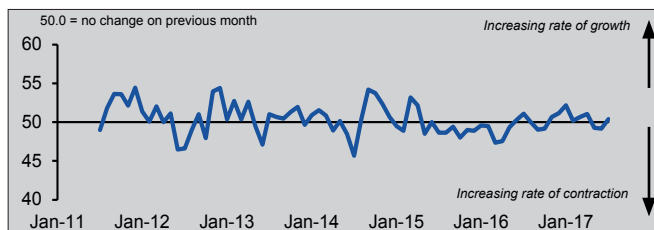
Having declined in both May and June, the volume of inputs purchased by South African private sector firms rose in July. Anecdotal evidence provided by survey respondents linked higher purchasing activity to new orders. That said, the rate of expansion was only marginal and slightly weaker than the long-run survey average.



### Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

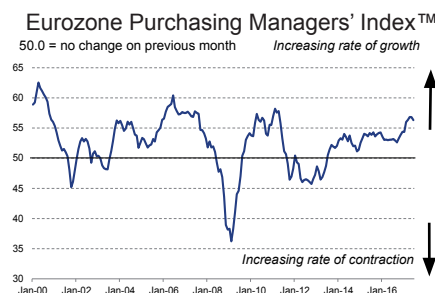
Inventories of inputs in the South African private sector economy expanded, on average, for the first time in three months in July. Firms linked higher stock levels to new business. That said, the seasonally adjusted index signalled that the rate of growth was only marginal, and broadly in line with the series long-run average.



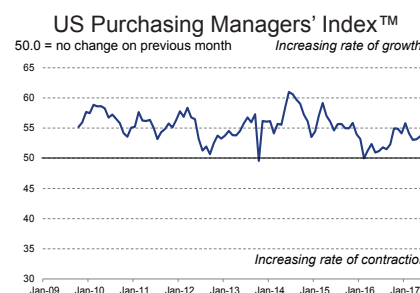
### International PMI summary



Sources: IHS Markit, Caixin.



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI data pointed to a marginal increase in total Chinese business activity at the end of the second quarter. At 51.1 in June, the Composite Output Index fell from 51.5 in May to signal the slowest rate of expansion in a year. Data indicated that the slowdown in overall growth was driven by a weaker performance of the service sector.

The IHS Markit Eurozone PMI Composite Output Index fell to a four-month low of 56.3 in June, only slightly below April and May's six-year record highs of 56.8. The average reading over the second quarter as a whole (56.6) was also the best outcome since Q1 2011. The expansion was again led by the manufacturing sector, where production rose to the greatest extent since April 2011.

The IHS Markit U.S. Composite PMI Output Index rose to 53.9 in June, up from 53.6 in the previous month. Although the composite figure picked up in June, the rate of growth remained historically muted. Nonetheless, the average pace of expansion indicated over the first half of the year was faster than that seen during the same period last year.

### Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the South African economy, including manufacturing, mining, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index (PMI®) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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