

Standard Bank South Africa PMI®

South African private sector output contracts in June

Key findings:

- Sharpest fall in business activity since April 2016
- PMI below 50.0 as new orders and employment also decline
- Inflationary pressures remain weak

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 fell below the no-change mark of 50.0 in June, registering 49.0, down from 50.2 in May. This signalled a slight deterioration in overall private sector operating conditions, and halted a nine-month sequence of improvement.

The negative influences on the PMI in June were declines in output, new orders, employment and stocks of purchases. Only suppliers' delivery times had a positive contribution to the headline figure.

Private sector business activity in South Africa declined for the

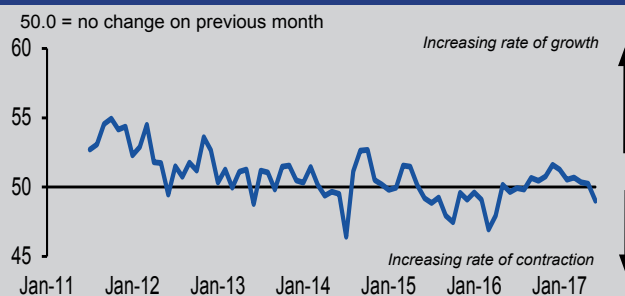
third successive month in June. Moreover, the rate of contraction accelerated to the fastest since April 2016. The main influence on the drop in overall activity was a reduction in the volume of incoming new business for the first time since October 2016. Moreover, new export orders declined for the eighth consecutive month.

Spare capacity was evident in the South African private sector in June, as the level of outstanding business declined at the fastest rate since June 2016. With a lack of incoming new work, firms reduced their staffing levels on average for the first time in a year.

Purchasing operations were scaled back in June as the volume of incoming new business declined. Input buying in the private sector fell for the second month running, and at a slightly faster rate than in May. Subsequently, stocks of purchases declined for the second month in a row. Despite reduced pressure on suppliers, their delivery times lengthened to the greatest extent since March 2016.

Inflationary pressures in the South African private sector remained weak in June, despite strengthening slightly compared with May. Input and output prices rose at the fastest rates in four and five months respectively, albeit ones that were still among the weakest seen over the survey history.

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



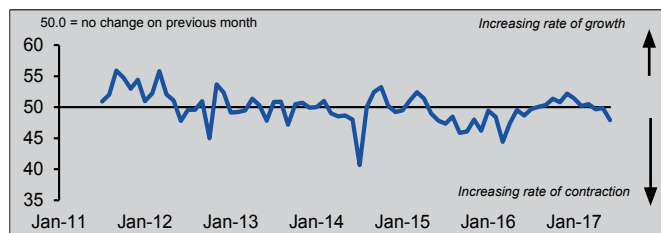
Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2017	Apr	48.3	50.3
	May	49.9	50.2
	Jun	47.1	49.0

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.

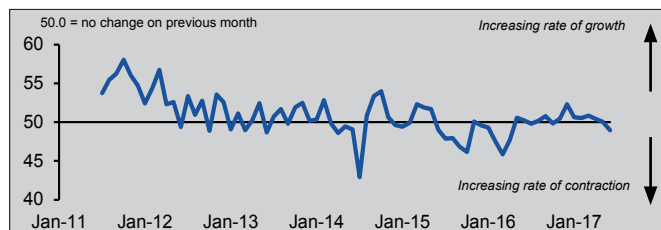
Private sector output in South Africa declined in June. The seasonally adjusted Output Index was below 50.0 for the third successive month and fell since May, signalling the fastest rate of contraction since April 2016. Firms mainly attributed lower output to a slowing economy which resulted in less incoming new work.



New Orders Index

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

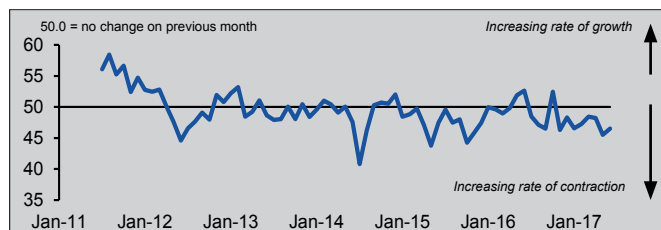
The seasonally adjusted New Orders Index fell below the no-change mark of 50.0 in June, signalling a decline in the volume of new contracts received by South African private sector firms. This followed a seven-month sequence of expansion. Where new business fell, this was mainly linked to a slowing economy. That said, the overall rate of decline 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.

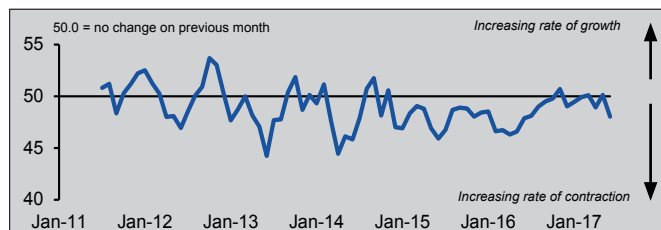
The volume of new export business received by South African private sector companies declined for the eighth month running in June. This marked the second-longest sequence of decline in the survey history. The rate of contraction slowed from May's sharp pace, but was nonetheless the second-fastest since last November.



Backlogs of Work Index

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

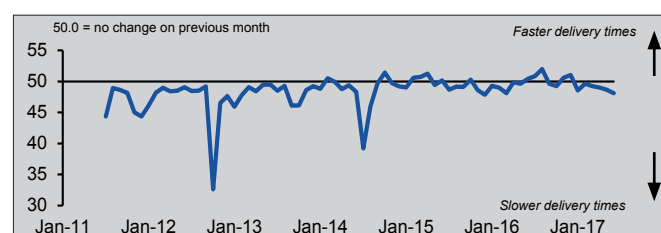
Backlogs of work in the South African private sector economy fell in June compared with one month previously, following a stable trend in May. Moreover, the rate of contraction in the latest period was the fastest registered since June 2016. Companies mainly attributed lower backlogs to a lack of incoming new business.



Suppliers' Delivery Times Index

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

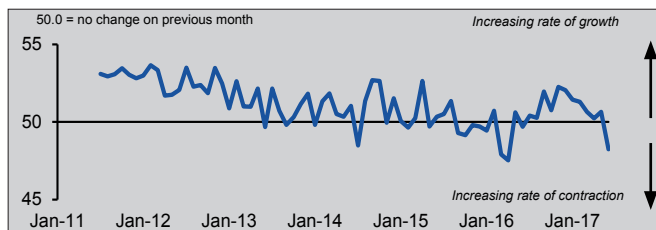
The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 for the sixth successive month in June, signalling a further deterioration in supplier performance. Moreover, lead times for inputs ordered by private sector firms lengthened to the greatest extent since March 2016.



Employment Index

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

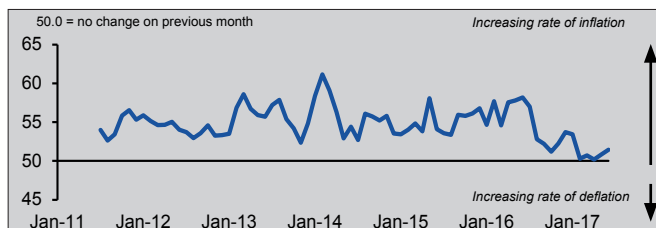
Private sector employment in South Africa declined in June. This followed an 11-month period of job creation, the longest sequence of workforce growth in four years. The extent to which employment contracted was the greatest registered since April 2016. Firms reported difficulty retaining staff, and not replacing leavers due to a lack of incoming new work.



Output Prices Index

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

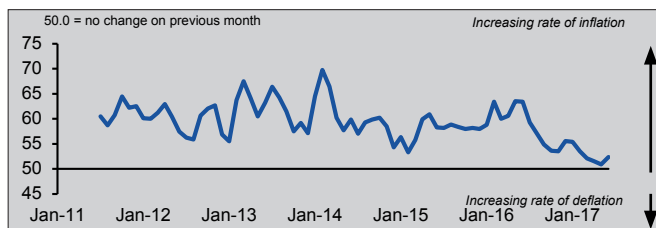
South African private sector companies continued to raise their charges in June. Firms linked increased prices to greater cost pressures. The rate of inflation picked up for the second month running from April's record low to a five-month high, but nonetheless remained weak. The seasonally adjusted Output 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.

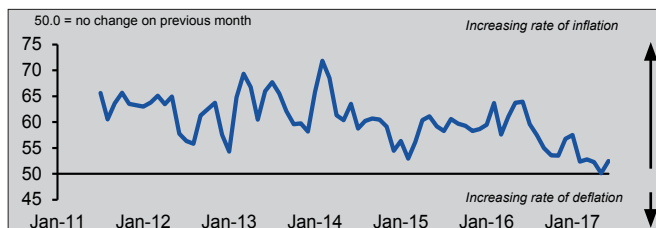
Average input prices in the South African private sector continued to rise in June. The rate of inflation strengthened from May's record low, to the fastest since February. The uptick in overall cost inflation mainly reflected a sharper rise in purchase prices. That said, it remained well below the long-run survey average.



Input Costs: Purchase Prices Index

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

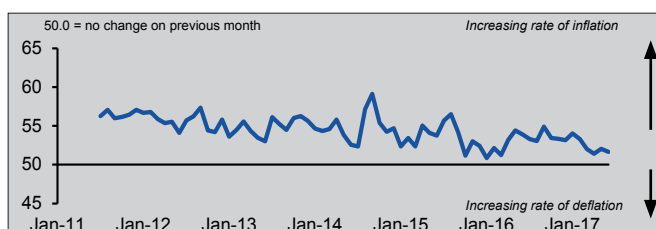
Average prices paid for raw materials and other non-staff inputs rose in June, having been broadly unchanged in May. Some firms linked higher purchase prices to the rand-dollar exchange rate. The rate of inflation was the fastest since March, but remained well below the long-run series trend. The seasonally adjusted Purchase Prices Index posted its fourth-lowest level in the series history.



Input Costs: Staff Costs Index

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

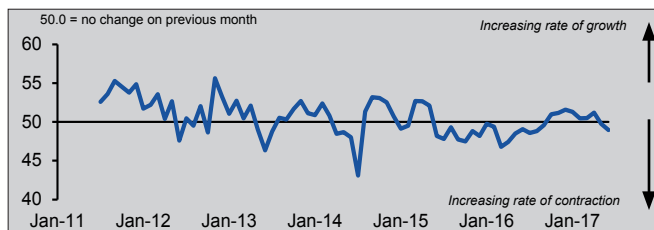
Private sector firms in South Africa continued to increase wages and salaries in June, in line with the trend shown throughout the six-year survey history. The rate of inflation eased from May, however, and was only slightly above the record low posted in January 2016. The seasonally adjusted Staff Costs Index registered its fifth-lowest level in the series history.



Quantity of Purchases Index

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

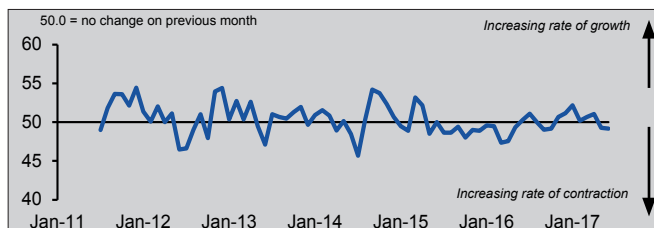
Purchasing activity by South African private sector companies declined for the second consecutive month in June. This followed a seven-month sequence of growth, the longest period of expansion registered in over three years. The rate of decline accelerated slightly since May to the strongest since August 2016, but was only marginal overall.



Stocks of Purchases Index

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

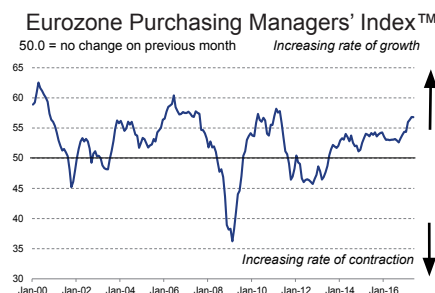
In line with lower purchasing activity, the volume of inputs held in stock in the South African private sector declined for the second month in a row in June. Previously inventories had expanded, on average, every month since November 2016. The seasonally adjusted Stocks of Purchases Index was little-changed from May, however, indicating only a marginal rate of contraction.



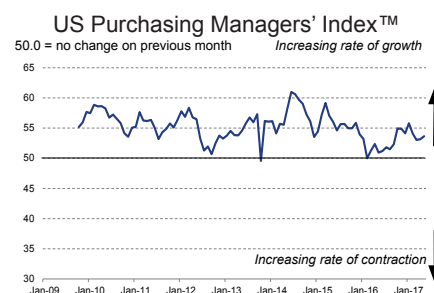
International PMI summary



Sources: IHS Markit, Caixin.



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI Output Index indicated only a modest expansion of overall output during May. At 51.5, the Composite Output Index rose slightly from April's ten-month low of 51.2, but nonetheless posted the second-lowest reading seen since September 2016. Service providers noted an acceleration in business activity growth while manufacturers saw only a marginal rise in production.

The rate of eurozone economic growth continued to run at the quickest pace in six years during May. This was confirmed by the IHS Markit Eurozone PMI Composite Output Index posting 56.8, unchanged from April. The latest expansion of output was supported by strong growth of incoming new business. New orders increased at an identical pace to April, one of the steepest gains in six years.

The IHS Markit U.S. Composite PMI Output Index rose to 53.6 in May, up from the previous month's reading of 53.2. Although the rate of growth in both sectors was relatively subdued, the trend for the first five months of 2017 is stronger than the same period in 2016. Similar rates of expansion were seen in the manufacturing and service sectors. However, growth rates remained relatively muted.

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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