

Standard Bank South Africa PMI™

South African private sector growth slows further in May

Key findings:

- PMI only just above neutral threshold of 50.0
- Business activity and new work largely unchanged from April
- Input price inflation slows further to new survey record low

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 remained above 50.0 for the ninth month running in May, signalling the longest sequence of overall improvement in operating conditions in five years. That said, the PMI fell for the fourth time in five months from 50.3 in April to 50.2, signalling only fractional growth that was the weakest over the current expansionary sequence.

The main positive influences on the PMI in May were growth of employment and longer suppliers' delivery times. Output and new orders were both broadly neutral and stocks of purchases contracted during the latest period, weighing on the PMI.

Data on new business inflows revealed weak underlying business conditions in the South African private sector economy in May. The volume of new work received was broadly unchanged since April, following only modest growth in the first four months of 2017. Notably, the level of new export business declined for the seventh consecutive month and at the fastest rate since October 2015.

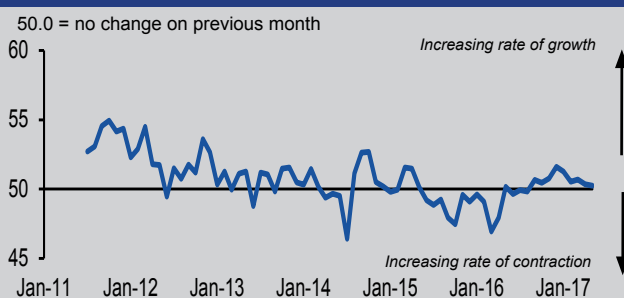
Reflecting the trend in new business, output was broadly flat in May. Moreover, the volume of outstanding business was little-changed since April, indicating a lack of pressure on capacity.

With overall workloads broadly stagnant during the month, private sector firms in South Africa lowered their purchasing activity. This followed a seven-month sequence of growth. Despite this, suppliers' delivery times lengthened to the greatest extent in four months.

The main positive finding from the latest survey was a further rise in employment. The current 11-month sequence of private sector job creation is the longest observed in four years. That said, the rate of workforce growth was only marginal.

Average purchase prices were broadly unchanged in May. Meanwhile wage inflation remained historically subdued, resulting in a new record low rate of overall input price inflation during the month.

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



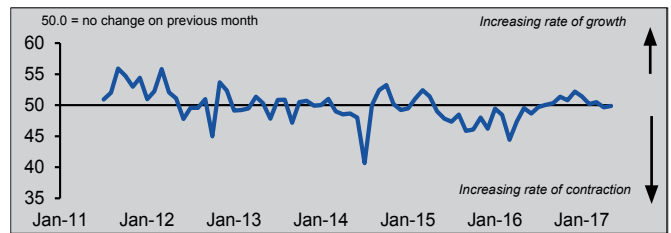
		Purchasing Managers' Index	
		Unadj.	Seas. Adj.
2017	Mar	51.0	50.7
	Apr	48.3	50.3
	May	49.9	50.2

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.

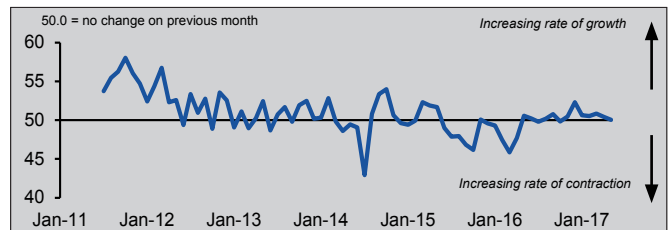
Private sector output in South Africa was broadly unchanged in May compared with one month previously. This followed a slight decline in April which was the first contraction since July 2016. Anecdotal evidence from survey respondents highlighted a weak economy and lack of new work. The seasonally adjusted Output Index was broadly in line with its long-run trend level of 50.0 in May.



New Orders Index

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

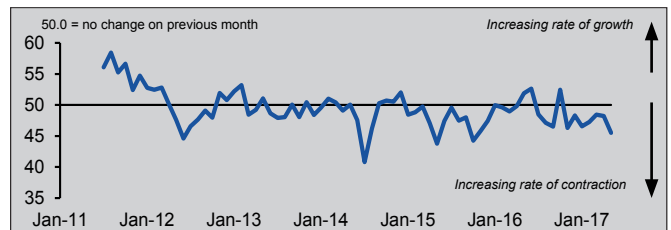
The seasonally adjusted New Orders Index was only fractionally above the no-change mark of 50.0 in May, signalling little change in the volume of new contracts received by South African private sector firms since April. The Index was at its lowest level in seven months. Firms generally reported stagnant market conditions.



New Export Orders Index

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

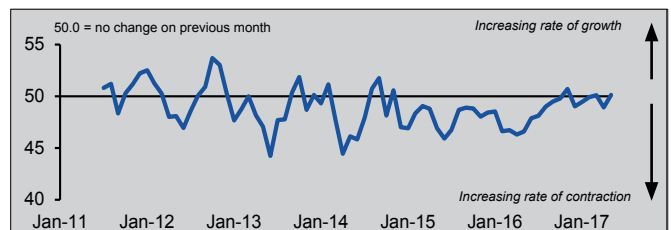
The volume of new export business received by South African private sector companies declined for the seventh month running in May. This marked the second-longest sequence of decline in the survey history. Moreover, the rate of decline was the fastest since October 2015. The seasonally adjusted New Export Orders Index posted its fifth-lowest level on record in the latest period.



Backlogs of Work Index

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

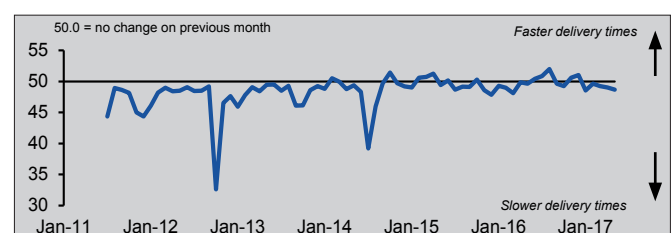
Backlogs of work in the South African private sector economy were largely unchanged in May compared with one month previously. This followed the sharpest decline in nine months in April. Stagnant levels of outstanding work mainly reflected little overall change in output and new business during the month as firms reported quiet market conditions.



Suppliers' Delivery Times Index

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

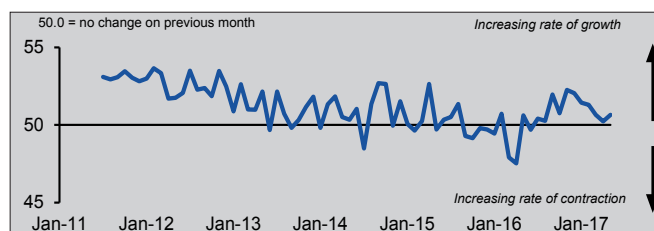
The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 for the fifth successive month in May, signalling a further deterioration in supplier performance. Lead times for inputs ordered by private sector firms lengthened to the greatest extent since January.



Employment Index

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

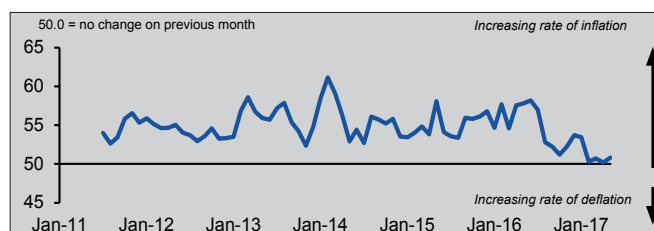
Private sector employment in South Africa increased for the eleventh consecutive month in May. The current sequence of job creation is the longest observed in four years. The rate of workforce growth picked up slightly from April's fractional pace, but was weak nonetheless and slower than the long-run survey average.



Output Prices Index

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

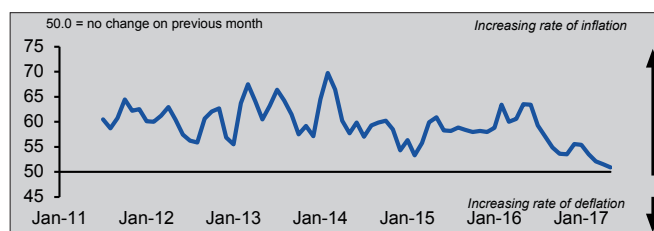
South African private sector companies increased their charges in May, in line with the trend shown since the survey began in July 2011. Firms mainly linked higher output prices to rising costs. The rate of inflation strengthened slightly from April's record low, but was nonetheless weaker than in any survey period prior to February.



Overall Input Prices Index

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

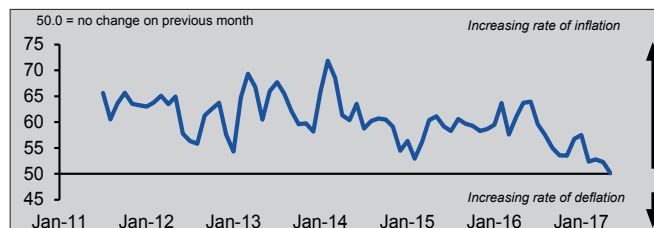
The seasonally adjusted Overall Input Prices Index remained above the no-change mark of 50.0 in May, signalling higher average cost burdens for private sector firms in South Africa. This mainly reflected greater labour costs, as purchase prices were largely unchanged. That said, the rate of input price inflation slowed for the fifth month running to a new survey record low.



Input Costs: Purchase Prices Index

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

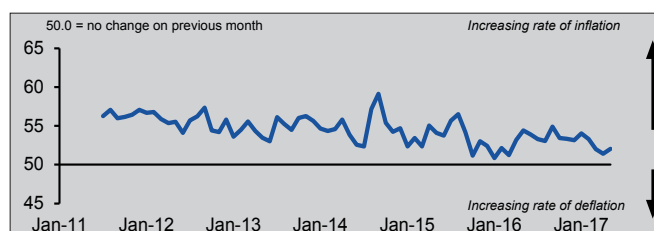
Purchase prices paid by South African private sector companies barely rose in May. The seasonally adjusted Purchase Prices Index fell for the third time in four months, and was broadly in line with the no-change threshold of 50.0. Moreover, the latest figure was the lowest in the survey history.



Input Costs: Staff Costs Index

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

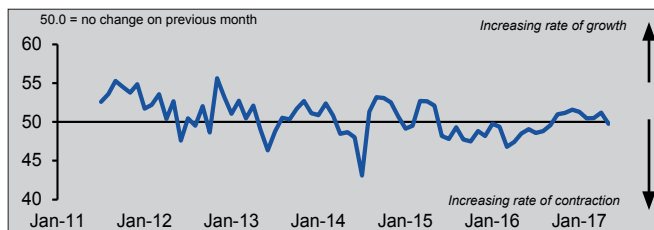
Latest survey data signalled higher average labour costs in the South African private sector in May, in line with the trend shown since the series started nearly six years ago. Higher average wages were partly linked to new hires, and partly due to staff demands. The rate of wage inflation picked up from April's recent low, but was still one of the weakest registered to date.



Quantity of Purchases Index

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

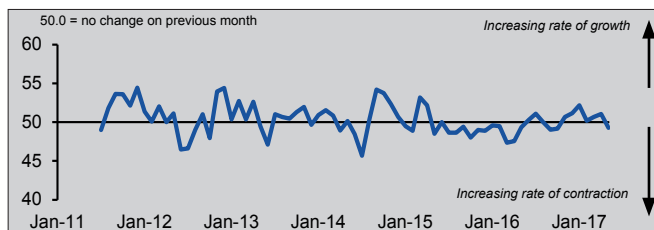
Purchasing activity by South African private sector companies declined in May. This followed a seven-month sequence of growth, the longest period of expansion registered in over three years. Lower purchasing mainly reflected weak demand and a lack of new orders. That said, the rate of decline was only marginal.



Stocks of Purchases Index

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

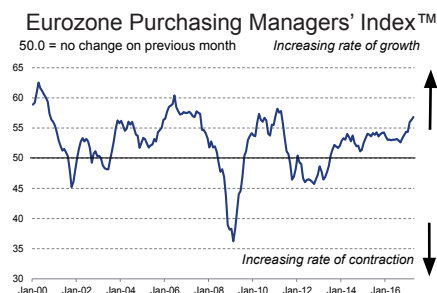
In line with lower purchasing activity, the volume of inputs held in stock in the South African private sector declined in May. Previously inventories had expanded, on average, every month since November 2016. The seasonally adjusted Stocks of Purchases Index was only fractionally below the no-change mark of 50.0, however, indicating a marginal rate of contraction.



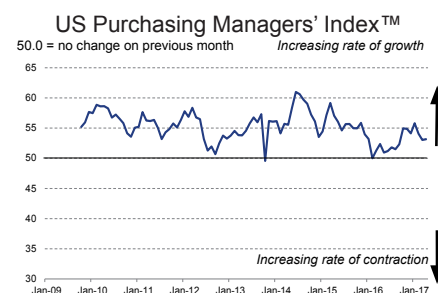
International PMI summary



Sources: IHS Markit, Caixin.



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI (which covers both manufacturing and services) signalled a further slowdown in growth momentum at the start of the second quarter. This was highlighted by the Composite Output Index posting 51.2 in April, down from 52.1 in March, and the lowest reading for ten months. Latest data saw a loss of momentum across both the manufacturing and service sectors during April.

Euro area growth accelerated to a six-year high at the start of the second quarter. The Composite Output Index rose to 56.8 in April, up from 56.4 in March. Activity has expanded for 46 months in a row. Output growth accelerated at manufacturers and service providers, with rates of increase hitting 72-month records in both cases. The slightly sharper expansion was again registered in manufacturing.

The U.S. Composite Output Index rose to 53.2 in April, up from 53.0 in March. While indicative of a solid increase in private sector output, the rate of growth remained down on those seen on average over the past six months. Although manufacturing output continued to rise at a slightly faster rate than services activity, the rate of growth in the goods-producing sector was the weakest for seven months.

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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