

# Standard Bank South Africa PMI™ compiled by markit

Output stabilises, thereby ending 15-month period of decline

**Key findings:**

- **Headline PMI posts 49.8, but output stabilises and new orders rise marginally**
- **Solid improvement in supplier delivery times weighs on headline PMI**
- **Weakest increase in charges in over two years**

This report contains the latest release of data collected from the new monthly survey of business conditions in the South African private sector. The survey, sponsored by Standard Bank and produced by 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.

August saw output stabilise amid a renewed increase in new order intakes, and companies continued to raise their workforce numbers marginally. Meanwhile, selling prices rose to the smallest extent since mid-2014 as some firms reduced their charges in an attempt to remain competitive.

Latest survey results pointed to broadly stable operating conditions at South African private sector firms, with the seasonally adjusted Standard Bank South Africa PMI posting 49.8, little-changed from July's 49.9.

Positive contributions to the headline PMI in August came from

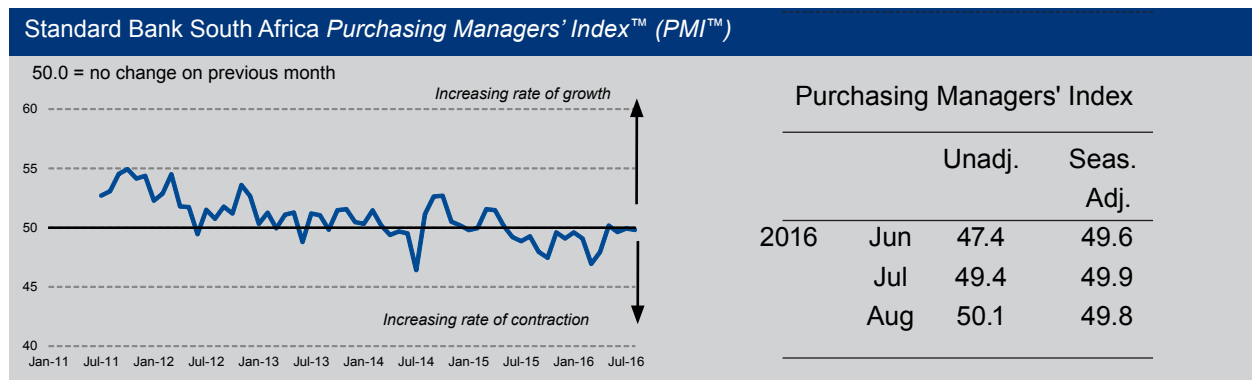
the survey measures for new orders and employment. However, rates of growth were only marginal in both cases, with total new business weighed down by the sharpest decline in foreign sales since last November.

Meanwhile, South African private sector firms reported a stabilisation of their output levels in August, thereby ending a 15-month period of contraction. Some panellists commented on new project wins.

Despite a marginal increase in new business, companies remained cautious about their input buying activity, with latest survey data signalling a further decline in the quantity of items purchased. Moreover, pre-production inventories were unchanged since the prior month, while backlogs of work fell slightly.

Input prices rose at the slowest pace since March 2015, as companies reported weaker purchase price inflation and only a moderate rise in average staff costs. Although some companies passed higher input costs on to their clients, selling prices rose to the weakest extent in just over two years, with some panellists commenting on increased competition.

Meanwhile, suppliers' delivery times improved to the greatest degree in the series history, which some companies attributed to subdued demand and better availability of inputs.

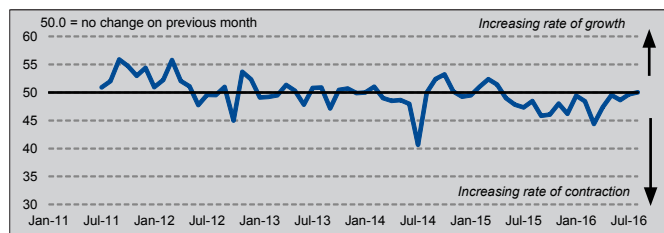


The Standard Bank South Africa Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the South African economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery 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.

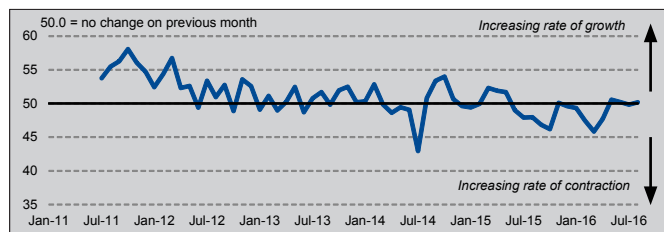
Output levels at South African private sector companies stabilised in August, thereby ending a 15-month period of contraction. This was highlighted by the seasonally adjusted index posting at the neutral 50.0 mark. Companies that noted higher activity attributed this to new clients and project wins, while those reporting a decline commented on challenging economic conditions.



### New Orders Index

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

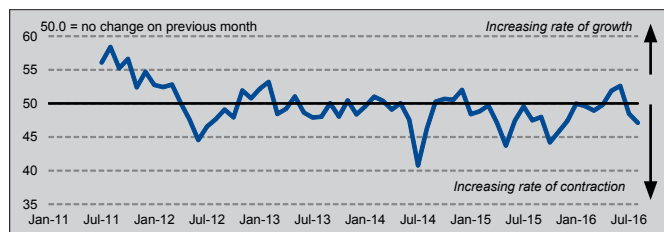
August data signalled a marginal increase in new business placed with South African private sector companies, thereby reversing the fractional decline recorded in July. New orders have now risen three times in the past four months. Panellists linked higher new business to improved demand and marketing initiatives.



### New Export Orders Index

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

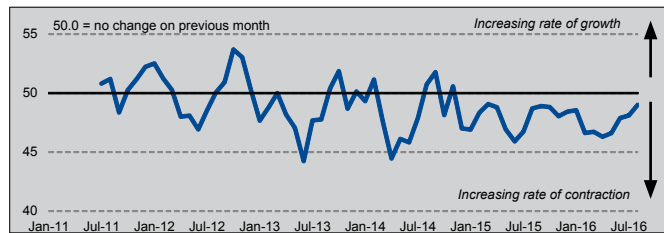
Latest survey data pointed to an accelerated decline in new export business in August, with the seasonally adjusted index falling to its lowest level since last November. Anecdotal evidence attributed the decrease to lower demand from other African countries and unfavourable exchange rates. Around 13% of the survey panel noted a fall in foreign orders, while the vast majority (81%) indicated no change.



### Backlogs of Work Index

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

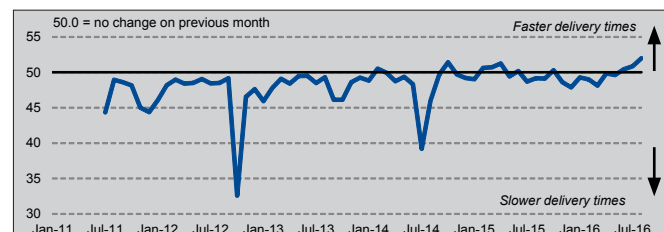
As has been the case throughout most of the past two years, backlogs of work declined during August, which companies generally linked to relatively subdued demand. However, the rate at which levels of unfinished work were reduced was the least marked since last March and only marginal overall.



### Suppliers' Delivery Times Index

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

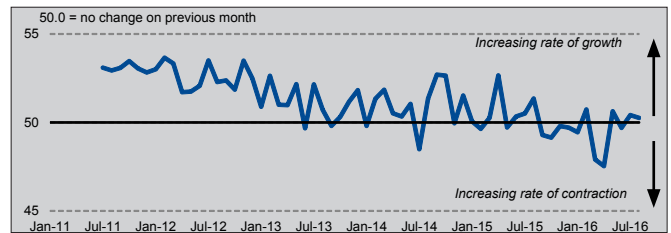
Average lead times on inputs quickened further during August. The seasonally adjusted Suppliers' Delivery Times rose for the third month running and was the highest in the survey's history. Some companies attributed improved vendor performance to subdued demand, while others commented on better availability of inputs.



### Employment Index

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

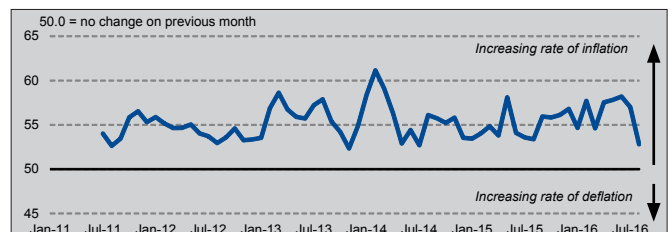
The seasonally adjusted Employment Index remained fractionally above the 50.0 no-change mark in August, thereby signalling a second successive monthly increase in workforce numbers. However, the rate of job creation was only marginal overall. Employment growth was attributed by panellists to expansion plans and rising demand.



### Output Prices Index

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

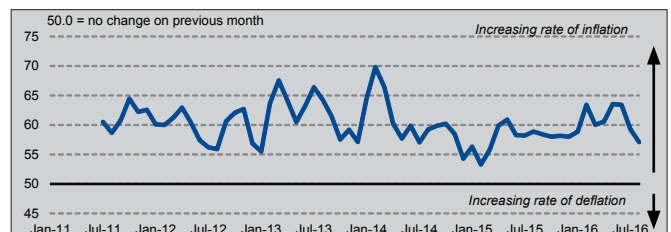
South African private sector companies raised their charges again in August. However, the rate of output price inflation slowed markedly since the prior month and was the lowest in just over two years. Although higher input prices resulted in an overall increase in selling prices, some companies engaged in price discounting amid growing competition.



### Overall Input Prices Index

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

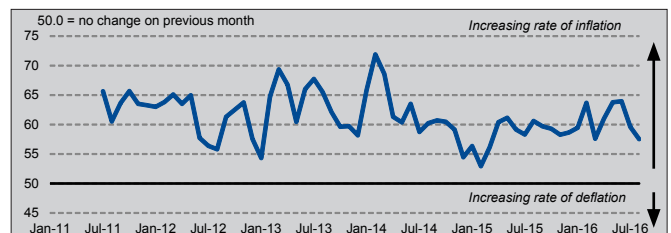
Overall input costs faced by private sector companies in South Africa rose further in August. The rate of inflation slowed, however, and was the least marked since March 2015, with the majority of the survey panel (84%) reporting no change. Purchase prices and staff costs both rose at weaker rates, according to underlying data.



### Input Costs: Purchase Prices Index

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

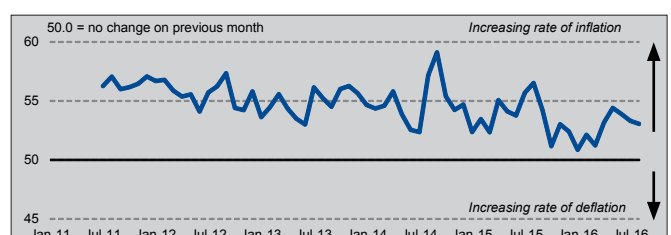
Latest survey data pointed to a further rise in purchasing costs in South Africa's private sector. While 15% of survey participants recorded an increase, only 3% reported a decline. Some panel members linked higher input prices to exchange rate factors and growing raw material costs. However, the rate of purchase price inflation was the weakest in nearly one-and-a-half years.



### Input Costs: Staff Costs Index

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

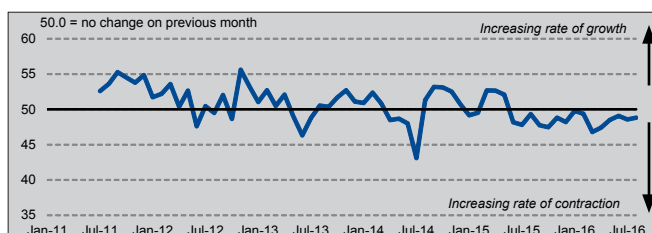
Average staff costs at private sector firms in South Africa rose again during August, which panel members generally linked to a combination of higher workforce numbers and salary increases. That said, the rate of wage inflation remained below its long-run average and was the weakest since March.



### Quantity of Purchases Index

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

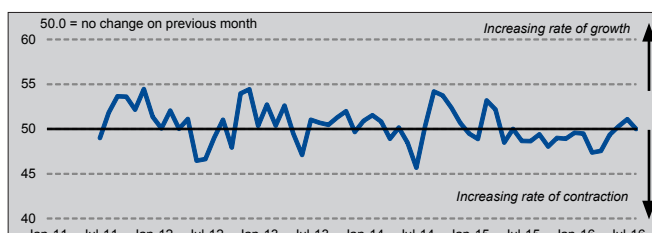
Purchasing activity at South African private sector companies fell for the fifteenth month running in August, partly as a response to relatively subdued demand. That said, the rate at which input buying activity decreased was slight overall. Around 15% of survey participants reported a decline in the quantity of items purchased, while 13% noted a rise.



### Stocks of Purchases Index

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

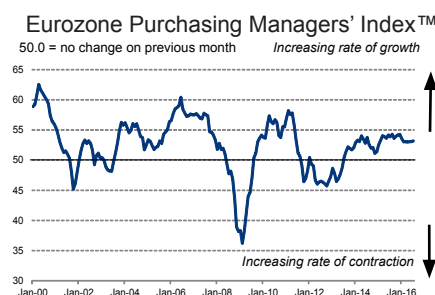
Pre-production stock levels at private sector companies in South Africa remained unchanged since the prior month in August. This was highlighted by the seasonally adjusted Stocks of Purchases Index posting at the 50.0 no-change mark. It was the first time in three months that stock levels did not rise.



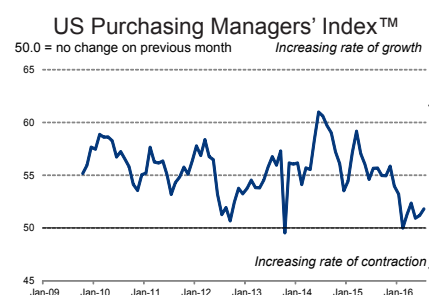
### International PMI summary



Sources: IHS Markit, Caixin.



Source: IHS Markit



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Caixin China Composite PMI data (which covers both manufacturing and services) signalled a stronger expansion in Chinese business activity at the start of the third quarter. Furthermore, the Composite Output Index rose from 50.3 in June to 51.9 in July, to signal the fastest rate of growth since September 2014.

The rate of eurozone economic expansion ticked higher at the start of the third quarter. This was signalled by the Markit Eurozone PMI Composite Output Index rising to a six-month high of 53.2 in July. The headline index has now signalled growth for 37 successive months.

The seasonally adjusted Markit U.S. Composite PMI Output Index posted 51.8 in July. The reading was above that seen in June (51.2) and signalled the fastest expansion of private sector output since April. However, the latest upturn in business activity was still much weaker than the average since the survey began in late-2009.

### 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. 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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