

# Standard Bank South Africa PMI™ compiled by markit

## Private sector growth moves up a gear in December

### Key findings:

- Output and new business rise at fastest rates in 21 months
- Job creation evident for sixth straight month
- Cost pressures intensify but remain relatively subdued

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 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.

Business conditions in South Africa's private sector improved at a pace not seen since early-2015 during December. This was signalled by the seasonally adjusted Standard Bank South Africa PMI rising from 50.8 in November to 51.6. Though still pointing to modest growth, the latest reading rounded off the best quarter for two years (average: 50.9).

The overall upturn was bolstered by faster expansions of output and new work in December. Both rose to the greatest extent in 21 months, with anecdotal evidence highlighting a general improvement in client demand. Some firms also mentioned

investing in new machinery, which helped them raise output.

That said, growth of total new work was dampened by falling exports. The amount of new orders from abroad dropped for the second straight month, despite reports of orders from Russia and some African economies.

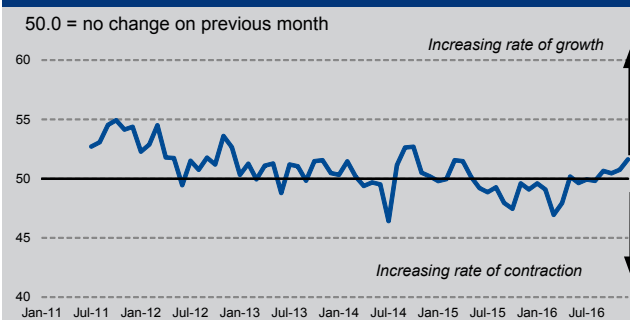
The overall improvement in demand was nevertheless sufficient to generate another round of job creation in December. The rate of hiring eased slightly since November, but remained stronger than the series average. A larger workforce contributed to a decline in outstanding business, reversing November's rise.

Purchasing activity also rose in line with greater workloads. Though remaining modest, the rate of growth accelerated to a 19-month high. Pre-production inventories increased at a similarly moderate pace.

Despite a further pick-up in demand for inputs, companies noted a lack of pressure on supply chains. Average lead times shortened for the fifth time in seven months, with panellists referring to competition between suppliers.

On the price front, both input costs and output charges rose more quickly in December. The former was reportedly driven by higher raw material costs (notably oil and steel), which in turn fed through to firms' selling prices. However, the respective rates of inflation remained slower than long-run trends.

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



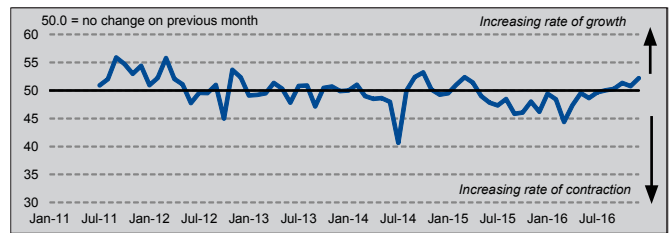
		Purchasing Managers' Index	
		Unadj.	Seas. Adj.
2016	Oct	52.7	50.5
	Nov	54.2	50.8
	Dec	53.9	51.6

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.*

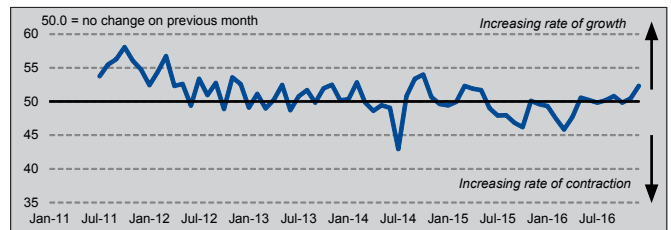
South African private sector output rose for the fourth successive month in December, contrasting with the downward trend seen throughout much of the past two years. Although remaining moderate, the rate of expansion picked up to the fastest since March 2015. A number of panellists commented on improved new work inflows, while there were also mentions of output rising thanks to investment in new machinery.



## New Orders Index

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

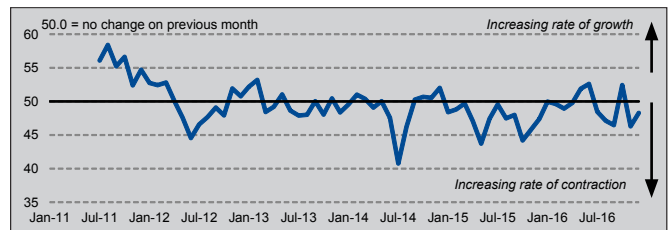
Growth of new business accelerated to a 21-month high in December. Though new orders had risen in five out of seven months up until November, the latest expansion was a step up from marginal growth seen in those instances. Anecdotal evidence pointed to greater sales stemming from stronger client demand.



## New Export Orders Index

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

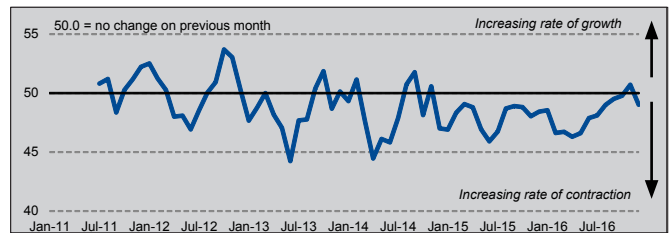
The expansion of total new work was hampered by a second successive monthly fall in new export orders during December. Some respondents noted a downturn in demand across international markets. That said, the rate of contraction slowed since November, amid reports of bulk orders from fellow African economies and Russia.



## Backlogs of Work Index

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

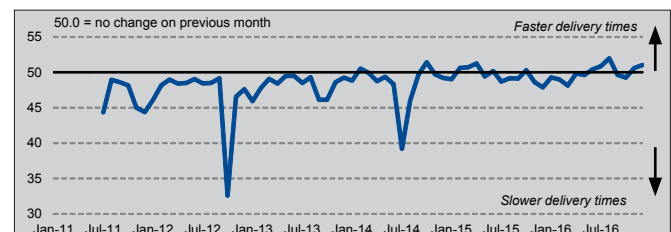
After having risen for the first time in two years during November, backlogs of work returned to decline at the end of 2016. The rate of depletion was only fractional, however, with the vast majority of survey participants (89%) seeing no change since the prior month. Firms that had been able to work through their outstanding business suggested that some employees had worked a significant amount of overtime.



## Suppliers' Delivery Times Index

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

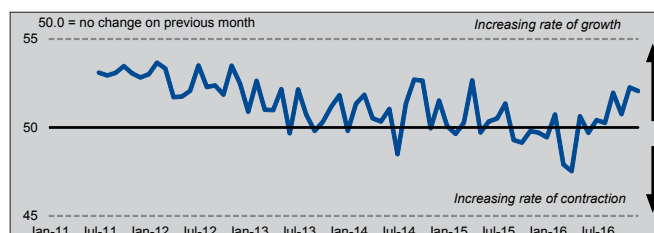
Adjusted for seasonal influences, the Suppliers' Delivery Times Index posted above the neutral 50.0 mark for the second straight month in December. Though pointing to only a modest improvement in vendor performance, the latest reading was among the highest since data collection started in July 2011. Faster deliveries were often attributed to competition between suppliers.



## Employment Index

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

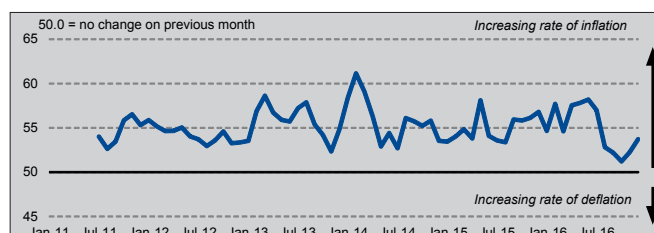
December data signalled another rise in South African private sector employment, the sixth in as many months. The rate of job creation eased slightly since November, but remained above the series average. Exactly 9% of panellists raised their staffing levels, generally in response to rising workloads. On the other hand, nearly 3% shed workers in an effort to cut costs.



## Output Prices Index

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

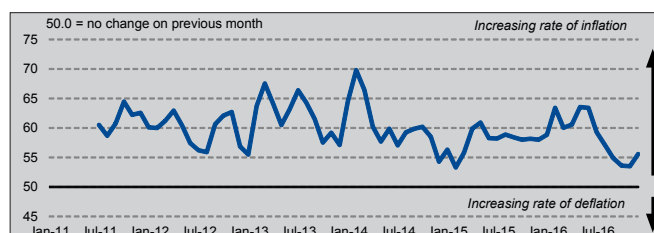
The rate of output price inflation quickened to a five-month high in December, having eased to a survey-record low just two months earlier in October. The latest rise in charges was solid overall, but remained weaker than the survey average. Higher selling prices tended to reflect mounting cost pressures, according to monitored firms.



## Overall Input Prices Index

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

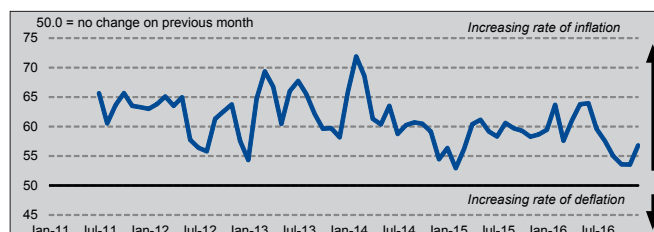
Total input costs faced by South African private sector businesses rose in the final month of 2016, continuing the trend observed since the survey's inception in July 2011. The rate of inflation was the steepest in four months, with nearly 12% of panel members seeing a rise compared to November. Both salaries and purchase costs increased, with the sharper rise noted in the latter.



## Input Costs: Purchase Prices Index

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

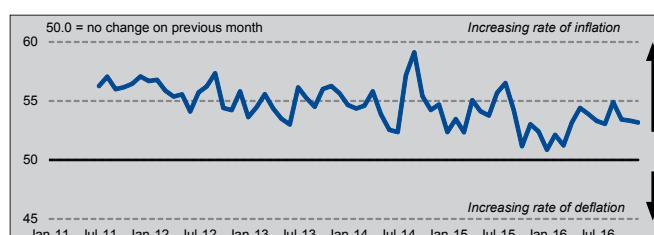
Purchasing costs showed a similar trend to overall input prices in December, with the respective index hitting a four-month high but remaining below the long-run average. Some companies commented on higher prices for raw materials, notably oil and steel. That said, the majority of respondents (85%) saw no change since November.



## Input Costs: Staff Costs Index

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

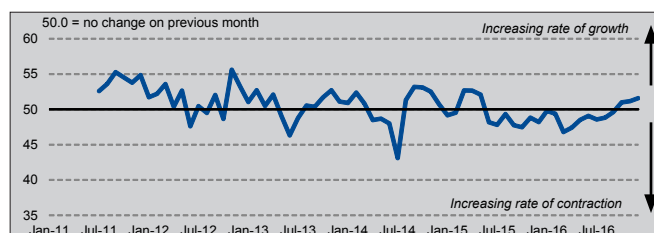
The rate of salary growth in South Africa's private sector held broadly steady at the solid pace seen in the preceding two months during December. That continued to upward trend seen throughout the survey's five-and-a-half year history. Some panellists suggested that employee bargaining power and overtime payments had driven up staff costs.



## Quantity of Purchases Index

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

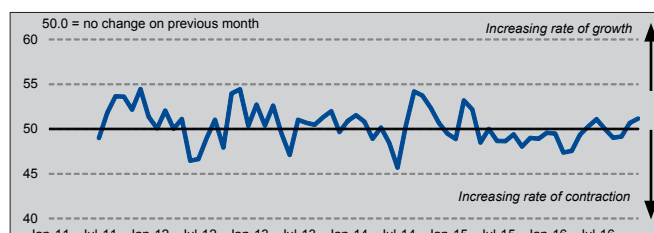
Purchasing activity rose for the third month in a row at the end of the year. Despite remaining only moderate overall, the pace of growth was the quickest since May 2015. Panellists indicated that the rise was a reflection of improving client demand. Notably, input buying had fallen for 16 successive months prior to the current three-month expansion.



## Stocks of Purchases Index

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

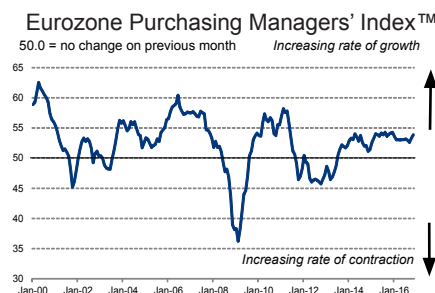
Stocks of purchases at South African private sector firms increased for the second month running in December. The rate of inventory building edged up slightly since November, but remained only modest overall. Greater inflows of new work was cited by respondents as the main reason behind higher input stocks.



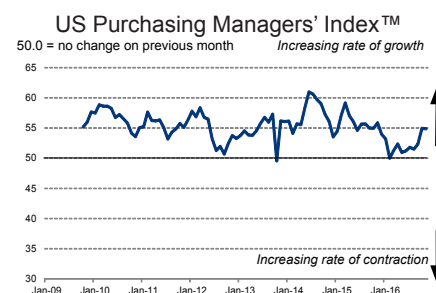
## International PMI summary



Sources: IHS Markit, Caixin.



Source: IHS Markit



Source: IHS Markit

Caixin China Composite PMI data (which covers both manufacturing and services) showed a further solid increase in Chinese business activity in November. The Composite Output Index was unchanged from October's 43-month record of 52.9 in November.

The rate of eurozone economic expansion accelerated to its highest in the year to date during November. This was highlighted by the Markit Eurozone PMI Composite Output Index posting 53.9, the best reading since December 2015.

At 54.9 in November, the seasonally adjusted Markit U.S. Composite PMI Output Index was unchanged from October's 11-month high and therefore signalled a further robust expansion of private sector business activity. Growth of manufacturing production picked up in November, but this was offset by a fractionally slower expansion of service sector activity than in October.

## 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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