

# Standard Bank South Africa PMI™ compiled by markit

## Downturn in South Africa's private sector extends to nine months

### Key findings:

- Output and new orders decline at sharper rates, despite marginal employment gain
- Backlogs of work fall at fastest pace since last June
- Strongest rise in input costs in nearly 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.

February data signalled a continuation of the downturn in South Africa's private sector that started last June. Output and new orders both fell at accelerated rates, buying activity declined and work-in-hand decreased markedly. Meanwhile, input costs rose at the steepest rate in nearly two years, which in turn led to a sharp increase in output charges.

Operating conditions at South African private sector companies deteriorated for a ninth successive month in February. This was highlighted by the seasonally adjusted Standard Bank South Africa PMI registering 49.1. This was down from 49.6 in January

and pointed to a modest worsening of conditions.

The main downward contributions to the headline index came from sharper declines in output and new orders, which companies generally attributed to a fragile economic environment. The data highlighted a broad-based decrease in new order intakes, as new export orders also fell.

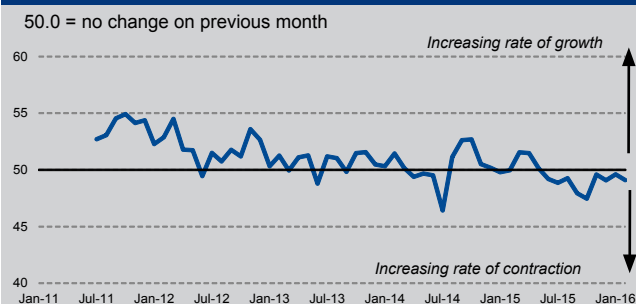
Reflective of weaker demand, companies scaled back their buying activity during the month. However, the pace of decline was only marginal overall. Consequently, pre-production inventory holdings also fell slightly.

Companies signalled ongoing spare capacity in February, as highlighted by the sharpest reduction in business outstanding in eight months. Nevertheless, companies added to their payrolls for the first time since last August. The rate of job creation was marginal, however.

Exchange rate factors and higher prices for certain raw materials led to sharply rising input costs in February. The rate of cost inflation was in fact the steepest in almost two years. Purchase prices and staff costs both rose at accelerated rates. Some firms passed higher input costs on to their clients, resulting in the strongest rise in charges since last May.

Finally, suppliers' delivery times continued to lengthen at a moderate rate.

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



### Purchasing Managers' Index

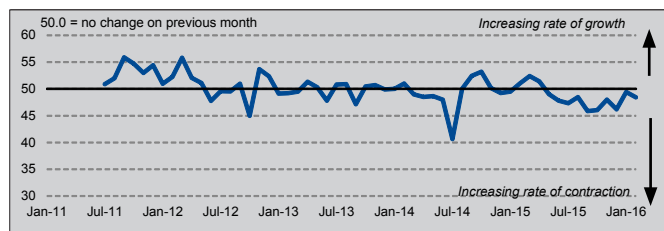
		Unadj.	Seas. Adj.
2015	Dec	50.9	49.1
2016	Jan	45.5	49.6
	Feb	49.5	49.1

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. Markit is a registered trade mark of Markit Group Limited.

**Output Index**

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

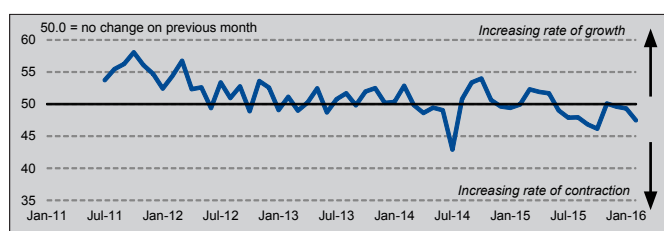
South African private sector companies reported a further drop in output in February, the tenth in as many months. Although the rate of contraction accelerated since January, it remained slower than the average for the current period of decline. Anecdotal evidence partly linked the drop in activity to a poor economic climate.



**New Orders Index**

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

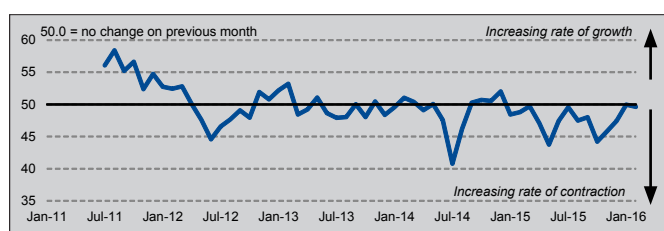
The amount of new business placed with South African private sector companies declined for the third month running in February, with roughly 18% of the survey panel reporting a decrease. Moreover, the latest drop in new work was the most marked since last October. Survey participants generally attributed lower new order intakes to a fragile economic environment.



**New Export Orders Index**

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

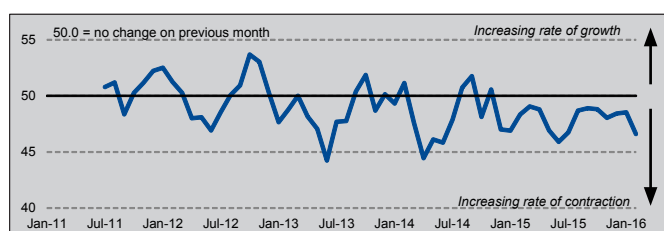
February data signalled a renewed fall in new export orders, following a stabilisation in the previous month. However, the pace of decline was only marginal and slower than seen throughout much of last year. Exchange rate factors was one of the reasons mentioned by panel members that recorded a drop in foreign demand.



**Backlogs of Work Index**

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

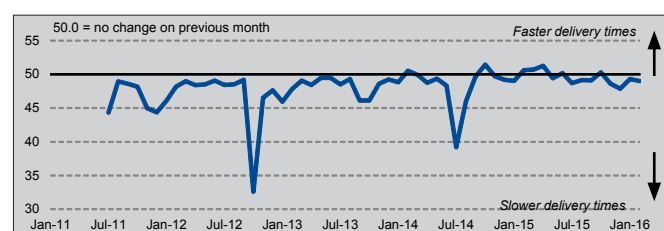
The seasonally adjusted Backlogs of Work Index remained below the neutral 50.0 threshold in February, signalling ongoing spare capacity at South African private sector companies. Moreover, the rate at which business outstanding was depleted was the fastest in eight months. According to anecdotal evidence, much of the decline in backlogs was a result of weaker demand.



**Suppliers' Delivery Times Index**

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

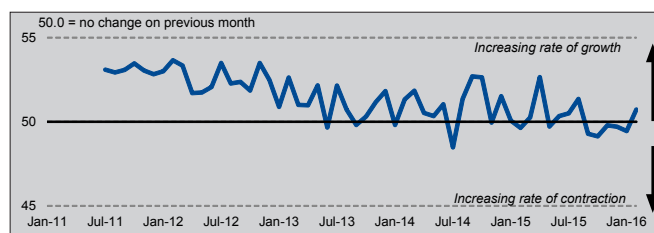
As has been the case since last November, suppliers' delivery times in South Africa's private sector lengthened during the month. The rate at which vendor performance deteriorated was little-changed from that recorded in January and marginal overall. Lead times increased for the seventh time in the past eight months.



### Employment Index

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

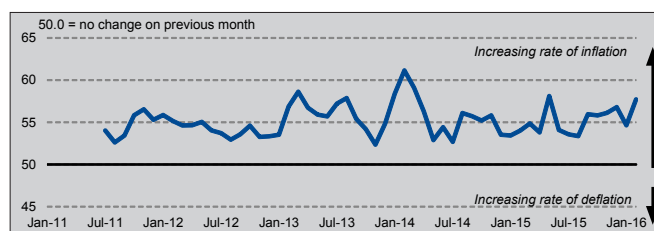
Private sector employment in South Africa rose for the first time in six months during February, according to latest PMI results. This was highlighted by the seasonally adjusted index registering above the 50.0 no-change mark. However, the rate of job creation was only slight. Around 8% of companies added to their payrolls, versus 4% that shed staff.



### Output Prices Index

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

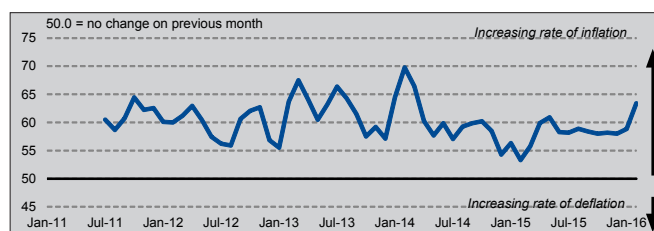
South African private sector firms raised their charges further in February, thereby continuing a trend that started when data were first collected in July 2011. Moreover, the rate of charge inflation accelerated since January and was one the strongest seen over the last two years. Companies increased their selling prices in line with increased input costs, according to panel evidence.



### Overall Input Prices Index

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

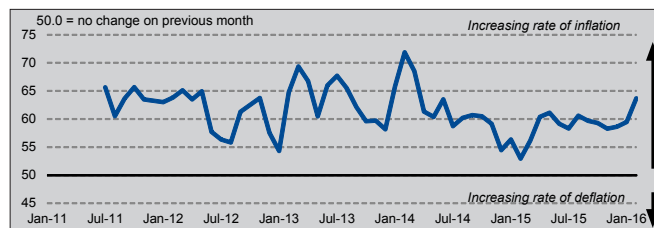
Overall input costs increased sharply in February, with the rate of inflation the highest in nearly two years. Roughly one-in-three panel members recorded higher costs, versus only 3% that noted a decline. Purchase prices rose at a much steeper rate than staff costs, although inflation accelerated in both cases.



### Input Costs: Purchase Prices Index

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

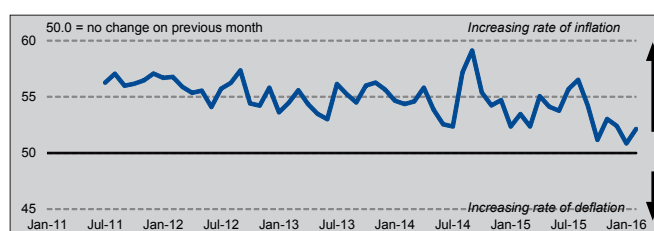
Exchange rate factors and increased prices for some raw materials led to a substantial increase in purchase prices in South Africa's private sector in February. The rate at which costs rose was the steepest since March 2014 and among the sharpest in the survey history. Around 36% of companies reported higher purchase costs, while only 2% indicated a drop.



### Input Costs: Staff Costs Index

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

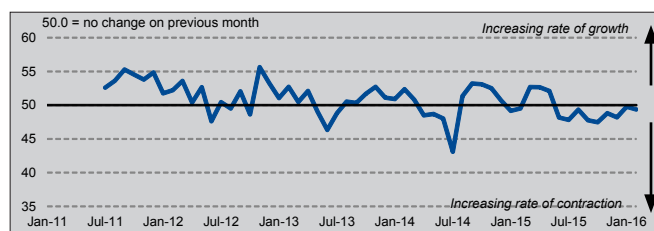
Wage growth in South Africa's private sector remained subdued in February, according to latest PMI results. Despite rising from its survey record-low in January, the seasonally adjusted Staff Costs Index signalled only a mild rise in average salaries, with the vast majority of panel members reporting no change since one month previously.



## Quantity of Purchases Index

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

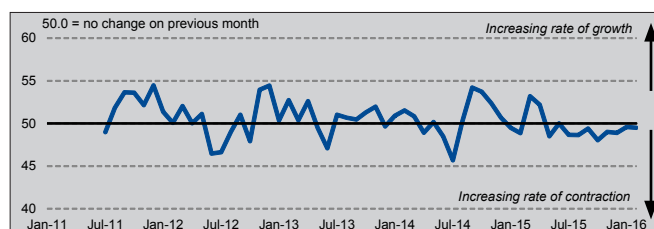
The seasonally adjusted Quantity of Purchases Index posted below the 50.0 no-change mark in February, thereby signalling a further decline in buying activity at South African private sector companies. The rate at which purchasing activity fell was slightly sharper than in January, although marginal overall. Companies partly attributed the decline to a lack of new business.



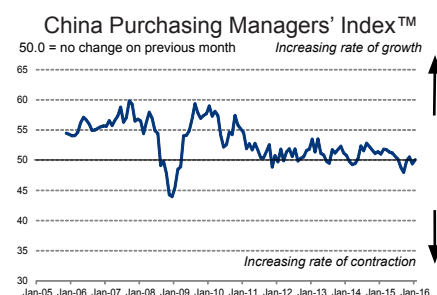
## Stocks of Purchases Index

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

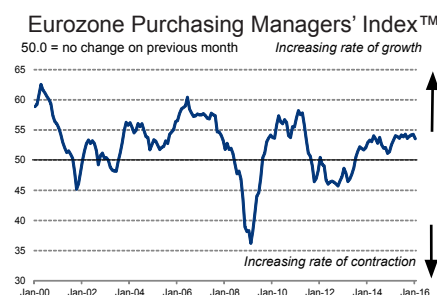
Stocks of raw materials and semi-finished goods continued to fall marginally during February. The slight decrease in inventories was partly a result of weak demand and internal stock policies, according to panel evidence. While around 12% of firms reduced their inventories, 11% indicated an increase in stock.



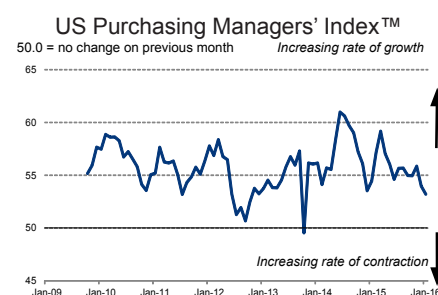
## International PMI summary



Sources: Markit, Caixin.



Source: Markit



Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a stabilisation of Chinese business activity in January, following a slight reduction at the end of 2015. This was signalled by the headline Caixin Composite Output Index registering fractionally above the no-change 50.0 value at 50.1, up from 49.4 in December.

The Markit Eurozone PMI Composite Output Index fell to a four-month low of 53.6 in January, down from 54.3 in December and just above the earlier flash estimate of 53.5. Nonetheless, the headline index has remained above the neutral 50.0 mark for 31 consecutive months.

The seasonally adjusted Markit U.S. Composite PMI Output Index registered 53.2 in January, down from 54.0 in December, to signal the weakest rise in private sector business activity in the current 27-month period of expansion.

## 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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