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Standard Bank South Africa PMI™

compiled by markit

Headline PMI improves as output moves closer to stabilisation

Key findings:

- **Marginal downturn in South Africa signalled as PMI rises to 49.6, from 49.1**
- **New export orders stabilise, but total new work falls further**
- **Weakest rise in staff costs in survey's history**

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.

South Africa's private sector remained in decline at the start of 2016, with employment, new orders and output all falling since December. However, rates of contraction were only marginal in all three cases. Moreover, while the weak rand helped exports to stabilise, it also exerted some upward pressure on input costs, resulting in the steepest increase in overall input costs for five months.

The seasonally adjusted Standard Bank South Africa PMI rose from December's 49.1 to 49.6 in January, thereby signalling a slowing in the rate at which business conditions deteriorated.

Although South Africa's private sector firms reported a ninth consecutive monthly fall in output in January, the pace of decline slowed substantially since December and was only marginal overall.

New business also fell slightly during the month, as a difficult economic environment continued to act as a barrier to growth. However, new export orders stabilised, as the weak rand made South African goods and services cheaper for clients abroad.

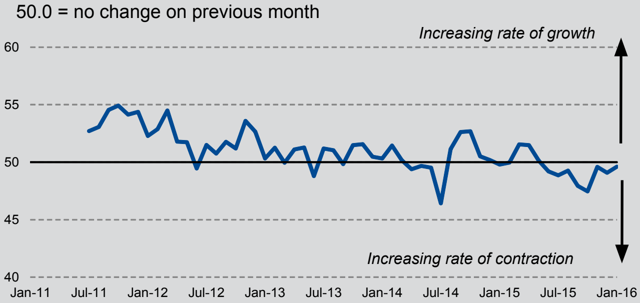
Meanwhile, a lack of new orders resulted in a further decline in work outstanding in January, signalling spare capacity at businesses. Consequently, some firms reduced their workforce numbers. However, the rate of job cuts was only marginal.

Sharply rising purchase prices (generally linked to unfavourable exchange rates) led to a further steep rise in overall input costs at the start of 2016. Meanwhile, average staff costs rose at the weakest rate on record. Some firms passed higher costs on to their clients, resulting in a further rise in average charges.

January saw purchasing activity broadly stabilise, with the latest reduction only marginal overall. Meanwhile, stocks of purchases also fell fractionally.

Suppliers' delivery times rose marginally in January, signalling ongoing modest pressure on supply chains in South Africa's private sector.

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



Purchasing Managers' Index

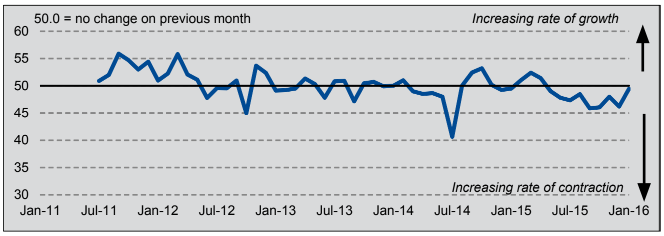
		Unadj.	Seas. Adj.
2015	Nov	53.0	49.6
	Dec	50.9	49.1
2016	Jan	45.5	49.6

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.

Output Index

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

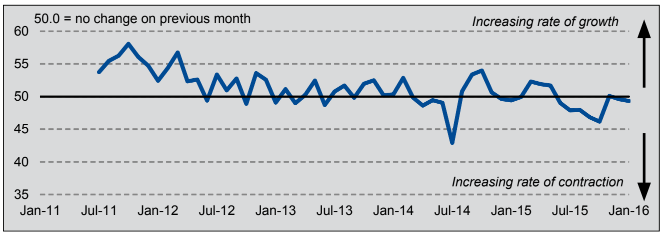
The seasonally adjusted Output Index moved closer to the 50.0 no-change mark in January, signalling only a marginal contraction in South African private sector activity. Nevertheless, output has now declined for nine consecutive months. Panel members partly attributed lower activity to poor economic conditions and weak demand.



New Orders Index

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

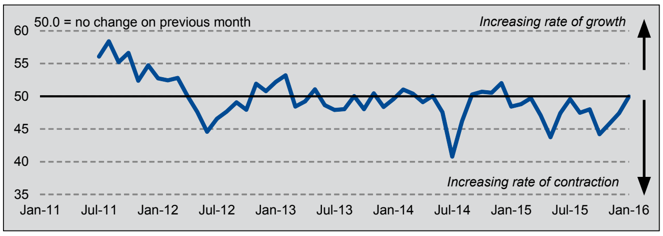
New business placed with South African private sector companies fell for the seventh time in the past eight months in January. However, despite accelerating fractionally since December, the pace of contraction was marginal. Anecdotal evidence linked the decline in new orders to a difficult economic environment.



New Export Orders Index

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

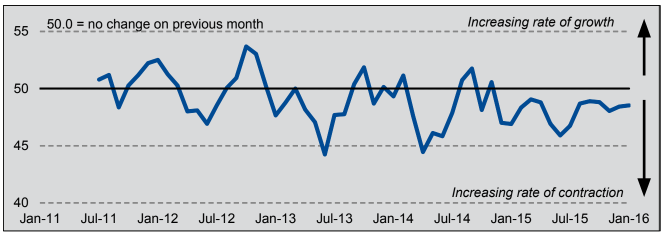
After adjusting for seasonal influences, January data signalled a stabilisation in new export orders in South Africa's private sector. This was highlighted by the seasonally adjusted index registering at the 50.0 no-change mark. While demand conditions remained difficult, some panellists reported that the weak rand helped secure new business from abroad.



Backlogs of Work Index

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

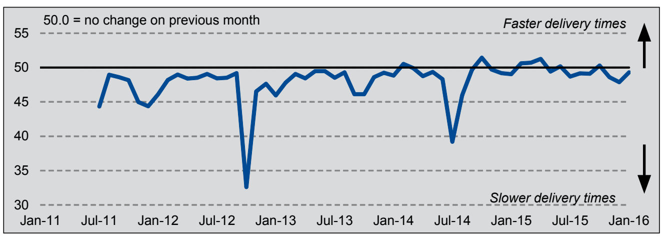
South African private sector companies reported a fourteenth successive monthly rise in business outstanding at the beginning of the year. That said, the rate at which unfinished work was depleted was little-changed from that recorded in December. Around 9% of businesses signalled a reduction in backlogs, versus 5% that recorded a rise.



Suppliers' Delivery Times Index

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

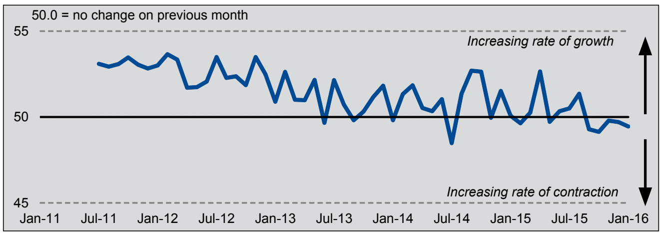
The seasonally adjusted Suppliers' Delivery Times Index registered below the crucial 50.0 threshold for the third month running in January, thereby signalling a further rise in average lead times. However, the rate at which vendor performance deteriorated was the least marked in this sequence and only marginal overall.



Employment Index

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

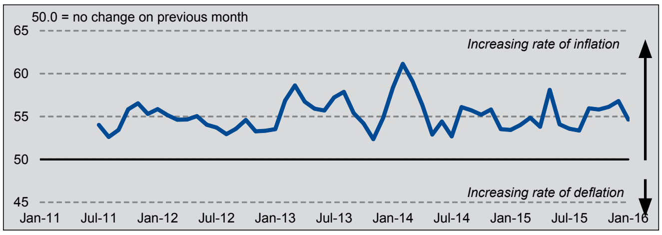
Private sector employment in South Africa fell for a fifth straight month during January, according to latest survey data. However, the rate of job shedding was marginal, with the vast majority of the survey panel reporting no change. Where companies shed staff, they generally linked this to weak demand and the non-renewal of expiring contracts.



Output Prices Index

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

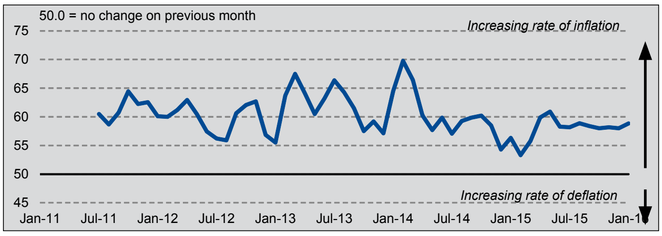
South African private sector companies raised their charges again in January, thereby continuing the trend that started when data were first collected in July 2011. The rate of inflation fell to a five-month low and was slightly below the long-run series average. Higher output prices were largely attributed by panellists to increased input costs.



Overall Input Prices Index

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

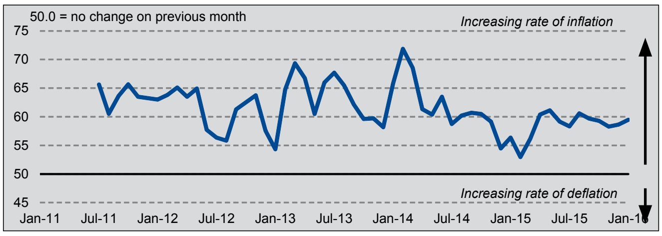
Latest survey data signalled a further sharp rise in overall input costs faced by South African private sector companies. The rate of inflation accelerated slightly since December and was the strongest in five months. While purchase prices rose at a faster pace, staff costs increased at only a marginal rate.



Input Costs: Purchase Prices Index

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

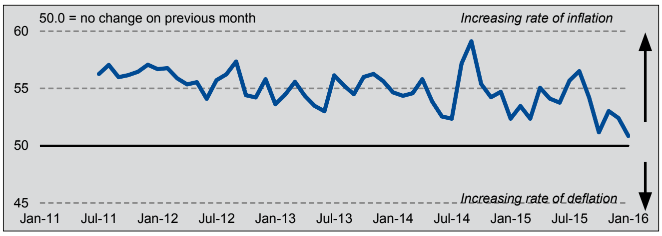
The seasonally adjusted Purchase Prices Index remained comfortably above the neutral 50.0 threshold in January, thereby signalling a further sharp rise in input costs. Around one-in-five panellists recorded an increase in purchase prices, with unfavourable exchange rates the general reason mentioned.



Input Costs: Staff Costs Index

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

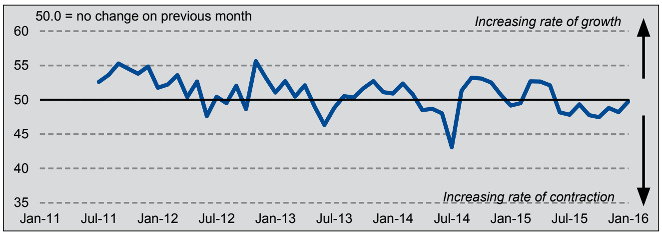
Staff costs rose only marginally in January, according to latest data, with the rate of wage inflation the lowest in the survey's 55-month history. This was highlighted by the seasonally adjusted index edging closer to the neutrality mark of 50.0. The vast majority of the survey panel (93%) reported no change in average staff costs since December..



Quantity of Purchases Index

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

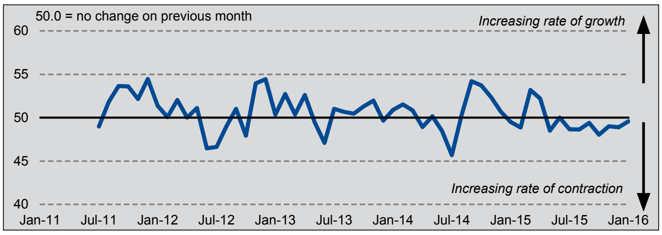
Buying activity in South Africa's private sector fell in January, thereby stretching the current sequence of decline to eight months. However, the rate of contraction was marginal, as highlighted by the seasonally adjusted Quantity of Purchases Index posting only fractionally below the no-change mark of 50.0.



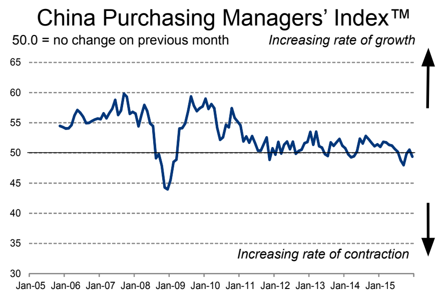
Stocks of Purchases Index

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

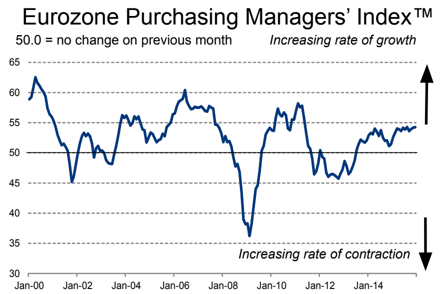
Companies remained cautious about their stock policies in January, as highlighted by a further drop in pre-production inventories. That said, the latest reduction was marginal overall. Anecdotal evidence partly attributed the decline in stocks of purchases to lower new orders and increased input costs.



International PMI summary



Sources: Markit, Caixin.



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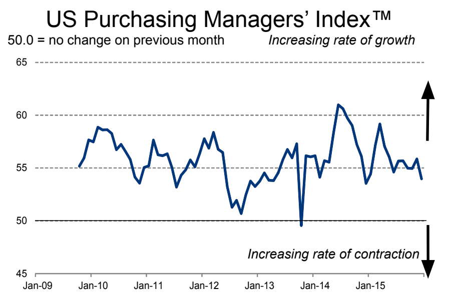

Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) signalled reduced business activity in China in December, with the headline Caixin Composite Output Index posting below the neutral 50.0 value at 49.4. This was down from 50.5 in November, and pointed to a marginal rate of reduction.

The Markit Eurozone PMI Composite Output Index rose to 54.3 in December, up from 54.2 in November. The headline index has now signalled expansion for 30 successive months. Solid output growth was recorded in both the manufacturing and service sectors, with the former slightly outpacing the latter for the first time since November 2014.

The seasonally adjusted Markit U.S. Composite PMI Output Index posted 54.0 in December, down from 55.9 in November, to signal the slowest expansion of private sector business activity for 12 months. Softer output growth reflected a weaker contribution from both services (54.3) and manufacturing (52.5) at the end of 2015.

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.

Warning