

# Standard Bank South Africa PMI™ compiled by markit

## PMI signals stabilisation of business conditions

### Key findings:

- **Headline PMI up slightly from June's 49.6 to 49.9**
- **Employment and inventories increase, but new orders and output decline**
- **Input costs rise at slower pace**

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.

Latest survey results signalled a further decline in South African private sector output and the first drop in new business for three months. However, rates of contraction were marginal in both cases. Meanwhile, employment rose fractionally and companies recorded a second consecutive increase in inventories.

The seasonally adjusted Standard Bank South Africa PMI rose slightly from June's 49.6 to 49.9 in July, thereby pointing to a stabilisation of operating conditions. However, positive contributions to the headline PMI came only from the employment and inventory indices.

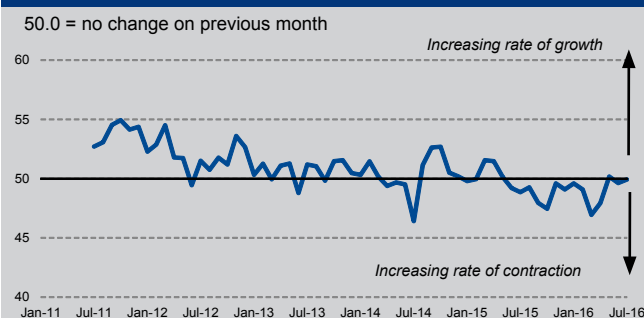
Companies reported a fifteenth consecutive monthly fall in activity in July. However, the rate of decline was the weakest in this sequence and only fractional overall, with occasional mentions of improving demand conditions. That said, overall new business also declined during the month, thereby reversing marginal growth in the previous two months. Part of the drop in new orders was attributed by survey participants to lower demand from export markets.

Despite new orders declining slightly, companies added to their payrolls in July. The rate of job creation was fractional, however. Higher workforce numbers in turn helped firms to work through their backlogs, with business outstanding falling further.

In response to subdued demand, some businesses lowered their input buying activity in July. The rate of reduction was moderate, although slightly stronger than that seen in June. Nonetheless, pre-production inventories accumulated for the second month in a row.

Unfavourable exchange rates and higher raw material prices continued to exert upward pressure on overall input costs in July. The latest rate of inflation was the least marked since January, however, with both purchase prices and staff costs rising at weaker rates. Meanwhile, output prices also rose at a slower pace and delivery times improved marginally.

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



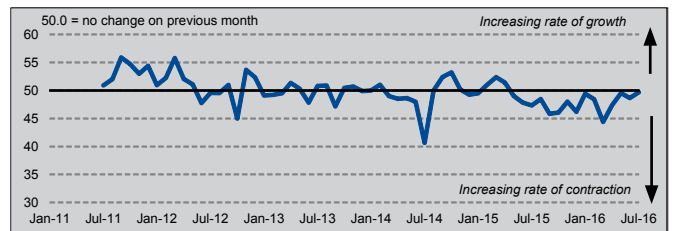
		Purchasing Managers' Index	
		Unadj.	Seas. Adj.
2016	May	49.9	50.2
	Jun	47.4	49.6
	Jul	49.4	49.9

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.*

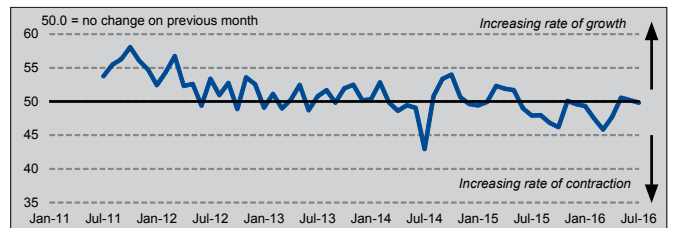
South African private sector output fell for the fifteenth consecutive month in July. However, the rate of decline eased since June and was only fractional overall. After adjusting for seasonality, the Output Index edged closer to stabilisation and rose to its highest level since last April. Companies generally commented on a lack of new business, although some panellists mentioned that demand conditions had improved.



## New Orders Index

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

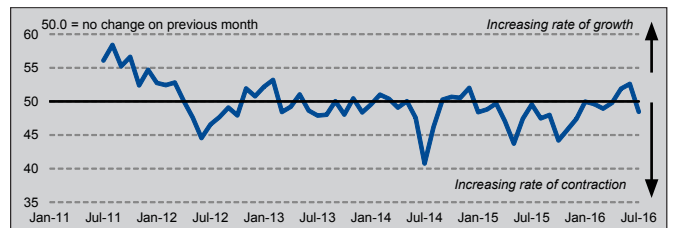
The amount of new business placed with private sector firms in South Africa fell at the start of the third quarter, following a two-month period of marginal growth. That said, the decline in new business was fractional overall, with the majority of the survey panel (71%) reporting no change. Panel members partly attributed lower new business to relatively weak economic conditions.



## New Export Orders Index

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

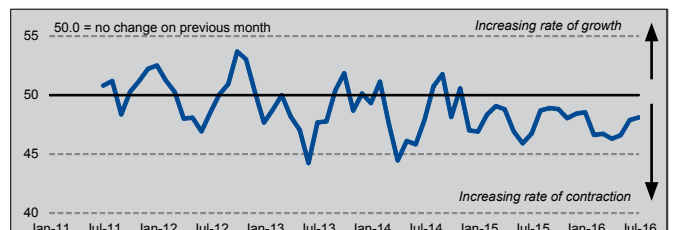
New export orders fell for the first time in three months during July, with survey participants commenting on unfavourable exchange rates and poor economic conditions in some of their key export markets. The rate at which foreign demand fell was the strongest in 2016 so far, but moderate overall.



## Backlogs of Work Index

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

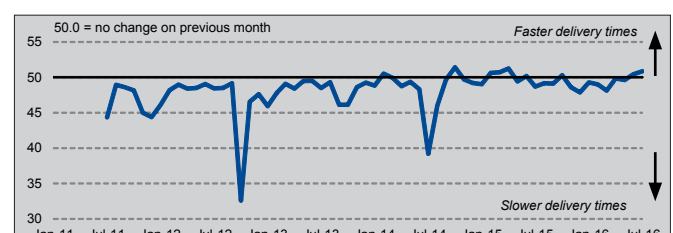
Latest survey data pointed to ongoing spare capacity in South Africa's private sector. The seasonally adjusted Backlogs of Work Index posted below the neutral 50.0 threshold for the twentieth month running and signalled a moderate pace of backlog depletion. Subdued demand was one of the reasons mentioned by panellists that recorded a fall in business outstanding.



## Suppliers' Delivery Times Index

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

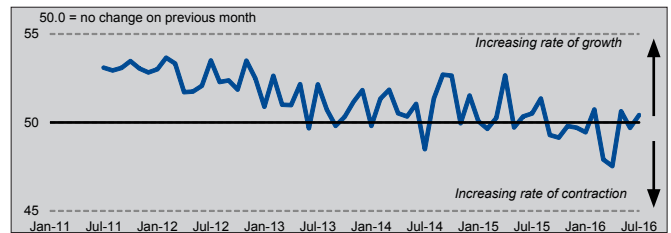
Suppliers' delivery times improved for the second consecutive month in July. Although the rate of improvement was the best since April 2015, it was only slight overall. While roughly 4% of companies noted faster average lead times, the vast majority of the survey panel (93%) signalled no change in vendor performance during the month.



### Employment Index

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

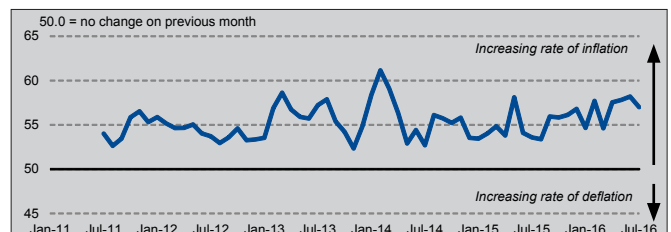
Private sector employment in South Africa rose during July, thereby reversing the marginal decline seen in June. However, the rate of job creation was only fractional overall and below the series' long-run average. Anecdotal evidence attributed jobs growth to the replacement of staff while others commented on higher business requirements.



### Output Prices Index

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

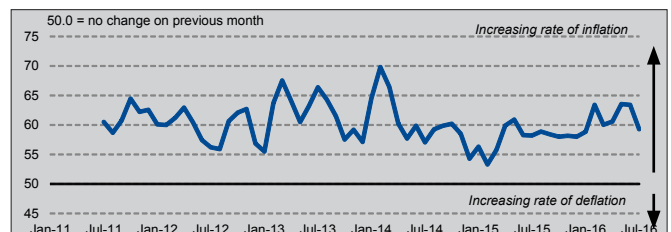
South African private sector companies raised their selling prices further in July. The rate of charge inflation fell to a four-month low, but was solid in the context of historical data. Roughly 16% of firms recorded higher average charges, while only 3% reported price discounting. The pass-through of higher input costs was the main reason behind the latest rise in output prices, according to anecdotal evidence.



### Overall Input Prices Index

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

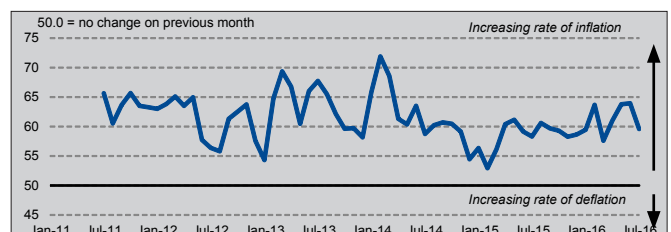
As has been the case since data collection began just over five years ago, input costs in South Africa's private sector rose during July, with more than one-in-five panellists noting an increase. The rate of cost inflation eased and was the least marked since January, however. Purchase prices and staff costs both rose at weaker rates.



### Input Costs: Purchase Prices Index

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

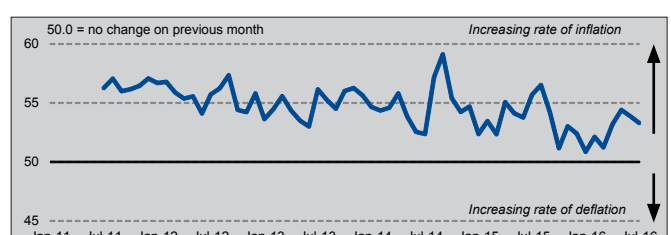
Latest survey data highlighted a further increase in purchase prices, with panel members commenting on higher raw material prices and unfavourable exchange rates. That said, the rate of purchase price inflation slowed to a four-month low. This was signalled by the seasonally adjusted index falling since June.



### Input Costs: Staff Costs Index

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

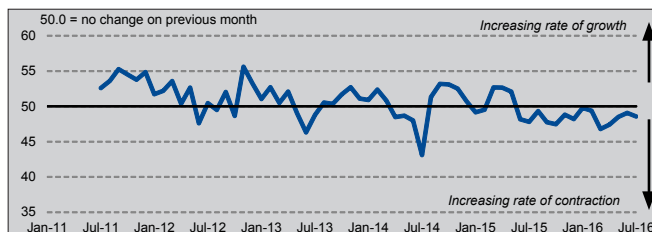
Average staff costs paid by South African private sector companies increased during July. Roughly 15% of the survey panel noted an increase in average prices paid for salaries, while only 4% recorded a reduction. However, the rate of wage inflation was the weakest in three months and below its long-run average.



**Quantity of Purchases Index**

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

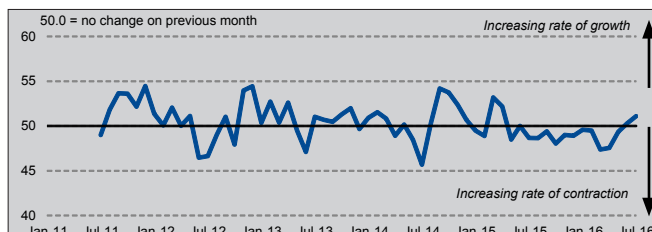
Purchasing activity at South African private sector companies declined for the fourteenth successive month in July. Although the rate of reduction picked up slightly since the previous month, it was modest overall. Anecdotal evidence partly attributed lower input buying activity to subdued demand.



**Stocks of Purchases Index**

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

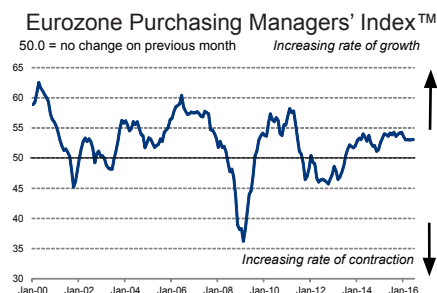
Despite a further fall in purchasing activity, pre-production inventories rose for the second month running in July. The rate of growth accelerated since June and was the strongest in 15 months, albeit moderate overall. Around 11% of survey participants indicated higher stock levels, while the majority (80%) reported no change.



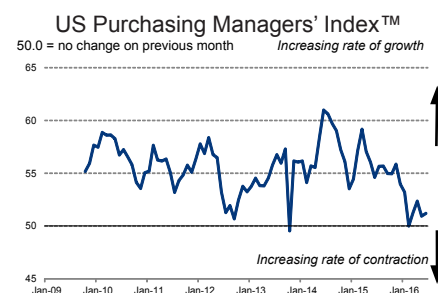
**International PMI summary**



Sources: IHS Markit, Caixin.



Source: IHS Markit



Source: IHS Markit

Caixin China Composite PMI data (which covers both manufacturing and services) signalled increased total business activity across China at the end of the second quarter. That said, the Composite Output Index posted 50.3 in June, down from 50.5 in May, to signal a fractional rate of growth that was the weakest in four months.

June saw the growth rate of eurozone economic output hold steady at a moderate pace. The Markit Eurozone PMI Composite Output Index posted 53.1, unchanged from May. This left the average reading for the headline index for the second quarter a shade below that for the opening quarter (53.1 versus 53.2).

The seasonally adjusted Markit U.S. Composite PMI Output Index registered 51.2 in June, to signal a further marginal expansion of private sector output. The latest reading was up from 50.9 in May but still well below the post-crisis average at 50.4).

**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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