

Standard Bank South Africa PMI™ compiled by markit

South Africa PMI drops to 20-month low, signalling deepening recession

Key findings:

- **Headline PMI falls from February's 49.1 to 47.0, rounding off worst quarter on record**
- **Output and new orders decline at sharper rates**
- **Employment levels fall at record 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.

The downturn in South Africa's private sector that started last summer intensified in March, with output and new orders falling at sharper rates and companies cutting jobs at a record pace. Meanwhile, input and output prices both rose more slowly, buying activity declined and inventories were reduced for the ninth month running.

Falling from February's 49.1 to 47.0 in March, the seasonally adjusted Standard Bank South Africa PMI signalled the most marked deterioration in operating conditions in over one-and-a-half years. Moreover, the average PMI reading over the first

quarter as a whole was the worst since the inception of the survey in July 2011.

South African private sector firms reported a substantial decline in activity in March, the eleventh in as many months and the most marked since July 2014. Part of the decrease was attributed by panellists to a lack of demand.

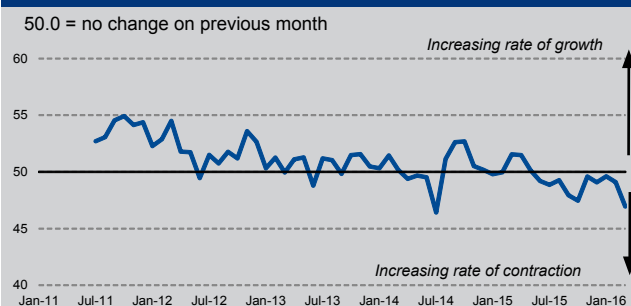
In line with the trend for output, new business fell sharply during the month. Survey participants partly linked this to commodity price developments, the drought and poor economic conditions. The fall in new work was broad-based, as new export orders also declined.

With new orders and output falling sharply, South African private sector companies scaled back their input buying and staff hiring activities. The reduction in workforce numbers the most marked in the survey history.

Input costs continued to rise during March, with unfavourable exchange rates continuing to exert upward pressure on inflation. That said, average staff costs also rose, albeit marginally overall. Some companies passed higher costs on to their clients, resulting in a further increase in average charges.

Stocks of purchases declined at the fastest pace in 20 months and backlogs of work were reduced further. Meanwhile, average delivery times lengthened for the fifth consecutive month.

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



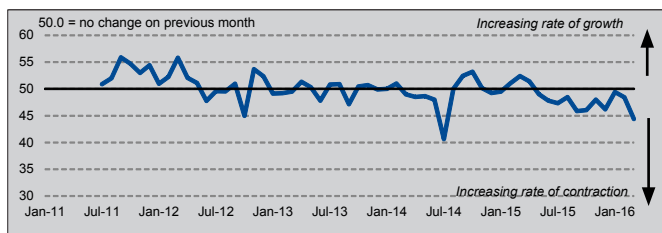
		Purchasing Managers' Index	
		Unadj.	Seas. Adj.
2016	Jan	45.5	49.6
	Feb	49.5	49.1
	Mar	47.0	47.0

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.

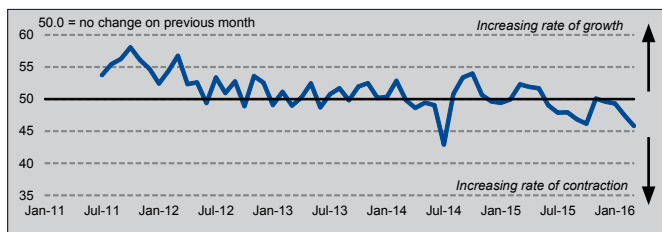
March data signalled the eleventh successive monthly decline in South African private sector activity, with roughly one-in-five companies reporting lower output. Moreover, the pace of contraction accelerated markedly since February and was the strongest since July 2014. Poor economic conditions and a lack of demand were some of the reasons for the decrease in activity, according to panel evidence.



New Orders Index

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

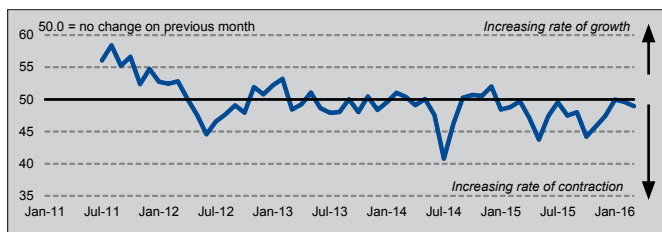
The amount of new business placed with South African private sector companies fell for the fourth straight month in March, attributed by panellists to commodity price developments, the drought and poor market conditions. The rate of decline in new work accelerated for the third consecutive month and was the most marked in over one-and-a-half years.



New Export Orders Index

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

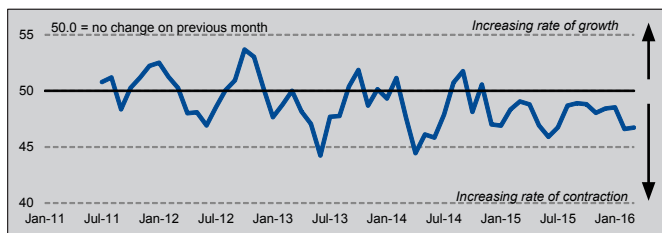
The seasonally adjusted New Export Orders Index remained below the neutral 50.0 threshold at the end of the first quarter, thereby signalling a further decline in new business from overseas markets. The decrease was slightly stronger than that recorded in February, but slight overall. Exchange rate factors and unfavourable economic conditions contributed to the latest fall in new export orders, according to panellists.



Backlogs of Work Index

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

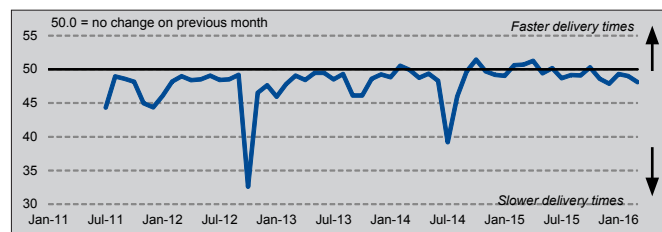
South African private sector companies reported a further decline in business outstanding in March, the sixteenth in as many months. The rate of reduction was little-changed from that seen in February and marked overall. According to anecdotal evidence, lower new orders helped alleviate pressure on operating capacity.



Suppliers' Delivery Times Index

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

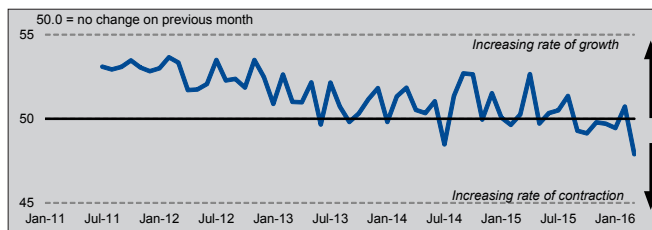
As has been the case since last November, suppliers' delivery times in South Africa's private sector lengthened during March. This was signalled by the seasonally adjusted index posting below the 50.0 no-change mark. That said, the rate at which vendor performance deteriorated was the most marked in 2016 so far.



Employment Index

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

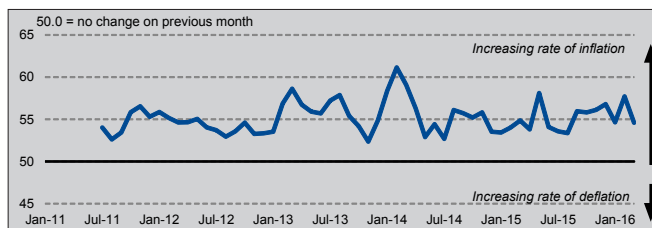
Private sector employment fell in March, thereby more than reversing the marginal rise recorded in February. Moreover, the rate of job shedding signalled was the steepest in the series history, with 9% of companies cutting workforce numbers. A lack of incoming new work and poor economic conditions contributed to the reduction in headcounts, according to survey evidence.



Output Prices Index

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

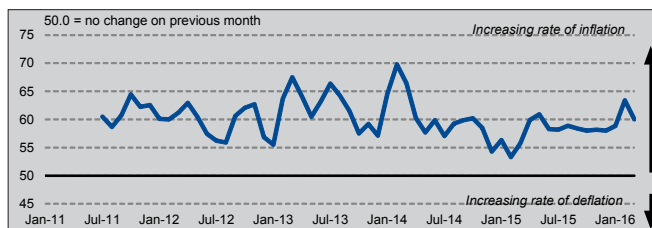
Private sector companies in South Africa raised their charges in March, thereby continuing a trend that started when data collection began in July 2011. However, the rate of inflation slowed since one month previously to the weakest since last August. While 15% of panellists increased their selling prices, the vast majority (82%) left charges unchanged.



Overall Input Prices Index

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

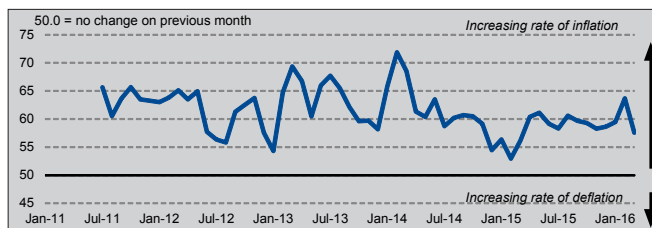
Overall input costs faced by South African private sector companies increased further at the end of the first quarter. Despite slowing since February, the rate of inflation was broadly in line with the long-run series average. That said, purchase prices and staff costs both rose at weaker rates during the month.



Input Costs: Purchase Prices Index

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

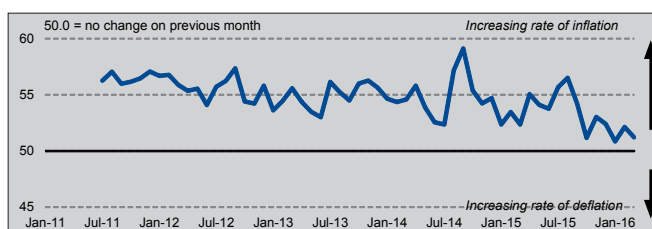
The seasonally adjusted Purchase Prices Index posted above the crucial 50.0 threshold in March, thereby signalling ongoing cost pressures in South Africa's private sector. Companies generally linked higher input prices to unfavourable exchange rates. However, the rate of inflation eased since February and was the weakest in a year.



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 in the South African private sector rose marginally during March, according to latest survey results. The rate of wage inflation was in fact the joint second-lowest on record. Although 8% of companies recorded higher average wages, the vast majority of the survey panel (87%) noted no change.



Quantity of Purchases Index

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

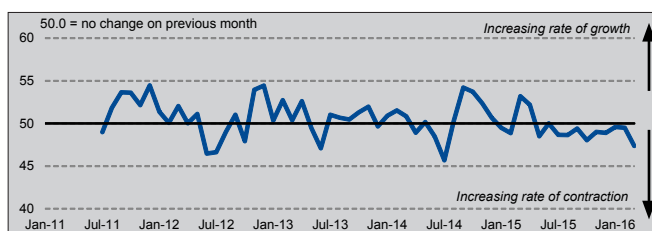
Buying activity at South African private sector firms fell for the tenth consecutive month in March. Moreover, the rate of reduction accelerated since February and was the most marked in over one-and-a-half years. Anecdotal evidence generally attributed lower purchasing activity to a lack of new business.



Stocks of Purchases Index

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

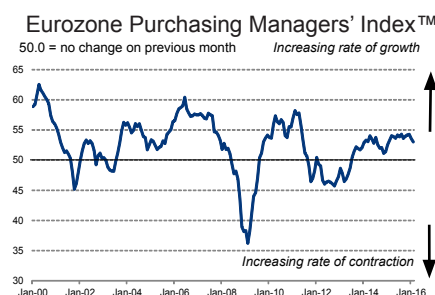
Latest survey data signalled a further decline in pre-production inventories at South African private sector companies, thereby extending the current sequence of stock depletion to nine months. The rate at which inventories were reduced was the strongest since July of last year, which some panellists linked to weak demand.



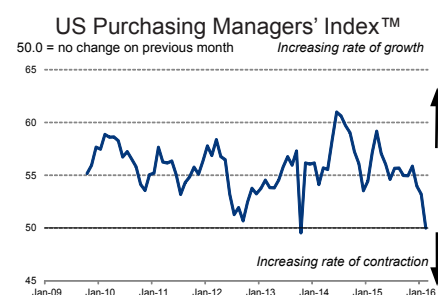
International PMI summary



Sources: Markit, Caixin.



Source: Markit



Source: Markit

After broadly stabilising at the start of 2016, the Caixin China Composite PMI data (which covers both manufacturing and services) indicated a renewed fall in total Chinese business activity in February. At 49.4, the composite index was down from 50.1 in January and below the neutral 50.0 threshold to signal a marginal rate of contraction.

February saw a broad-based slowdown of the eurozone private sector economy, with the Markit Eurozone PMI Composite Output Index falling to 53.0, its lowest reading since January of last year. Rates of output growth slowed in both the manufacturing (12-month low) and service (13-month low) sectors.

The seasonally adjusted Markit U.S. Composite PMI Output Index posted 50.0 in February, thereby signalling that private sector output was unchanged over the month. Moreover, the index was down from 53.2 in January and the weakest recorded since October 2013.

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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