

# Standard Bank South Africa PMI™ compiled by markit

## South African private sector falls into contraction

### Key findings:

- Output and new orders decline at sharpest rates in nearly a year
- Companies report marginal rise in workforce numbers
- Cost pressures ease since May

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.

June data signalled a contraction in South Africa's private sector, with output and new orders falling amid reports of a weak economic environment and subdued demand. A marginal rise in employment levels meanwhile helped companies to reduce their backlogs of work further. Input and output prices both rose at weaker rates while suppliers' delivery times improved marginally.

Operating conditions at South African private sector companies deteriorated for the first time since January, according to latest survey data. The headline PMI fell from May's 50.1 to an

11-month low of 49.2, thereby signalling a mild contraction in the sector at the end of the second quarter.

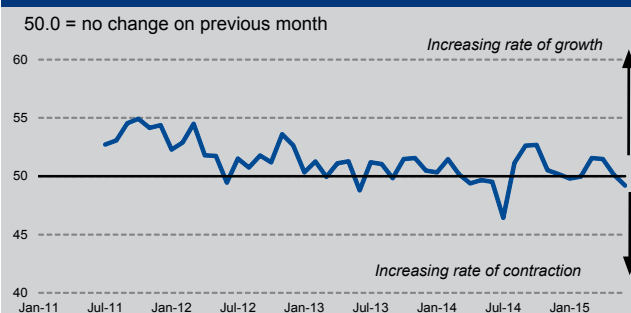
The main downwards contributions to the headline PMI came from the output and new orders sub-indexes. Activity fell for a second month running, while the decline in new business was the first in four months. The fall in new work was broad-based, as new export orders continued to decrease. Moreover, the rates of contraction in output and total new orders were the most marked in 11 months in both cases, and attributed by panellists to a weak economic environment and subdued demand.

Despite the declines in output and new orders, companies reported a marginal rise in employment. This helped to further reduce business outstanding in the sector. Meanwhile, suppliers' delivery times improved fractionally.

The survey data also signalled that companies were cautious about their stock policies, with input buying declining for the first time since February and stocks of purchases unchanged since one month previously.

The latest increase in input costs was the least marked in three months, with both purchase prices and staff costs rising at slower rates. Nevertheless, firms continued to pass higher input costs on to their clients in the form of higher charges.

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



Purchasing Managers' Index

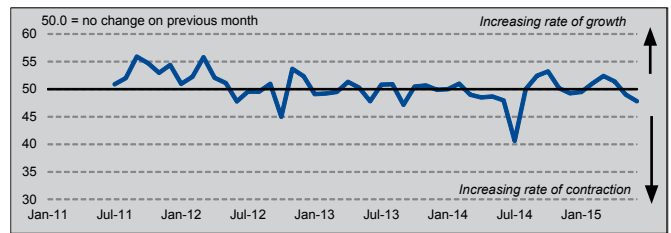
		Unadj.	Seas. Adj.
2015	Apr	49.9	51.5
	May	49.2	50.1
	Jun	47.9	49.2

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.*

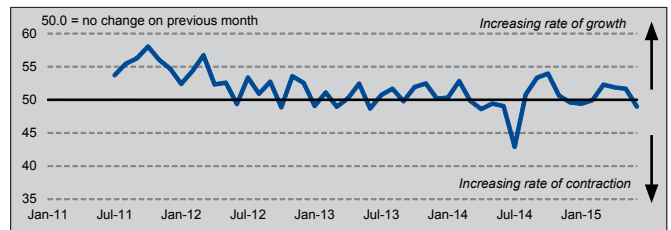
South African private sector companies reported a second successive monthly fall in output in June, with the pace of contraction the most marked in nearly a year. While almost 20% of the survey panel signalled a decline, only 12% noted a rise in activity. Anecdotal evidence attributed the drop in output to a fall in new business and a weak economic environment.



**New Orders Index**

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

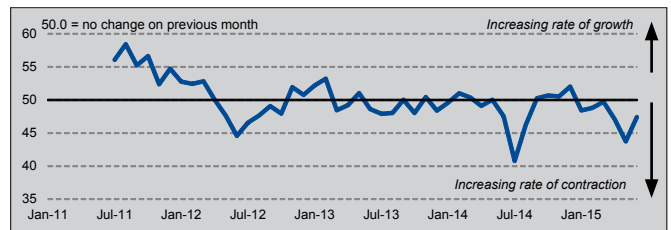
New business placed with South African private sector firms declined for the first time in four months during June. This was highlighted by the seasonally adjusted index falling below the neutral 50.0 threshold. The rate of contraction was modest overall, but nevertheless the strongest since July of last year. Some companies commented on subdued demand.



**New Export Orders Index**

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

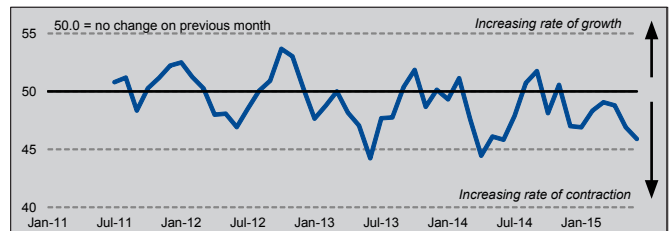
Continuing the trend that started at the beginning of the year, new business from abroad decreased in June. However, the rate of decline eased from May's ten-month record and was modest overall. Around 13% of survey participants signalled weaker demand from foreign markets versus 7% that noted an expansion.



**Backlogs of Work Index**

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

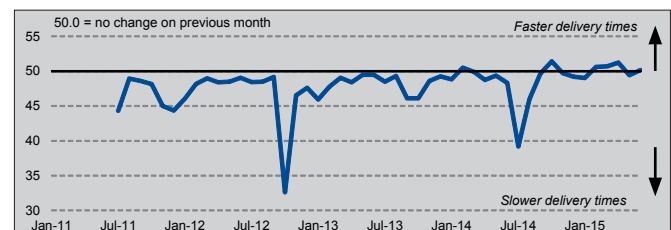
The seasonally adjusted Backlogs of Work Index remained below the 50.0 no-change mark in June, thereby signalling ongoing spare capacity in South Africa's private sector. Moreover, the rate at which business outstanding was reduced was the strongest in exactly one year. Some panel members linked lower backlogs to a lack of new work.



**Suppliers' Delivery Times Index**

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

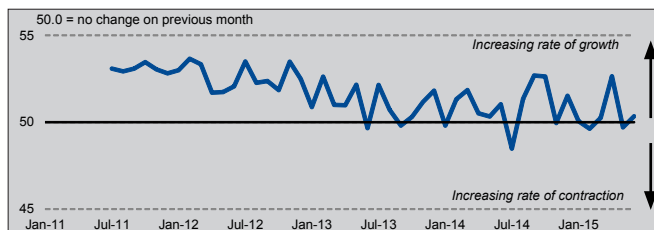
Vendor performance in South Africa's private sector improved in June, following a slight deterioration in the previous month. However, the rate at which average lead times shortened was only fractional overall, as the vast majority of the survey panel (around 91%) reported no change in supplier performance.



### Employment Index

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

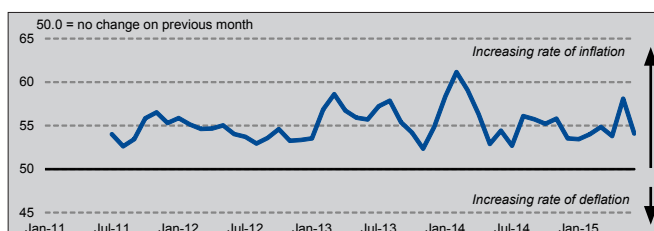
Private sector employment in South Africa rose for the third time in the past four months in June. This was signalled by the seasonally adjusted index registering above the crucial 50.0 threshold. However, the rate of job creation was only fractional overall and weaker than the long-run series average.



### Output Prices Index

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

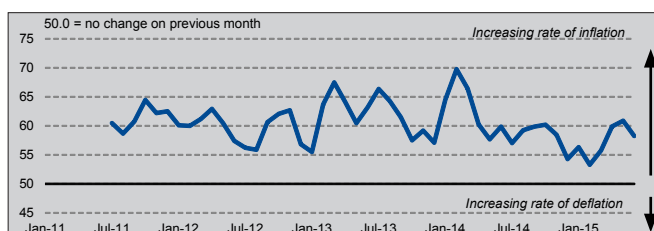
Latest survey results signalled a further rise in charges at South African private sector firms, thereby continuing the trend that started when survey data were first collected in July 2011. The rate of output price inflation eased since May and was below the survey's average. Surveyed companies generally raised their charges in response to higher input costs, according to anecdotal evidence.



### Overall Input Prices Index

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

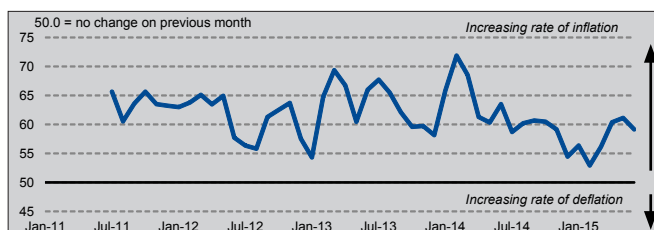
Private sector companies in South Africa signalled a further increase in input costs in June. Despite dropping to a three-month low, the rate of inflation remained sharp overall. While 18% of the survey panel noted higher input prices, only 4% indicated a decline. Purchase prices and staff costs both rose at slightly 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.

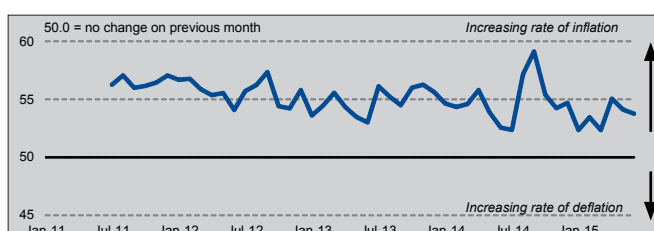
Following the trend that started when data collection began nearly four years ago, purchase prices in South Africa's private sector increased in June. One-in-five survey participants signalled a rise in purchase costs versus 5% that noted a reduction. Companies attributed higher purchase prices to a combination of exchange rate factors and higher fuel costs.



### Input Costs: Staff Costs Index

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

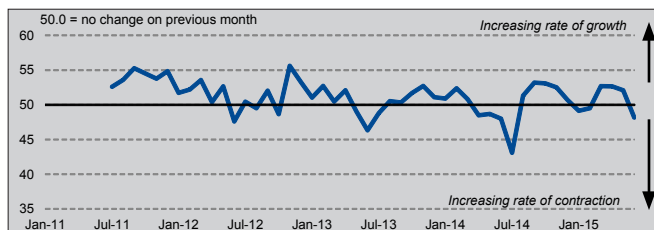
The seasonally adjusted Staff Costs Index remained comfortably above the neutral 50.0 threshold in June, signalling a further rise in average wages paid by South African private sector firms. Mirroring the trend for purchase prices, the latest increase was the weakest in three months. Anecdotal evidence linked the latest rise to increased workforce numbers and salary reviews.



### Quantity of Purchases Index

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

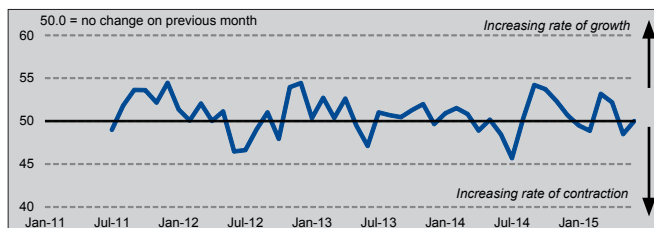
Reflective of declining new order intakes, South African private sector firms reduced their buying activity for the first time in four months during June. Moreover, the rate of contraction was the most marked in nearly a year. Around 20% of survey participants reported a reduction in input buying, while 14% signalled a rise.



### Stocks of Purchases Index

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

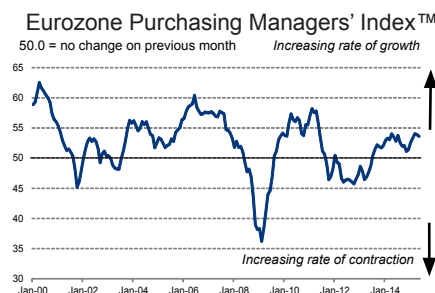
June data signalled no change in pre-production inventory holdings at South African private sector firms, as highlighted by the respective seasonally adjusted index posting at the neutral 50.0 mark. This followed the sharpest (albeit still only modest overall) reduction in inventories for ten months during May.



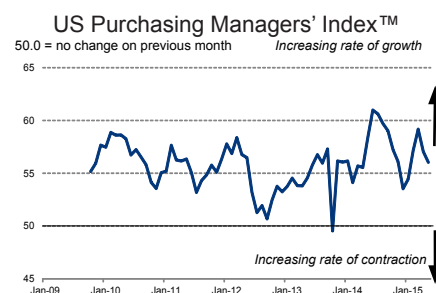
### International PMI summary



Sources: Markit, HSBC



Source: Markit



Source: Markit

HSBC China Composite PMI data (which covers both manufacturing and services) signalled the thirteenth successive monthly expansion of Chinese business activity in May. That said, the rate of activity growth weakened for the second month in a row, with the HSBC Composite Index posting at 51.2, down fractionally from 51.3 in April.

The Markit Eurozone PMI Composite Output Index posted 53.6 in May, down from 53.9 in April. Output rose in both the eurozone manufacturing and service sectors during May, with rates of expansion slowing in both cases. Business activity growth at service providers remained a shade ahead of that signalled for manufacturing production.

The seasonally adjusted Markit U.S. Composite PMI Output Index (covering manufacturing and services) registered 56.0 in May, down from 57.0 in April but above the neutral 50.0 threshold for the nineteenth consecutive month. The latest reading indicated the slowest pace of output expansion since January.

### 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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