

Standard Bank South Africa PMI™ compiled by markit

Downturn in South African private sector intensifies as PMI drops to 14-month low

Key findings:

- Output, new orders and purchasing activity decline at stronger rates
- Employment falls for first time in four months
- Cost inflation remains elevated despite slowing slightly

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 African private sector companies reported a continued contraction of output and new orders in September, with the rates of decline accelerating since August. Consequently, firms reduced their buying activity and lowered their workforce numbers. Output price inflation reached a four-month high and input costs continued to rise at a robust rate.

The Standard Bank South Africa PMI fell from August's 49.3 to 47.9 in September, thereby signalling the steepest contraction in the sector for 14 months. Moreover, the average PMI reading for the quarter as a whole (48.7) was the worst on record.

September data signalled a further decline in new business placed with South African private sector firms, which survey participants generally linked to a poor economic environment. The rate of decrease was the strongest since last July. New export orders also fell further, although at a slightly slower pace than in August.

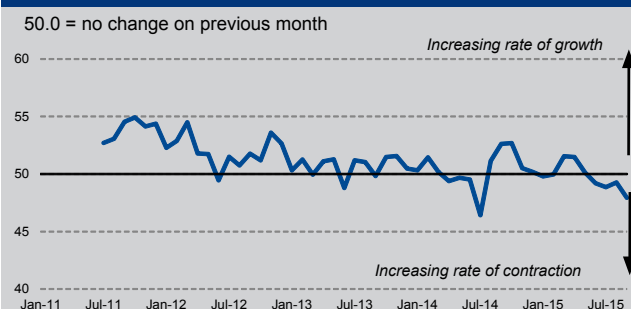
Activity at South African private sector firms decreased at a sharper rate in September. Mirroring the trend for new orders, the pace of contraction was the quickest in 14 months.

A lack of new work resulted in the first decline in payroll numbers since May. While the rate of job shedding was only marginal overall, it was nonetheless the most marked in over a year. Meanwhile, backlogs of work fell for the tenth month running.

Overall input prices increased further in September. That said, the rate of inflation slowed fractionally since August as purchase prices and staff costs both increased at weaker rates. Some firms passed higher costs on to their clients, resulting in a further rise in selling prices. The rate of charge inflation was the highest in four months.

Meanwhile, buying activity and stocks of purchases fell further in September and suppliers' delivery times continued to lengthen. The rate at which vendor performance deteriorated was little-changed from August.

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



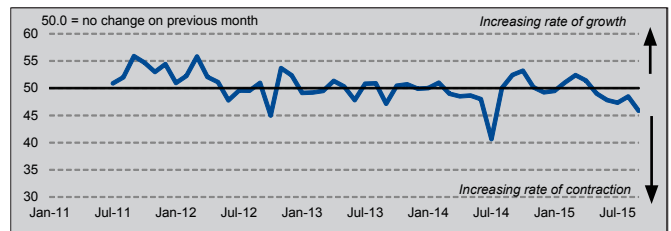
		Unadj.	Seas. Adj.
2015	Jul	47.7	48.9
	Aug	49.4	49.3
	Sep	49.3	47.9

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. 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.

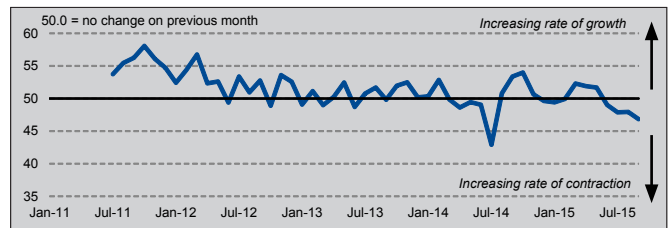
September data signalled a fifth consecutive monthly decline in South African private sector output. Moreover, the rate of contraction was the most marked since July of last year, when strikes in the metals sector caused disruptions. Anecdotal evidence attributed the latest decline in activity to a weak economic environment and a lack of demand.



New Orders Index

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

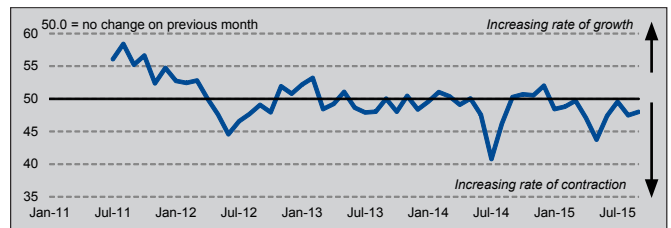
Following the trend that started in June, new order intakes at private sector companies in South Africa fell in September. This was highlighted by the seasonally adjusted index remaining below the neutral 50.0 threshold. The latest decline was the strongest in over a year, which some survey participants linked to poor 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.

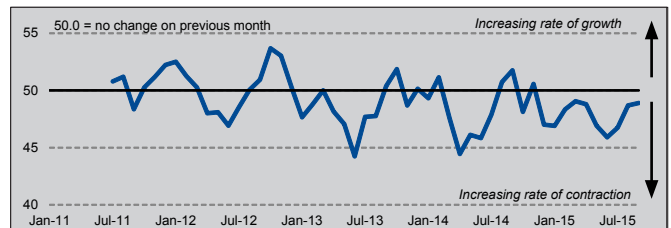
South African private sector firms recorded a further contraction in new business from abroad in September. However, the rate of decrease was slightly weaker than in August and broadly in line with the average for the current nine-month period of decline. New export orders fell at a slower pace than total new orders.



Backlogs of Work Index

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

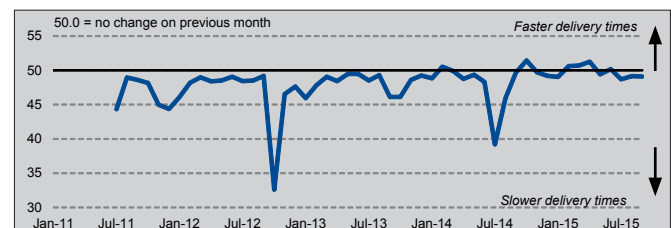
Latest survey results signalled a tenth successive monthly drop in backlogs of work held at South African private sector companies. However, the rate of reduction slowed further and was the least marked since March. A lack of new business was mentioned by some companies as the primary factor behind the decline in business outstanding.



Suppliers' Delivery Times Index

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

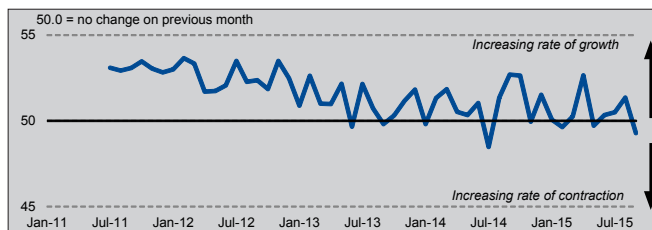
The seasonally adjusted Suppliers' Delivery Times Index registered below the 50.0 no-change mark in September, thereby signalling a further deterioration in vendor performance in South Africa's private sector. The rate at which average lead times lengthened was little-changed since August and marginal overall.



Employment Index

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

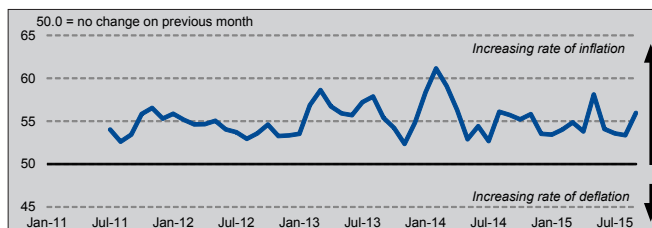
Private sector employment in South Africa fell for the first time in four months in September. Despite being only marginal overall, the rate of job cuts was the most marked in over a year. According to anecdotal evidence, lower workforce numbers were linked to the resignation of some employees and retrenchments due to a lack of work.



Output Prices Index

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

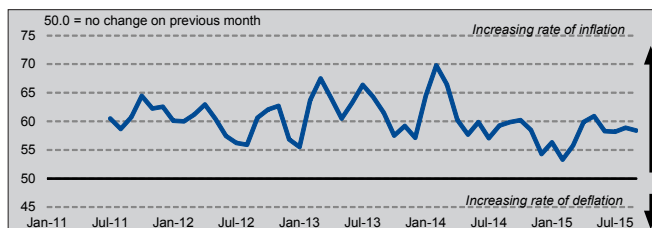
Companies operating in the South African private sector raised their charges further in September. Moreover, the rate of inflation accelerated since August and was the strongest in four months. Around 16% of the survey panel increased their selling prices, versus only 3% that reported price discounting. Panellists generally linked higher output prices to increased input costs.



Overall Input Prices Index

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

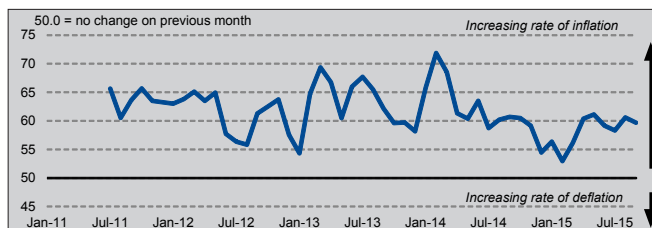
As has been the case since the start of the survey in July 2011, input costs in South Africa's private sector increased in September. However, the rate of cost inflation slowed slightly since August and remained below the long-run series average. Purchase prices and staff costs both rose at weaker rates.



Input Costs: Purchase Prices Index

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

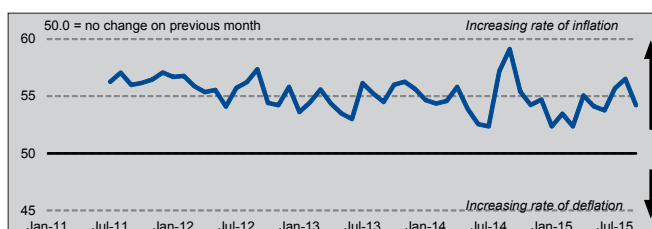
Purchase prices faced by South African private sector companies increased further in September. Roughly 23% of survey participants reported higher costs, while only 3% noted a reduction. When asked to comment on the latest rise in purchase prices, many companies reported that unfavourable exchange rates had exerted upward pressure on 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.

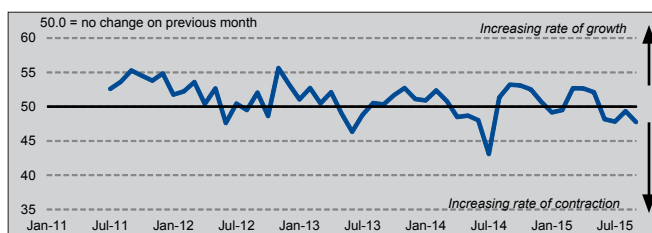
Average staff costs in South Africa's private sector rose further in September. This was highlighted by the seasonally adjusted index remaining above the crucial 50.0 threshold. However, the rate of wage inflation was the weakest in three months and below the survey's average. Some panel members attributed higher staff costs to increased salaries.



Quantity of Purchases Index

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

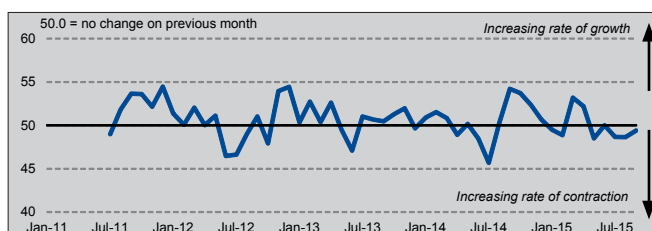
Buying activity at South African private sector companies decreased for the fourth month running in September. Moreover, the rate of contraction was the strongest in 14 months. A lack of new orders was the primary factor mentioned by survey respondents that lowered their purchasing activity during the month.



Stocks of Purchases Index

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

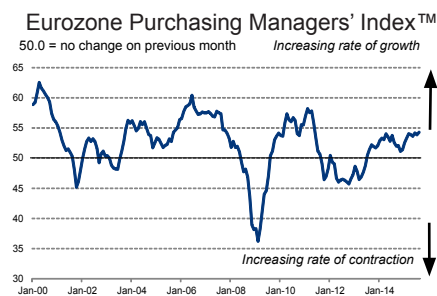
Private sector firms in South Africa reduced their stock holdings for a third month running in September. However, the rate at which pre-production inventories fell was only marginal overall, with the vast majority of the survey panel reporting no change. Anecdotal evidence attributed lower stock holdings to declining new order intakes.



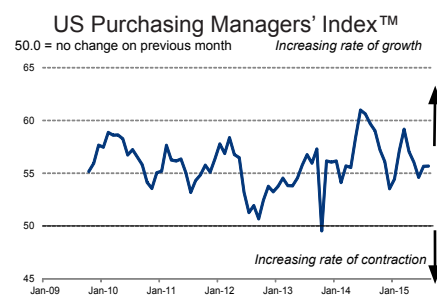
International PMI summary



Sources: Markit, Caixin.



Source: Markit



Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a renewed fall in overall Chinese business activity in August. This was highlighted by the Caixin Composite Output Index posting below the neutral 50.0 value at 48.8, down from 50.2 in July.

The Markit Eurozone PMI Composite Output Index rose to 54.3 in August, up from 53.9 in July, as output growth accelerated moderately in both the manufacturing and service sectors. Moreover, levels of incoming new business also rose at a solid, albeit slightly slower, pace.

At 55.7 in August, the seasonally adjusted Markit U.S. Composite PMI Output Index was unchanged since July, to signal a further robust pace of expansion. The average index reading so far in Q3 2015 is only fractionally lower than that seen in the second quarter (55.9).

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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