

Standard Bank Mozambique PMI™

Economy close to stalling in October as demand growth cools

Key findings

New business rises at slowest rate for nine months

Output expansion moderates, but job creation quickens

Cost pressures soften considerably

The Mozambican economy lost further growth momentum and was close to stagnation in October, latest PMI survey data showed, as firms signalled waning demand and reduced appetite for spending among customers. Recent inflationary pressures pushed new business growth to a nine-month low, although costs rose to a much lesser extent than in the previous survey period. Business optimism towards future output improved to a four-month high, encouraging firms to add to their staffing numbers at the fastest rate since April.

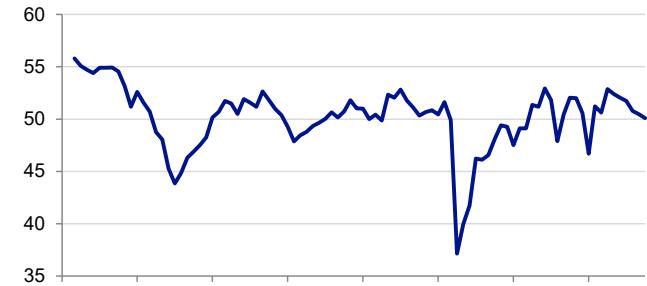
The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

The headline PMI fell from 50.5 in September to 50.1 in October, posting only fractionally above the 50.0 no-change value. The reading signalled the weakest improvement in operating conditions in the current nine-month sequence of growth.

Mozambican businesses reported only a slight increase in new order volumes at the start of the fourth quarter, marking the weakest uplift in nine months. Softer client demand, linked in part to domestic and international price pressures, was often associated by panellists with the easing of sales momentum. Only 12% of companies saw a rise in new orders since September, whereas 8% recorded a decline on the month.

Sector data showed that sales growth was concentrated on construction and services firms in October, with both categories registering only mild expansions. At the same time, agriculture, manufacturing and wholesale & retail recorded lower new business volumes.

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sa, >50 = improvement since previous month



Sources: Standard Bank, S&P Global.
Data were collected 12-26 October 2022.

Comment

Fáusio Mussá, Chief Economist - Mozambique at Standard Bank commented:

"The Standard Bank Mozambique PMI fell for the sixth straight month to 50.1 in Oct, from 50.5 in Sep. This reflects a softer growth in output, declining new orders, and softer new export orders, all reflecting a cooling of aggregate demand.

"The PMI also suggests a softer inflation in Oct, per the decline in output prices, in sync with a decline in input prices on stable fuel prices since Aug, and a stronger metical against the rand and the euro, which subdues imported inflation.

"Having remained only a fraction above the 50-benchmark, the PMI suggests that economic growth could have stalled in the beginning of Q4:22. Looking ahead, we note the rise in the future expectations sub index, which could reflect optimism around GDP growth accelerating next year.

"This is aligned with our Sep edition of African Markets Revealed (AMR) views sees inflation easing in Oct, after a possible peak of 12.1% y/y in Aug. Our year end inflation forecast stands at 11.7% y/y this year and 8.1% y/y next year. Despite the planned front-loaded fiscal adjustment under the FY2023 government budget for the 12-m ending Dec 23, and a tight monetary policy to help fight inflation, we see foreign direct investment, external assistance and net exports supporting growth next year, which accelerates to 4.4% y/y, from our 4.2% y/y forecast for 2022."



As a result, Mozambican businesses saw only a modest rise in output in October, with the rate of expansion slipping from the previous survey period. As well as softer demand, some panellists added that higher expenses had weighed on activity.

On the other hand, firms recorded an improved outlook for the next 12 months, with over 59% of respondents expecting output to grow. This marked the highest degree of optimism since June. As a result, firms continued to boost their staffing numbers, with employment growth accelerating to a six-month high, allowing companies to make further inroads into their backlogs.

October data also signalled a renewed rise in purchasing activity, leading to a slight increase in input inventories. Lead times on inputs shortened amid reports that soft demand, improving supply and competition among vendors had supported faster deliveries.

Prices data pointed to a considerable softening of input cost inflation in October. Input prices rose only moderately and at the slowest pace since April, despite reports of higher fuel costs and currency weakness. This translated into a softer rise in output charges; the pace of inflation slowed for the fourth time in five months to the weakest since March.

Survey methodology

The Standard Bank Mozambique PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include agriculture, mining, manufacturing, construction, wholesale, retail and services. Data were first collected March 2015.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html

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Over the past five years, Standard Bank has invested more than US 200 million in credit lines for infrastructure projects for the transport of coal, storage of liquid fuels, expansion and construction of airports and roads, as well as projects in the areas of telecommunications and mineral resources.

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