

News Release

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S&P Global South Africa PMI®

Operating conditions contract at sharpest rate since July 2021

Key findings

Output falls steeply amid renewed drop in sales

Inflationary pressures remain severe as rand weakens

Fewest supplier delays since end of 2019

Businesses in South Africa suffered a further downturn in operating conditions during May, latest PMI® data showed, as load shedding greatly constrained output and contributed to a renewed fall in new business. Inflationary pressures also continued to restrict customer spending, as firms reported another sharp rise in their output charges in response to substantial increases in cost burdens.

More positively, companies signalled that improving import supply helped to ease supply side challenges, leading to the softest lengthening of delivery times since December 2019. Firms also remained positive about the future, amid hopes of a pick-up in sales despite concerns about electricity supply.

The S&P Global South Africa Purchasing Managers' Index™ (PMI®) - a composite gauge designed to give a single-figure snapshot of operating conditions in the private sector economy – dropped to its lowest reading in just under two years in May. At 47.9, down from 49.6 in April, the index pointed to a decline in the health of the private sector for the third successive month.

Underlying the downturn was a sharp and quicker contraction in business activity. In fact, activity decreased to the greatest extent since July 2021, with falls seen in the industry, construction, wholesale & retail and services sectors. Survey panellists highlighted that the contraction in output was again mainly driven by sustained load shedding.

May data also indicated a fresh decrease in new order volumes, after a fractional uplift was recorded in April. Firms noted that inflationary pressures and load shedding continued to deter client spending. The fall in sales was the quickest since January, but modest overall. Companies also suffered a decline in new export orders for the first time in four months amid reports that weaker client confidence and cost cutting measures had hit demand.

South African firms responded by reducing their purchasing activity and inventories in May, with rates of decrease

S&P Global South Africa PMI
sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-26 May 2023.

Comment

David Owen, Senior Economist at S&P Global Market Intelligence, said:

"The South Africa PMI pointed to a challenging month for businesses across the country in May, as load shedding drove a further contraction in economic activity. After a promising (albeit slight) uplift in new business during April, customer demand was back in negative territory, adding to a steep and accelerated drop in output. Moreover, firms continue to contend with severe inflation, driven by weakness in the rand, high electricity costs and elevated wage pressures.

"On a positive note, supply chain problems are eroding quickly as global shipping delays dissipate and import goods sources come back online. Our survey data signalled that supplier delays were at their lowest since December 2019, which should at least help to soften price pressures arising from material and vendor costs.

"However, the bleak energy outlook over the winter suggests that more companies will look for alternative electricity sources, pushing costs and customer prices even higher. Weak demand trends are thus likely to continue, leading to additional falls in business activity."

PMI®

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quicken from the previous month. On the other hand, employment levels recovered modestly after a slight cut during April which, when combined with reduced new order intakes, meant that the drop in output had little impact on firms' backlogs.

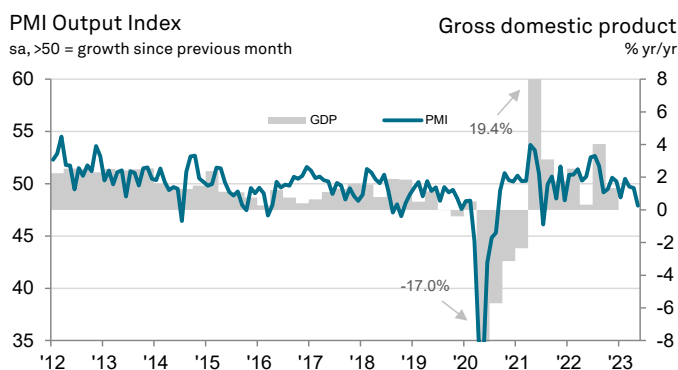
Meanwhile, South African companies experienced another month of severe inflationary pressures. The rate of input cost inflation ticked up from April, with over a quarter of respondents (26%) signalling an increase in their expenses. Purchase costs were reportedly driven higher by a further depreciation of the rand, while some firms mentioned greater electricity costs as they ran backup generators.

Adding to this, companies registered another sharp rise in staff salaries to compensate workers facing higher living costs. Despite easing slightly from April, the pace of wage inflation was among the quickest recorded since mid-2015.

Consequently, firms raised their selling charges rapidly during May. Sector data indicated that output price pressures were strongest in the wholesale & retail sector.

Despite these challenges, South African businesses remained optimistic about the year-ahead outlook in May, with hopes often placed on expectations of improved demand and business expansion. Over 44% of surveyed firms expect output to grow.

Positivity about the future aligned with a stabilising supply side environment. Several companies mentioned that a rapid improvement in goods supply from abroad helped to boost efficiency at vendors and allay some of the effects of load shedding. As a result, lead times lengthened at the softest pace since December 2019.



Sources: S&P Global, Stats SA.

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Survey methodology

The S&P Global South Africa 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 July 2011.

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.

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