News Release

Embargoed until 0915 SAST (0715 UTC) 3 November 2022

S&P Global South Africa PMI®

Business conditions weaken again in October

Key findings

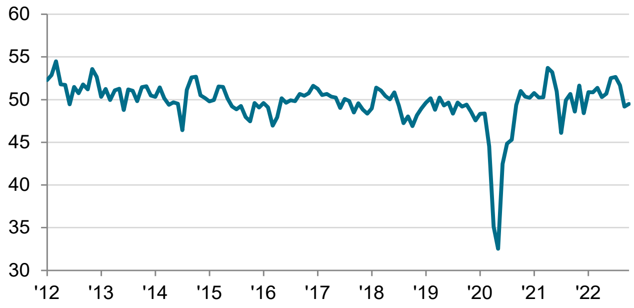
Load shedding, port strikes and inflation hit output

Employment growth stalls as sales continue to fall

Price pressures remain steep

S&P Global South Africa PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-27 October 2022.

Business conditions in the South African private sector deteriorated for the second consecutive month in October, as load shedding and sharp inflationary pressures continued to dampen activity and demand. Firms also experienced heightened supply chain disruption due to port strikes, as delivery times worsened to the greatest extent since April. Jobs growth consequently stalled and purchasing activity fell, although firms remained broadly confident that activity will strengthen over the coming year.

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 – registered 49.5 in October, signalling a slight contraction in the health of the private sector for the second month running. The index ticked up from 49.2 in September.

The Output sub-index had the largest negative influence on the PMI in October, indicating a solid decrease in private sector activity. Despite easing from September, the pace of contraction was the second-fastest in 2022 so far. Businesses linked the reduction to both weaker demand and capacity cuts, with the latter due to load shedding, port delays and heightened operating costs.

Similarly, new order inflows declined for the second month in succession, although to a lesser degree than in September. Companies often reported that sharp inflationary pressures had undermined spending, while other panellists related the drop to load shedding and increased economic uncertainty. The latest downturn was most severe in the wholesale & retail sector, with contractions also registered in industry, construction and services. On the plus side, export sales improved following a solid decrease at the end of the third quarter.

Strikes at Transnet were often cited as an instigator of port delays in October, resulting in a marked lengthening of delivery times that was the sharpest since April. Notably,

Comment

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

"The South African private sector continued to suffer as a result of the national load shedding programme in October, with latest survey data indicating another solid decrease in output. Inflation was also a key issue as companies curtailed activity to keep operating costs manageable, whilst also registering a drop in customer spending. Notably, rates of both cost and charge inflation picked up for the first time in four months, extending fears of a price-led downturn in the economy.

"The 11-day Transnet strike was widely mentioned by surveyed companies as a drag on economic activity in October, primarily due to a marked lengthening of delivery times as port capacity was severely limited. While strikes have ended, evidence suggests that severe backlogs at ports will likely cause further disruption to businesses in the final quarter of the year."

the frequency of reported delays was much stronger than the post-pandemic low seen in August. At the same time, businesses reduced their input purchases for the first time since January, contributing to a slight fall in inventories.

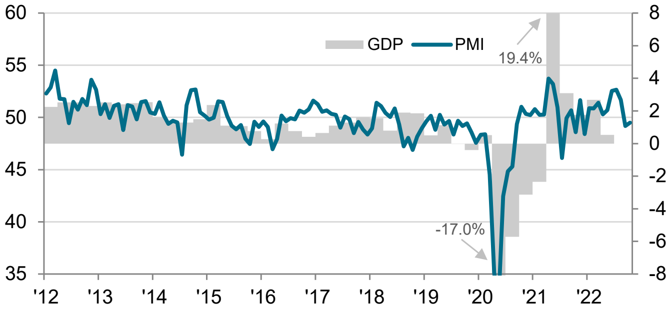
Job numbers at South African companies were broadly flat in October, after expanding in each month since March, as weak new orders weighed on firms' desire to add to their workforces. Despite evidence of capacity constraints, lower sales meant that backlogs of work were stable for the second month running.

Meanwhile, input cost inflation remained steep and accelerated slightly for the first time since June. This was largely due to sharply rising energy bills and a weaker exchange rate against the US dollar, whereas both purchase prices and staff costs rose at a softer pace. The rate at which selling prices increased was marginally quicker than in the previous month, but remained less marked than those recorded between February and August.

Finally, South African firms maintained a positive view towards the next 12 months, with over half of all survey respondents (53%) projecting an expansion in output. The degree of confidence dipped slightly from September but was still much higher than the series trend. However, some firms noted that positive forecasts were conditional on an improving economic picture, softer inflation and reduced load shedding.

PMI Output Index
sa, >50 = growth since previous month

Gross domestic product
% yr/yr



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.

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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