News Release

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S&P Global South Africa PMI®

New business growth strengthens in July

Key findings

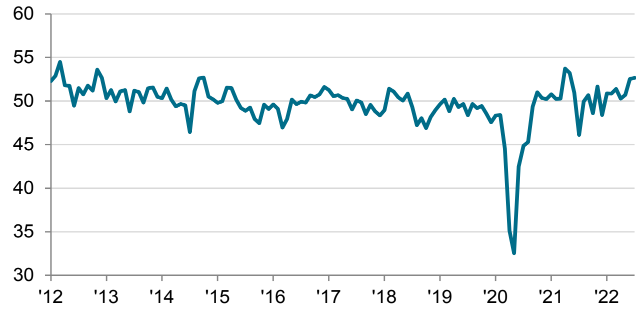
Output and new orders expand at quicker rates

Cost pressure remains severe

Load shedding leads to solid rise in backlogs

S&P Global South Africa PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 12-27 July 2022.

The South Africa PMI® picked up for a third successive month in July, helped by improving new orders, output and employment numbers. All three metrics signalled the quickest rates of growth since mid-2021, amid reports of improving market demand despite rapid inflationary pressures. However, rising costs for fuel, utilities and labour led to a further sharp increase in business expenses, putting further pressure on companies to raise their selling charges.

The S&P Global South Africa Purchasing Managers' Index™ (PMI®) rose to a 14-month high of 52.7 in July, up slightly from 52.5 in June, to signal a solid improvement in the health of the private sector economy. Business conditions have now strengthened for seven consecutive months.

Supporting the improvement was a solid uplift in new order volumes over the course of July, the third in as many months and the fastest since May 2021. Firms that reported sales growth commented on higher client demand, new projects and stabilising market conditions. Moreover, new orders from abroad increased for the first time in 14 months, albeit only slightly.

With sales rising, South African firms raised their activity for the third month running in July. The rate of expansion was the strongest since May 2021, but notably softer than that of new orders. To support higher capacity, businesses increased their workforce numbers, leading to a solid and accelerated upturn in employment.

The gap between output and new order growth was partly due to reports of load shedding over the month, which acted to constrain business capacity. The shortfall led to a renewed rise in backlogs of work that was the sharpest in just over a year.

Capacity pressures were also exacerbated by delivery delays, as firms struggled with sourcing raw materials and faced disruption on shipping routes, particularly from Asia. That said, the degree to which lead times lengthened in July

Comment

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

"The South African economy remained firmly on the upside in July as businesses saw client demand improve, despite reports of price pressures acting to dampen spending in some cases. In fact, new business growth quickened to the fastest rate since May 2021, leading to accelerations in both output and employment growth.

"However, firms were still under considerable pressure from rising fuel and electricity prices in July, as well as further reports of heightened shipping prices and material shortages due to the pandemic and the Russia-Ukraine war. Strength in the US dollar added to purchasing costs, while some firms were forced to increase staff wages to compensate for higher living costs.

"With output charges again up rapidly as a result, it appears likely that the current growth spurt in the economy may be short-lived, as businesses and households start to rein spending to cope with inflation. Despite this, firms remained broadly confident that activity will grow over the next 12 months with optimism still above the survey trend, though this was partly contingent on inflationary pressures moderating."

was the least severe since January 2020, as some panellists noted that COVID-related constraints had continued to ease.

At the same time, South African businesses faced considerable pressure from cost rises during July. The rate of input price inflation was broadly unchanged from June's 99-month peak, as firms reported further rises in fuel, electricity and shipping prices. In addition, a weakening of the rand against the US dollar contributed to higher import costs, whilst wages increased sharply due to greater hiring efforts and a higher cost-of-living.

Average prices charged by private sector firms also rose at a marked pace in July as companies looked to protect their earnings. The rate of increase was fractionally softer than in June, but still the fourth-quickest since the series began in July 2011.

Meanwhile, rising new orders, material shortages and load shedding encouraged firms to increase their purchases of inputs at the start of the third quarter. Purchasing rose for the sixth month in a row, albeit at a slower and only modest rate. Nonetheless, inventory growth was unchanged from June and the joint-highest in five-and-a-half years.

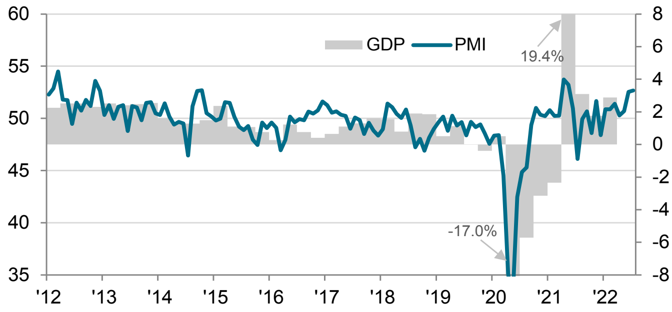
Finally, business confidence ticked up to a three-month high in July, with around 38% of firms expressing a positive outlook for the next 12 months. This was often linked to hopes of improving demand and a moderation of price pressures. That said, expectations remained lower than those seen at the beginning of the year.

PMI Output Index

sa, >50 = growth since previous month

Gross domestic product

% yr/yr



Sources: S&P Global, Stats SA.

Contact

David Owen
Economist
S&P Global Market Intelligence
T: +44 1491 461 002
david.owen@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 7967 447 030
sabrina.mayeen@spglobal.com

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 S&P Global

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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