News Release

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S&P Global South Africa PMI®

PMI slides to three-month low as demand growth softens

Key findings

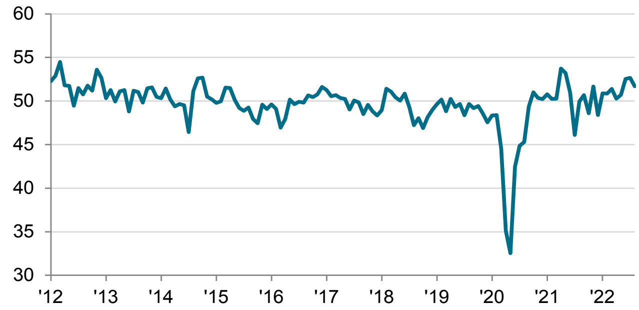
Business activity rises only slightly

Softest rise in output prices since January

Cost pressures remain severe

S&P Global South Africa PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 12-26 August 2022.

Business conditions at South African firms continued to improve in August, latest PMI data showed, albeit with the rate of growth easing amid signs of a slowdown in customer demand. At the same time, input cost pressures remained sharp but softened from their recent peak, allowing businesses to temper the rate of output charge inflation to a seven-month low. Job creation remained strong, bolstered by a robust growth outlook, but firms reduced their stock holdings for the first time since May amid near-term demand and inflation concerns.

The S&P Global South Africa Purchasing Managers' Index™ (PMI®) registered 51.7 in August, down from 52.7 in July to the lowest for three months. The reading signalled a modest improvement in business conditions.

Overall business activity rose for the fourth consecutive month in August. Surveyed firms linked growth to higher new order inflows and recovering supply conditions. That said, the rate of expansion softened to a three-month low and was only slight, as some businesses reported that clients had reined in spending due to growing headwinds in the global economy.

Sector data showed that higher activity was centred on services and construction firms midway through the third quarter. By contrast, there were sustained declines in the industry and wholesale & retail categories.

New orders were also in expansion mode for the fourth month running in August, although here the rate of growth cooled from July's recent peak. The upturn was helped by improving customer demand and a slight uplift in export sales.

With activity increasing, companies added to their employment numbers in August. The latest rise in staffing was solid and only fractionally slower than July's 13-month high. Despite this, outstanding work levels rose for the second straight month, as some companies noted that ongoing input shortages and strikes had stopped them from

Comment

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

"South African business conditions continued to improve in August, but at a reduced pace following July's 14-month high, amid early signs that customer confidence is starting to wane due to high inflation and global recession fears. Employment levels increased solidly, whereas stocks declined for the first time in three months as some companies lowered their spending on inputs.

"After riding high in recent months, there were some positive signs that inflation had begun to cool in August. Input prices rose at the slowest pace for three months, despite a marked increase in staff costs that was the second-quickest for seven years. Firms indicated that lower commodity prices had helped to ease overall cost pressures, although higher fuel prices and exchange rate fluctuations remained key hindrances.

"In line with softening cost pressures, output charges rose to the least extent since January (but still rapidly), offering some hope that consumer price pressures are starting to ease."

completing new orders.

In general though, supply conditions moved closer to stabilising in August after a sustained period of delays due to the impacts of the pandemic. Reports of longer delivery times were in fact the lowest since January 2020.

On the inflation front, August data signalled another rapid increase in input costs at South African firms, albeit one that was slower than the recent peak seen in June. Higher fuel costs, staff wages and raw material prices were often cited by panellists, although there were some reports of price reductions for items such as steel. Notably, wages increased at the second-quickest pace in seven years (behind May 2021) as firms looked to compensate workers facing higher living costs.

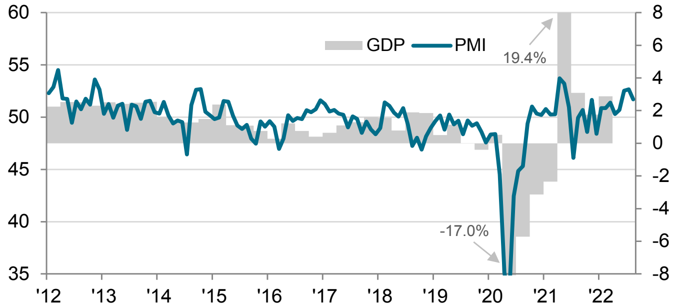
The slight drop-off in cost inflation helped firms when setting output charges in August. While charges rose sharply, the pace of increase was the slowest recorded since the beginning of the year.

Input purchasing meanwhile rose only slightly, amid evidence that softer sales growth and high inflation had offset demand for raw items. As a result, inventories decreased for the first time since May.

Despite output growth slowing, South African businesses remained optimistic about the next 12 months in August. Respondents often linked growth expectations to hopes of higher new business, contract wins and a stabilising economy following the pandemic. Notably, the degree of optimism picked up to the strongest since February.

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 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.