News Release

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S&P Global South Africa PMI®

Business activity declines solidly in January

Key findings

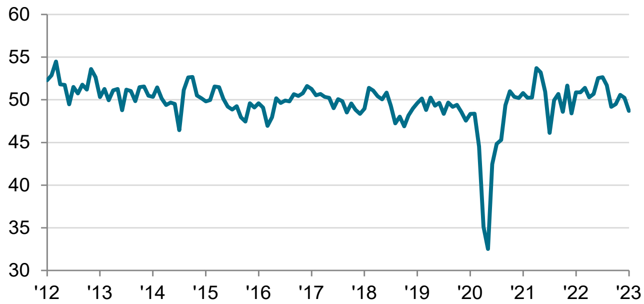
New business falls at sharpest rate since December 2021

Purchasing drops rapidly as supplier delays remain marked

Input cost inflation softens to 15-month low

S&P Global South Africa PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-27 January 2023.

South African business conditions deteriorated at the sharpest rate since December 2021 in January, latest survey data showed, as load shedding and weak economic conditions contributed to solid falls in activity and new orders. Supply chains also remained under pressure from power supply cuts, whereas falling shipping fees helped to soften input cost inflation to a 15-month low. Business confidence remained strong but slipped to its weakest in six months, as concerns about extended load shedding programmes weighed on optimism that demand will pick up.

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 – posted 48.7 in January, registering below the 50.0 neutral mark for the first time in three months. Down from 50.2 in December, the index was in fact at its lowest mark since the end of 2021.

The decline in operating conditions was primarily due to a solid drop in new order volumes in January, the fastest registered in just over a year. Firms that saw a fall in demand often linked this to weak client activity due to load shedding and generally poor economic conditions both domestically and worldwide - export orders decreased for the third month running. Of the four main sectors covered by the survey, new business declined in industry, construction and wholesale & retail. Services, on the other hand, registered a slight upturn.

The overall fall in sales led to a fifth consecutive monthly decrease in output during January. Moreover, the rate of contraction quickened to the fastest since last September. Despite lower activity, firms managed to deplete their backlogs to the greatest extent since December 2021.

Input buying activity also fell at a sharper rate in January, with firms often readjusting their purchases due to weak sales. Stocks of inputs accordingly dropped the most since October 2021.

Comment

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

"The South African economy suffered a fresh downturn at the beginning of 2023, driven by a stronger decline in new business inflows that was the most marked in just over a year. New orders slumped due to another round of load shedding, according to survey respondents, which also caused further disruption to supply chains and curtailed business activity.

"The high inflation environment and related economic weakness also contributed to the latest downturn, although there were persistent signs that price challenges are easing. Lower shipping fees and a strengthening rand meant that overall input costs rose to the least extent for 15 months. Output charges increased at the softest pace since August 2021 accordingly. Moreover, both price metrics are now broadly aligned with their long-run trends.

"Greater optimism around inflation helped to sustain confidence in the business outlook, although firms showed increased concerns about the intensity of load shedding in 2023. Optimism slipped to a six-month low but remained historically strong."

PMI® by S&P Global

Supply chains were again disrupted by reduced vendor capacity from load shedding, as well as reports of import delays from China. As a result, overall delivery times lengthened at a sharp pace that was just shy of December's nine-month record.

There were some positive findings from the latest survey data, however, most notably on prices. Companies reported that lower shipping fees and a stronger rand against the US dollar led to the softest rise in purchase prices for almost two years. Subsequently, the rate of overall input inflation slowed to a 15-month low and was broadly in line with the long-run trend. The softening of cost inflation supported a weaker rise in output charges that was the lowest recorded since August 2021.

Firms remained broadly optimistic regarding the 12-month outlook in January, with over half of all respondents expecting activity to grow. That said, the degree of optimism slipped to a six-month low amid growing concerns about the intensity of load shedding in the future and its impact on demand.

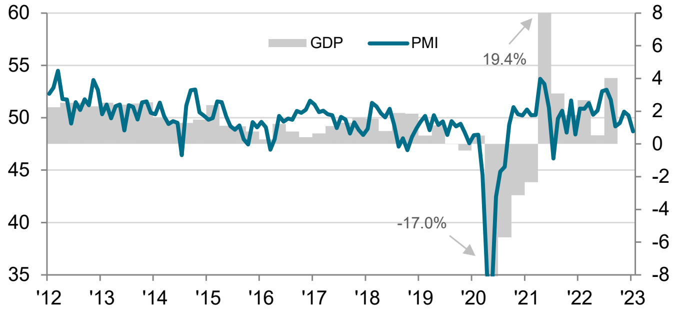
The overall positivity led businesses to maintain growth of employment in January. Though the latest rise in workforce numbers was only fractional, it extended the current run of job creation to the joint-longest seen since mid-2013 at 11 months.

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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