

News Release

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S&P Global South Africa PMI®

Output and new orders recover slightly in May

Key findings

First increase in output since February

Business confidence weakens amid inflation concerns

Purchasing growth softens despite fewer input delays

South African companies highlighted a renewed uplift in business activity during May, according to the latest PMI survey data. New work inflows also expanded, albeit marginally, as improving conditions in KwaZulu-Natal helped to lift overall demand.

Input price inflation remained severe in May, however, as the war in Ukraine continued to drive fuel and raw material costs higher. Businesses raised their own charges sharply, whilst efforts to lower inventory costs led to a slower rise in purchasing activity. Inflation concerns also led to weaker confidence in future output, which dropped to a ten-month low.

The S&P Global South Africa Purchasing Managers' Index™ (PMI®) rose from 50.3 in April to 50.7 in May, remaining above the 50.0 neutral mark for the fifth month running. The latest reading indicated a slightly stronger, but still marginal, improvement in the health of the private sector economy.

The rise in the headline index was helped by renewed expansions in output and new orders during May, after a multitude of headwinds, including floods, loadshedding and higher fuel prices, led to declines in April. A number of firms noted that conditions in KwaZulu-Natal had begun to improve, helping to lift overall sales. That said, rates of growth were only marginal, and partly weighed on by loadshedding, supply constraints and weaker export sales.

Moreover, out of the four broad sectors monitored by the survey, only construction and services saw rises in activity and new business in May. By contrast, industry and wholesale & retail continued to register outright contractions.

At the same time, South African businesses saw another marked increase in input prices during May, with the rate of inflation picking up from April's six-month low. Higher fuel prices were commonly noted by panellists, alongside increased raw material prices and currency weakness. Staff costs were also up solidly as a number of companies raised

S&P Global South Africa PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 12-27 May 2022.

Comment

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

"The South Africa PMI pointed to stabler economic conditions in May, with output and new business recovering slightly following downturns in April. This was helped by reduced supply chain delays, as improving conditions in KwaZulu-Natal following the floods allowed vendors to deliver items more quickly. That said, the flood damage is likely to negatively affect business activity for a longer period."

"More notably, firms remained under considerable pressure to increase their prices in May, as global inflation drivers such as higher fuel prices continued to lead to higher operating costs. Some companies indicated that increased charges had resulted in a reduction in client demand, meaning that the overall rise in new business volumes was only marginal."

PMI®

by S&P Global

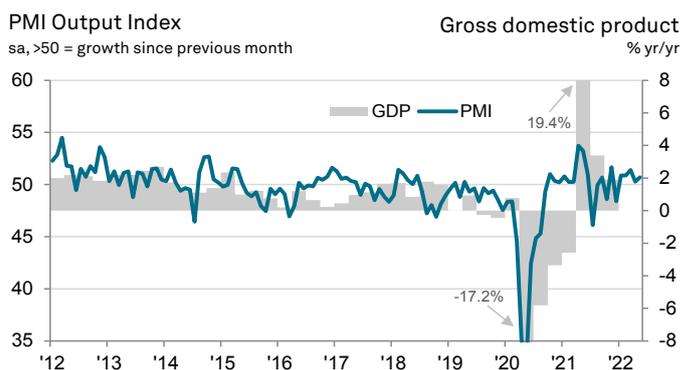
wages in response to higher living costs.

In order to protect margins, firms continued to raise their output charges sharply in May, although the rate of inflation dropped slightly to a four-month low. Additionally, some firms looked to limit their inventory costs by purchasing fewer inputs, weighing on the overall pace of purchasing growth and leading to a further drop in stock levels.

Meanwhile, the latest survey data pointed to signs of a turnaround in supply chain performance, as lead times lengthened at the softest rate for almost a year. Whilst vendors remained under pressure from material shortages and shipping delays, some firms reported an improvement in stock availability and supply chains previously disrupted by floods.

Staffing numbers at South African companies rose for the third successive month in May, although the rate of job creation slowed to the weakest seen in this sequence. Nevertheless, higher staff capacity and fewer delays meant that firms were able to reduce their backlogged order volumes.

Business confidence towards future output dropped to its lowest level since July 2021 in May. While overall sentiment remained upbeat and in line with the long-run trend, it was notably weaker than in April. Post-COVID optimism and hopes of strengthening demand supported positive expectations for the year ahead, but this was partly offset by fears that strong inflationary pressures will harm economic activity.



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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