HSBC Purchasing Managers’ Index™ Press Release
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HSBC South Africa PMI™

PMI edges back into expansion territory in October

Summary

This press release contains the first public release of data collected from the new monthly survey of business conditions in the South African private sector economy covering the construction, manufacturing, mining, retail and service sectors. The survey, produced by Markit on behalf of HSBC, has been conducted since July 2011 and provides an early indication of operating conditions in South Africa.

The headline figure derived from the survey is the Purchasing Managers’ Index™ (PMI™), a composite index, calculated as a weighted average of five individual sub-components: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

The headline index posted 51.5 in October, up from September’s reading of 49.8 to signal the strongest improvement in operating conditions in 2013 so far.

South Africa’s private sector companies reported a marginal rise in activity in October, following a month of contracting output. New orders also rose, with the rate of growth in new work the quickest since May. Anecdotal evidence suggested that improving market conditions and stronger consumer confidence both contributed to the rise in new business. However, respondents reported that unfavourable exchange rates and difficulties in European markets led to a decline in export sales.

In line with the trends for output and new orders, staffing levels increased in October, albeit only fractionally. Concurrently, backlogs of work accumulated further.

Overall input costs rose at the slowest pace since January during October. While the rate of purchase price inflation eased, average staff costs increased at the fastest pace in three months. In response to increased input costs, South African private sector firms raised their output charges.

October saw a further lengthening of average lead times in South Africa’s private sector, with companies commenting on raw material shortages and the recent strikes in the country.

Driven by increased order intakes, input buying rose in October. Although modest, the rate of expansion was the highest in six months. Meanwhile, stocks of purchases accumulated for the fourth month running.

Comment

Commenting on the South Africa PMI™ survey, David Faulkner, Economist at HSBC, said:

“The HSBC South Africa PMI suggests an improvement in private sector conditions in October as the economy rebounded from a strike-affected September. A robust pick-up in new orders and small rise in output explain most of the improvement while employment levels expanded marginally in line with positive but weak growth. The improvement in economic conditions appears to be domestically driven. New export orders contracted in October, suggesting that weak external demand and underlying competitiveness challenges continue to restrain exports. Some respondents also linked weaker exports to the recent rebound in the Rand in October, which may have shaved off part of the competitiveness gains from earlier depreciation.

“Input cost inflation remains strong but slowed somewhat as a moderation in the pace of rising purchase costs helped offset accelerating staff costs associated with high wage settlement levels. Output prices continue to rise but at their slowest pace since January suggesting a relatively benign inflation outlook, although evidence of long lead times in suppliers’ deliveries may present an upside risk to future supply-side inflation.

“While strike-action provided headwinds to third quarter GDP growth, the recent PMI survey supports a slightly more optimistic outlook for economic activity in the final quarter of 2013.”

Key points

- Output returns to growth as new orders increase
- Employment levels rise marginally
- Companies raise their output charges in response to higher input costs

Historical Overview

HSBC South Africa PMI

Sources: Markit, HSBC.
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**Notes to Editors:**

The HSBC South Africa PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the South African economy, including manufacturing, mining, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers’ Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers’ Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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*Purchasing Managers’ Index™ (PMI™)* surveys are now available for 32 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. To learn more go to [www.markit.com/economics](http://www.markit.com/economics).

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