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Markit Economic Research

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South Africa

PMI falls sharply as economy hit hard by strikes

- **HSBC headline PMI slumps to record-low**
- **Further contraction in GDP likely**
- **Inflation at near five-year high, but survey data signal easing of cost pressures in near-term**

July's PMI results bring more negative news for a country that has been hit hard by strikes and high inflation in recent months. The HSBC South Africa PMI™ dropped to an all-time low and suggests that Africa's second-largest economy appears to be undergoing a deepening downturn.

Strikes weigh heavily on economic performance

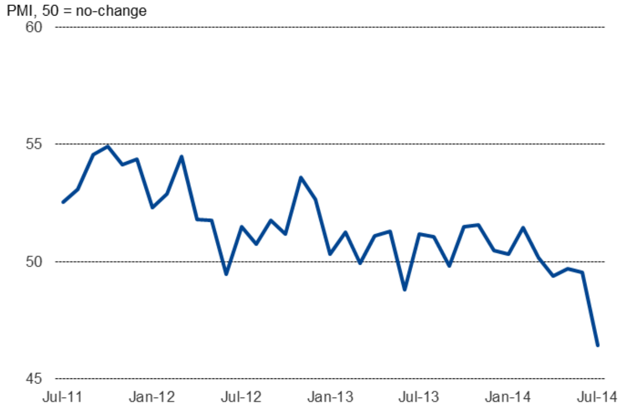
Survey data suggest that the headwinds facing the South African economy persisted into the third quarter, with July's HSBC South Africa PMI signalling an intensification of the current downturn in South Africa's private sector. The headline index fell from 49.5 to 46.4, the lowest reading in the survey's three-year history and indicative of a fourth consecutive monthly deterioration in operating conditions. Output and new orders declined, resulting in the first fall in staffing levels since January.

The main reason highlighted by surveyed companies behind the poor performance was the four-week metals strike, which started on 1 July, only one week after the platinum strike had ended. Some 220,000 striking members across South Africa's steel and engineering sectors had downed tools to demand higher wages.

The National Union of Metalworkers accepted an offer from the Steel and Engineering Industries Federation of Southern Africa, whereby the lowest earners will receive a 10% annual wage increase for three years. The strike ended on 29 July.

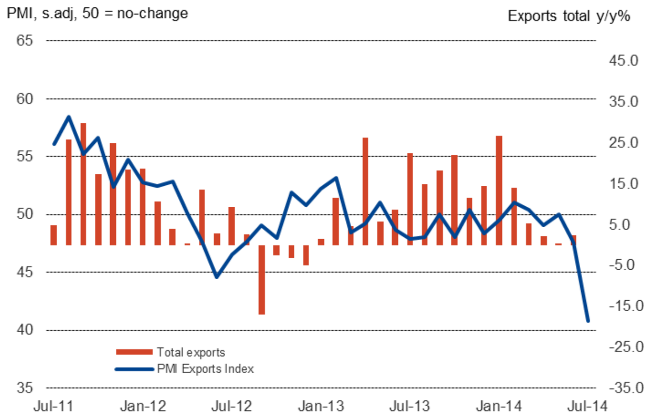
However, the walkout came at a price. According to employers, the strike cost the engineering sector around 300mln rand (£17mln) a day.

HSBC South Africa headline PMI



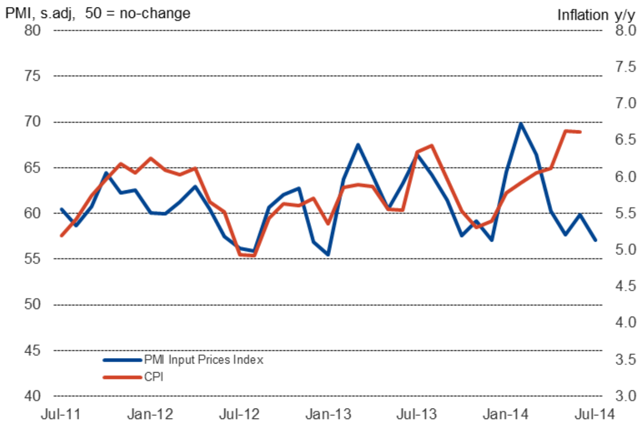
Sources: Markit, HSBC.

Strikes affect South Africa's export performance



Sources: Markit, HSBC, Ecowin.

Inflation set to ease in coming months



Sources: Markit, HSBC, Ecowin.

Only a few weeks back, a five-month platinum strike had ended, whereby 70,000 walked out in a protest for higher wages and benefits. South Africa is the world's largest exporter of platinum and companies reported a combined loss of 23.8bn rand (£1.3bln).

GDP set to contract further

Official data showed that Africa's second-largest economy contracted at a quarterly rate of 0.2 percent during the first three months of the year – the first drop in South Africa's GDP since 2009 – as the mining and quarrying industry contracted 24.7%. The IMF revised its 2014 GDP outlook for the country from an initial 2.8% annual rate of growth in January to 2.3% in April.

With survey data for the second quarter pointing to an even sharper contraction in the three months to June, even the new IMF estimate for 2014 is likely to prove optimistic. The average PMI reading for the April-June period was 49.5, down from 50.7 in the first quarter.

Exports plummet

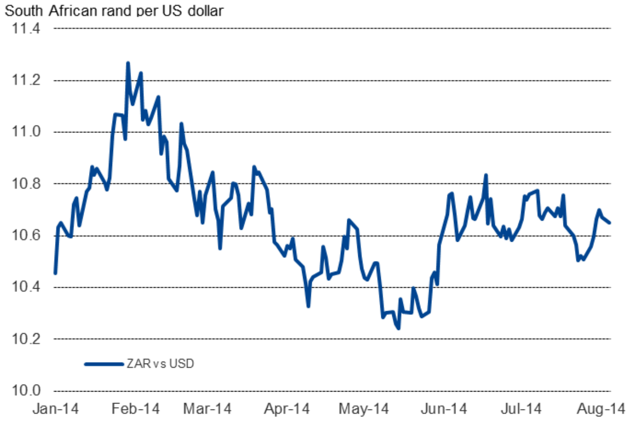
A relatively strong South African rand meanwhile weighs on export demand. The rand has gained some 5.3% against the US dollar since the end of January. The combination of an expensive rand and disruptions caused by the strikes resulted in the sharpest decline in the PMI New Export Orders Index seen since data collection began in July 2011.

Inflation at near five-year high

There is perhaps better news on the prices front, with inflation likely to cool. Consumer prices rose 6.6% on a year ago in June, unchanged from May's near five-year high and the Reserve Bank raised its benchmark rate by 25 basis points to 5.75%. The target band for inflation in the country of between 3% and 6% was exceeded for a third straight month in June.

However, PMI data suggest that inflationary pressures are set to ease in the coming months, with the Input Prices Index down to its lowest level in one-and-a-half years.

South African rand versus US dollar



Source: Ecowin

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