



Standard Bank Mozambique PMI™

Business conditions deteriorate further in June

Key findings

Output and new orders fall sharply

Modest drop in employment, but salaries fall steeply

Record increase in delivery times amid lockdown

Mozambique PMI



The latest PMI data showed a further considerable downturn in the Mozambican private sector during June, as lockdown measures designed to stop the spread of coronavirus disease 2019 (COVID-19) remained in place.

With many businesses closing, and others facing sharp falls in customer demand, activity dropped steeply again in June. Job numbers also declined, albeit modestly. Nevertheless, firms were still confident of an uplift in output over the coming year.

The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

At 41.7 in June, the headline PMI was at its highest in three months, improving further from the record low seen in April. Nevertheless, the reading signalled a steep decline in business conditions, as key indices such as output, new orders and employment all remained below the neutral 50.0 mark.

Business activity fell at a substantial pace at Mozambican firms in June, which was overwhelmingly linked to the coronavirus pandemic and lockdown measures extended throughout the month. The rate of decline was the weakest since March, however.

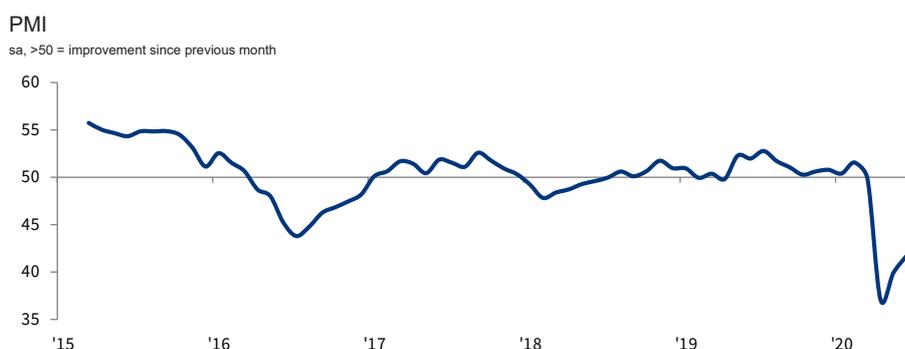
Demand conditions were also subdued, as new orders fell sharply across the private sector. This led businesses to further reduce purchases of inputs and limit inventories. On the positive side, rates of decline for all three indicators were the softest in three months.

Meanwhile, Mozambican firms were able to lower backlogs at a steep pace in June, highlighting excess capacity as client demand continued to fall. Weaker sales also led companies to reduce workforces, though the decline was only modest.

Efforts to cut costs meant salaries in the private sector fell at a record pace in June, with panellists often making sizeable wage cuts in order to cope with subdued revenues during the pandemic. Overall input costs fell for the third consecutive month, helped by a drop in supplier prices. Output charges also decreased, mainly due to offers of discounts to clients.

Vendors continued to face difficulties in supplying businesses amid the countrywide lockdown, leading to a further increase in delivery times. Notably, the deterioration was the strongest seen in the series history (which began in April 2015).

Finally, despite a third successive month of weak activity and demand in Mozambique, business confidence regarding future output remained strong. Most firms noted that they still expect to grow over the next 12 months, provided the lockdown is lifted soon.





Output Index

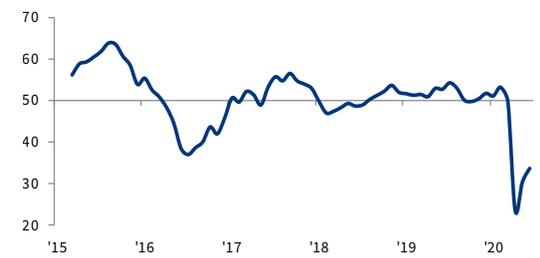


Activity at Mozambican businesses fell for the fourth successive month in June, as signalled by the seasonally adjusted Output Index. The index rose further from April's record low, but still pointed to a marked reduction in output.

According to anecdotal evidence, the downturn was widely due to the coronavirus pandemic and associated lack of demand as customers reduced spending.

Output Index

sa, >50 = growth since previous month



New Orders Index

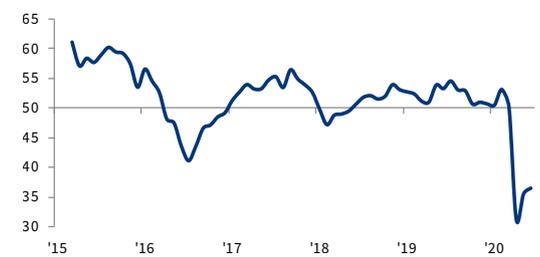


A further decline in levels of new business in the Mozambique private sector was recorded in June. The decrease was the third in as many months, and still stronger than in any period prior to this sequence.

Businesses commonly found that nationwide lockdown measures - that began in April and were extended into June - led to a notable drop in demand. The rate of decline was the weakest during the lockdown period, however.

New Orders Index

sa, >50 = growth since previous month



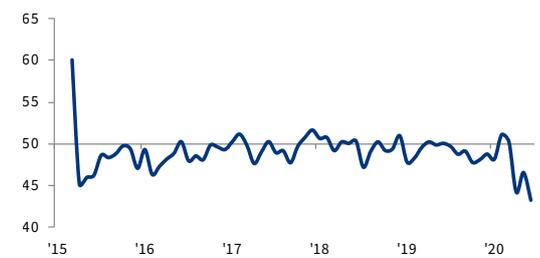
Backlogs of Work Index



In line with the trend for new orders, companies reported a third consecutive fall in outstanding work in June, as weaker demand and higher excess capacity allowed firms to complete backlogs. The decline in work-in-hand was steep and the quickest seen since the survey began in April 2015.

Backlogs of Work Index

sa, >50 = growth since previous month



Employment Index

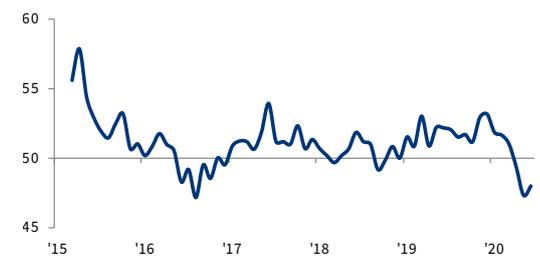


June data pointed to a reduction in workforces at Mozambican firms, as has been the case throughout the second quarter of the year. Respondents highlighted the COVID-19 pandemic as a key reason for lowering employment, as several businesses were closed during the month.

However, the rate of job losses softened from May's 45-month record, and was also much weaker than the fall in new orders recorded in June.

Employment Index

sa, >50 = growth since previous month





Quantity of Purchases Index

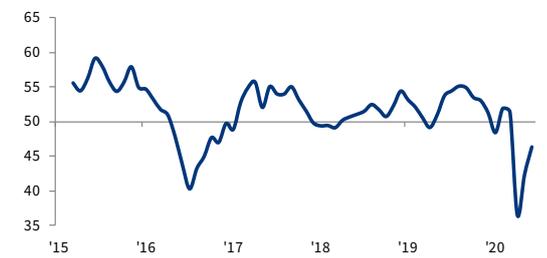


Volumes of inputs purchased by Mozambican private sector firms fell for the third month running in June. Anecdotal evidence highlighted that a lack of client demand and reduced activity during the coronavirus pandemic led businesses to lower input buying.

However, the rate of reduction in purchases softened further from April's record, in part due to the reopening of some borders and reports of higher input supply.

Quantity of Purchases Index

sa, >50 = growth since previous month



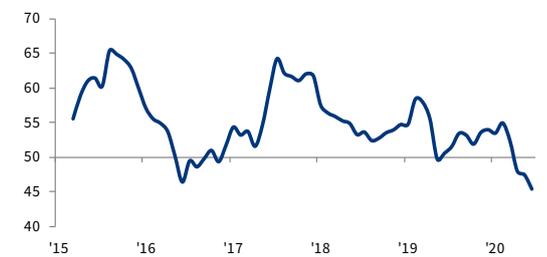
Suppliers' Delivery Times Index



Continuing the trend since lockdown measures were imposed in April, firms saw a further deterioration in supplier performance. The seasonally adjusted Suppliers' Delivery Times Index fell to its lowest on record in June, and indicated a sharp lengthening of overall lead times. Some panellists noted that, due to a lack of clients, vendor deliveries were not as urgent as normal.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



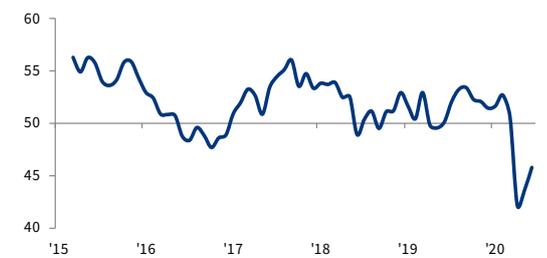
Stocks of Purchases Index



Stocks of inputs held by Mozambican businesses fell solidly in June, the third successive month in which a decrease has been registered. That said, partly due to fewer companies lowering new purchases of inputs, the rate of stock depletion was the softest in this period.

Stocks of Purchases Index

sa, >50 = growth since previous month



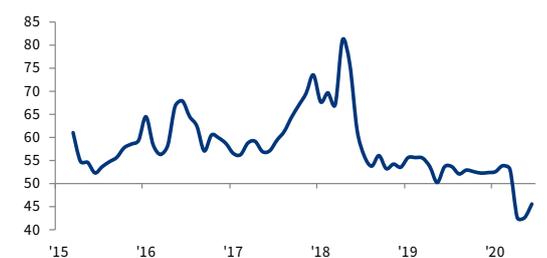
Overall Input Prices Index



Firms engaged in further cost-cutting activity at the end of the second quarter, prompting a solid reduction in average cost burdens. Both purchase costs and staff costs fell for the third month in a row. However, the seasonally adjusted Overall Input Prices Index rose from the record lows seen in April and May, signalling that price adjustments were noticeably weaker.

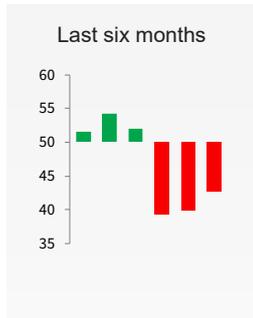
Overall Input Prices Index

sa, >50 = inflation since previous month





Purchase Prices Index

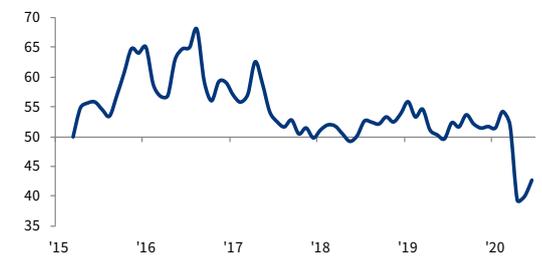


Adjusted for seasonal factors, the Purchase Prices Index rose to its highest in three months in June, but still signalled a sharp fall in purchasing costs across the Mozambique private sector.

Businesses often commented that the coronavirus pandemic and weaker demand for inputs led suppliers to lower prices. At the same time, some firms highlighted that a weaker exchange rate against the US dollar inflated the price for some materials.

Purchase Prices Index

sa, >50 = inflation since previous month



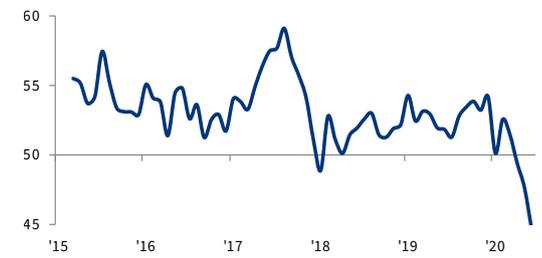
Staff Costs Index



As the COVID-19 pandemic continued, firms made further reductions to employee salaries over the course of June. Moreover, the latest drop was sharp and easily the quickest seen in the survey's history (since April 2015). Around 10% of firms lowered salaries from May, and often reported making sizeable wage adjustments due to a lack of work during the lockdown.

Staff Costs Index

sa, >50 = inflation since previous month



Output Prices Index

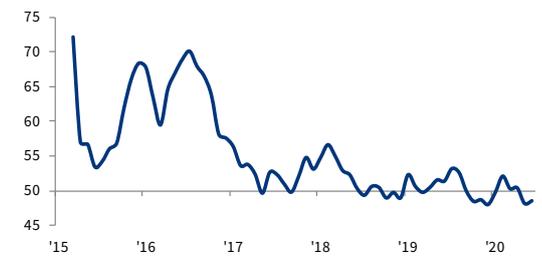


The seasonally adjusted Output Prices Index signalled another price drop among Mozambican firms in June, following a broadly similar reduction in selling charges in May. However, the rate of decline was noticeably softer than the fall in input prices.

Panellists that reduced their charges in the latest survey period mainly linked this to efforts to improve sales, as some clients requested discounts.

Output Prices Index

sa, >50 = inflation since previous month



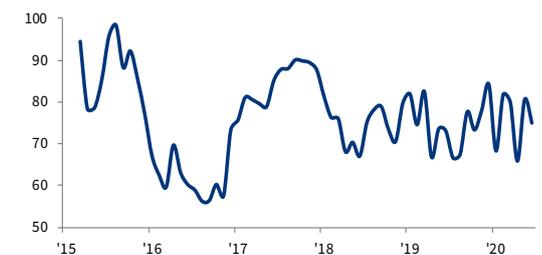
Future Output Index



Business expectations among Mozambican firms ticked down slightly in June, but were still relatively strong. Most respondents (54%) expect output to increase in the coming year, against just 4% of firms that predict a decline. Despite ongoing risks from the coronavirus pandemic, businesses were confident that they will be able to grow and find more clients. That said, some noted that this was dependent on a removal of lockdown restrictions.

Future Output Index

>50 = growth expected over next 12 months





Methodology

The Standard Bank Mozambique PMI™ is compiled by IHS Markit 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.

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.

June data were collected 12-25 June 2020.

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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Over the past five years, Standard Bank has invested heavily in credit lines for infrastructure projects for the transport of coal, storage of liquid fuels, expansion and construction of airports and roads, as well as projects in the areas of telecommunications and mineral resources.

Standard Bank is a solid and profitable bank with branches in all of the country's provinces and a wide range of products and services for large, small and medium-sized businesses and individuals. The bank reverts part of its profits to the communities where it is inserted, through the implementation of social projects in the areas of health, education and sports.

Member of the Standard Bank Group, the largest African bank in terms of geographic dispersion, results and assets, with presence in 20 countries on the African continent, as well as 6 global financial centres, Standard Bank Mozambique has the financial and human resources to serve and connect clients throughout world.

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