HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC South Africa PMI™

PMI edges back into expansion territory in October

Key findings:

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

This report contains the first public release of data collected from the new monthly survey of business conditions in the South African private sector. 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*™).

The PMI is 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 latest survey data signalled an improvement in operating conditions at South Africa's private sector firms, with the headline index posting 51.5, up from September's reading of 49.8. Operating conditions improved for the third time in the past four months, and in October at the quickest rate 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.

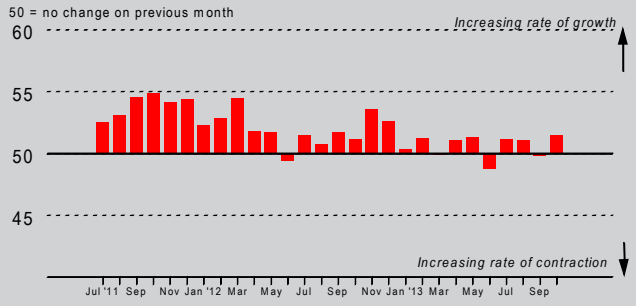
In line with the trends for output and new orders, staffing levels increased in October, albeit only fractionally. Concurrently, backlogs of work accumulated further, as companies struggled to process increased new orders.

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.

The PMI survey also collects data on suppliers' delivery times, which provide a useful advance indication of likely supply-side inflationary trends. When lead times lengthen, this often indicates that input prices may rise as suppliers struggle to meet current demand. 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.

HSBC South Africa *Purchasing Managers' Index*™ (*PMI*™)



The HSBC South Africa Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the South African economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

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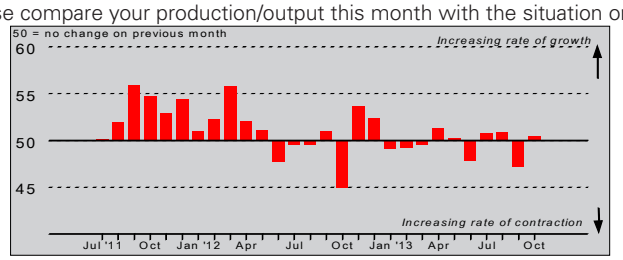
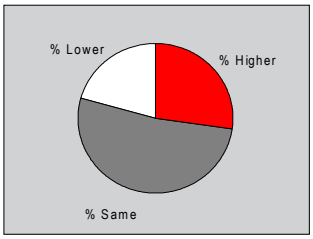
Output Index

Q. Please compare your production/output this month with the situation one month ago.

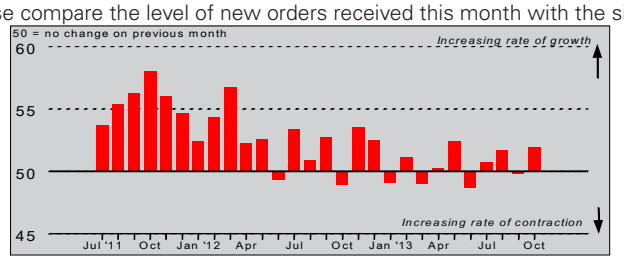


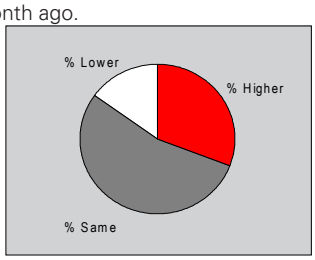


The seasonally adjusted Output Index posted above the 50.0 no-change mark that separates growth from contraction in October, following a month of contracting output levels in September. That said, the pace of expansion was only marginal. Increased new business was the main reason for the rise in activity, according to survey respondents.

New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

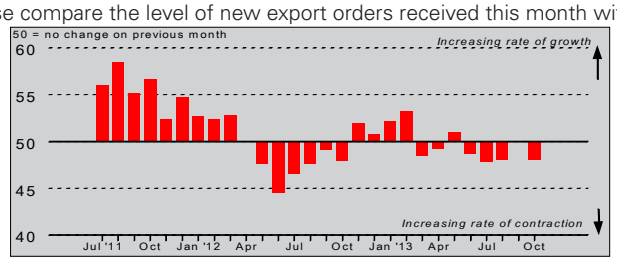


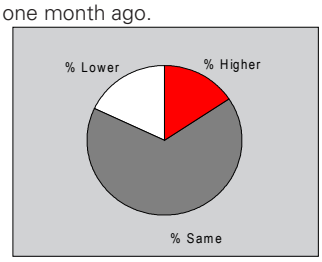


Order intakes at South African private sector companies rose in October, with around 31% of survey respondents reporting higher new business. The rate of growth in new work was the highest recorded since May, although below the series average. Anecdotal evidence suggested that improving market conditions and higher consumer confidence contributed to the increase in new orders.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

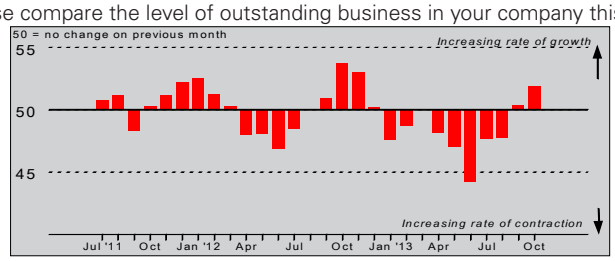


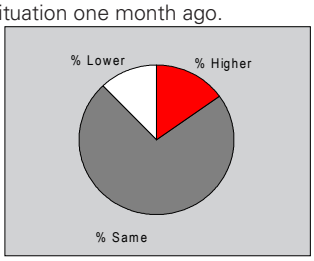


Client demand from foreign markets weakened during October, as highlighted by the seasonally adjusted New Export Orders Index registering below the no-change mark of 50.0. Exactly 18% of panel members reported declining new orders from abroad, while around 16% indicated an increase. Some companies linked lower export business to unfavourable exchange rates and difficulties in certain European markets.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

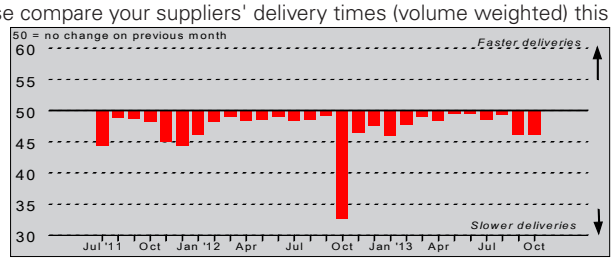


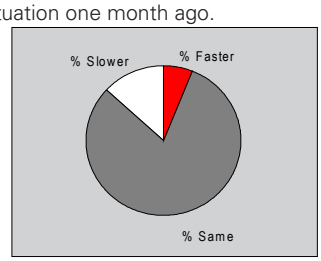


October data signalled a second consecutive monthly accumulation of unfinished work at South Africa's private sector companies. The rate of backlog accumulation accelerated since September but was modest overall. Increased new orders and longer delivery times for inputs both contributed to the latest rise in work-in-hand.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.





The seasonally adjusted Suppliers' Delivery Times Index posted below the neutral 50.0 mark in October, signalling a further deterioration in vendor performance in South Africa's private sector. Average lead times on inputs lengthened at the joint-quickest pace since January. Panel members attributed this to recent strikes in the country and a shortage of certain raw materials.

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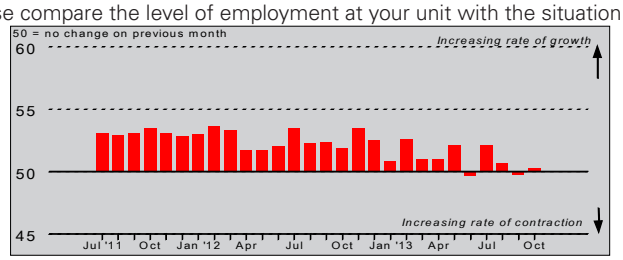
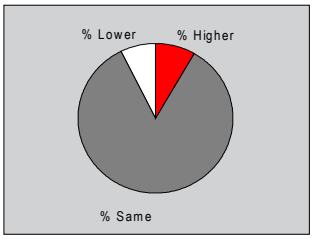
Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

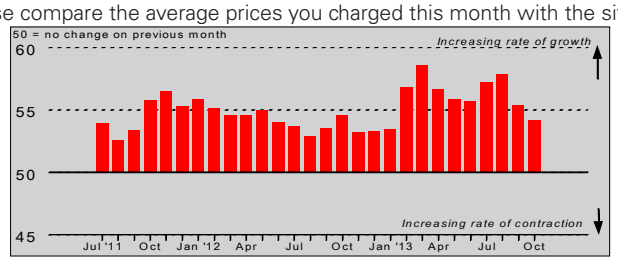


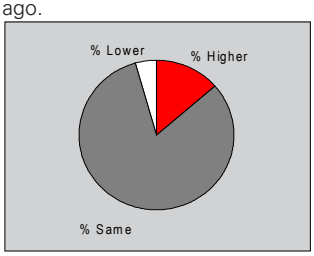


South African private sector companies hired additional workers during October. That said, the rate of job creation was only marginal, as the seasonally adjusted Employment Index posted close to the 50.0 no-change mark. Where a rise in workforce numbers was reported, panellists frequently linked this to increased new business.

Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

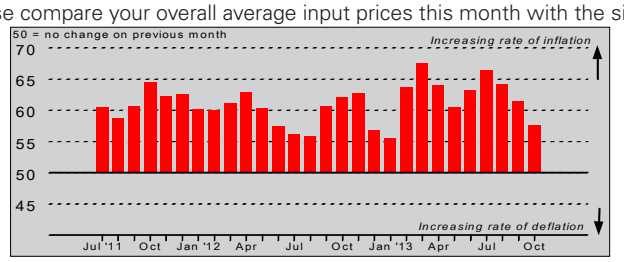


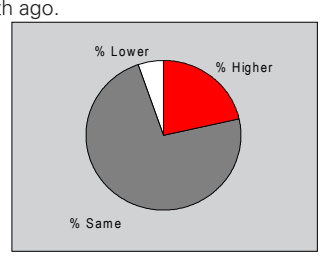


October saw a further rise in prices charged by South Africa's private sector companies. Output prices have risen in every month since data collection began in July 2011, but in October at the slowest pace since the beginning of the year. Panellists commonly attributed higher charges to increased input costs.

Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

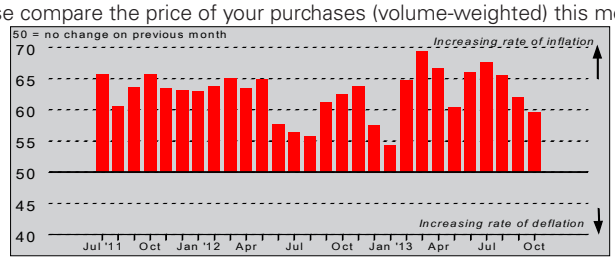


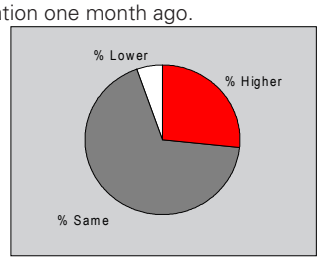


Cost pressures in South Africa's private sector persisted into October, as highlighted by the seasonally adjusted Overall Input Prices Index registering above the no-change mark of 50.0. That said, with the index falling since September, the rate of cost inflation eased for the third month in a row and was the weakest in nine survey periods. While purchase prices rose at a slower pace, wage inflation accelerated.

Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

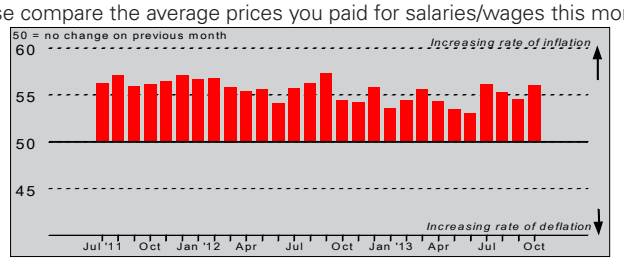


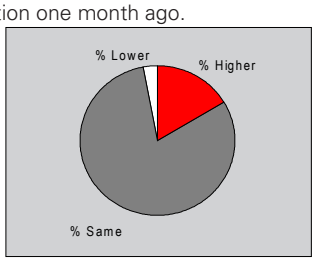


The latest survey results signalled a further rise in purchase prices at South African private sector firms, with around 27% of panel members indicating higher cost burdens. The rate of inflation eased to the weakest since January, but was sharp overall. Higher raw material and fuel prices accounted for most of the cost rise, according to panellists.

Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

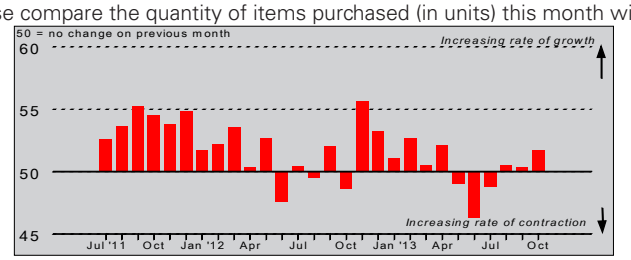


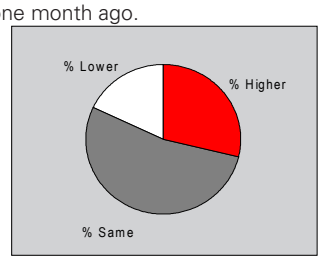


Following a trend observed throughout the 28-month survey history, staff costs in South Africa's private sector increased during October. The rate of wage inflation accelerated to the fastest in three months, with more than 16% of companies indicating a rise. According to anecdotal evidence, the rise in average salaries was linked to the hiring of new workers and the outcome of recent strikes.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

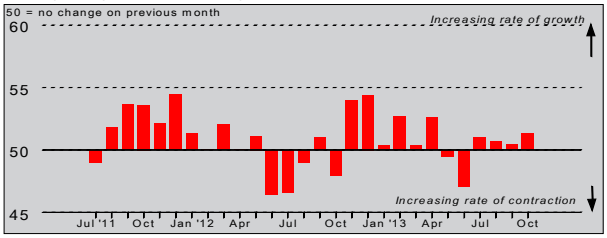


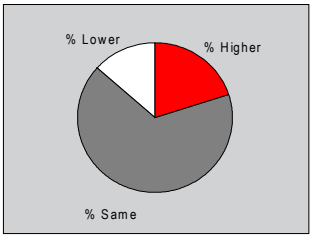


Private sector companies in South Africa reported a further rise in purchasing activity in October, extending the current sequence of growth to three survey periods. The pace of expansion accelerated to the quickest since April, with almost 29% of respondents recording an increase in input buying. According to panellists, higher new business was the main driver behind the latest rise in purchasing activity.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

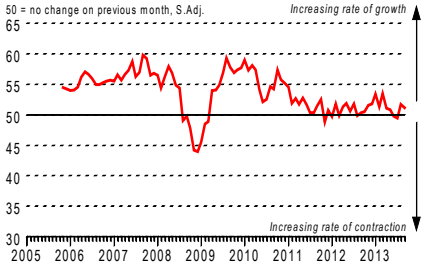




The seasonally adjusted Stocks of Purchases Index posted above the 50.0 no-change mark in October, signalling an accumulation of stocks of raw materials and other pre-production inventories. Moreover, the index posted a higher reading to signal the quickest pace of stock accumulation since April. Anecdotal evidence suggested that rising order intakes had encouraged firms to increase their accumulation of stocks of purchases.

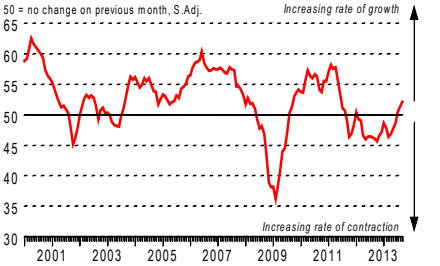
International PMI summary

China Purchasing Managers' Index™



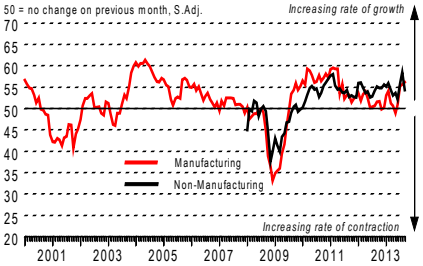
Sources: Markit, HSBC

Eurozone Purchasing Managers' Index™



Source: Markit

US Purchasing Managers' Index™



Source: Institute for Supply Management (ISM)

HSBC China Composite PMI™ data (which covers both manufacturing and services) signalled a further expansion of output in September. Output growth has now been recorded for two successive months. The rate of expansion remained modest, despite having eased since August. The HSBC China Composite Output Index posted at 51.2 in September, down from 51.8 in August.

The Markit Eurozone PMI® Composite Output Index rose to a 27-month high of 52.2 in September, up from 51.5 in August and providing further evidence that the eurozone recovery gathered pace, after the region pulled out of the longest recession in its history. The September reading rounded off the strongest quarterly growth rate for the eurozone since the second quarter of 2011.

Operating conditions in the US manufacturing sector improved further in September, with the ISM Manufacturing PMI posting a 29-month high of 56.2, up from August's 55.7. Non-manufacturers also reported an improvement in operating conditions, although the respective index dropped to 54.4, down from 58.6 in August.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ 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.

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