

## February 2014

### Executive Summary

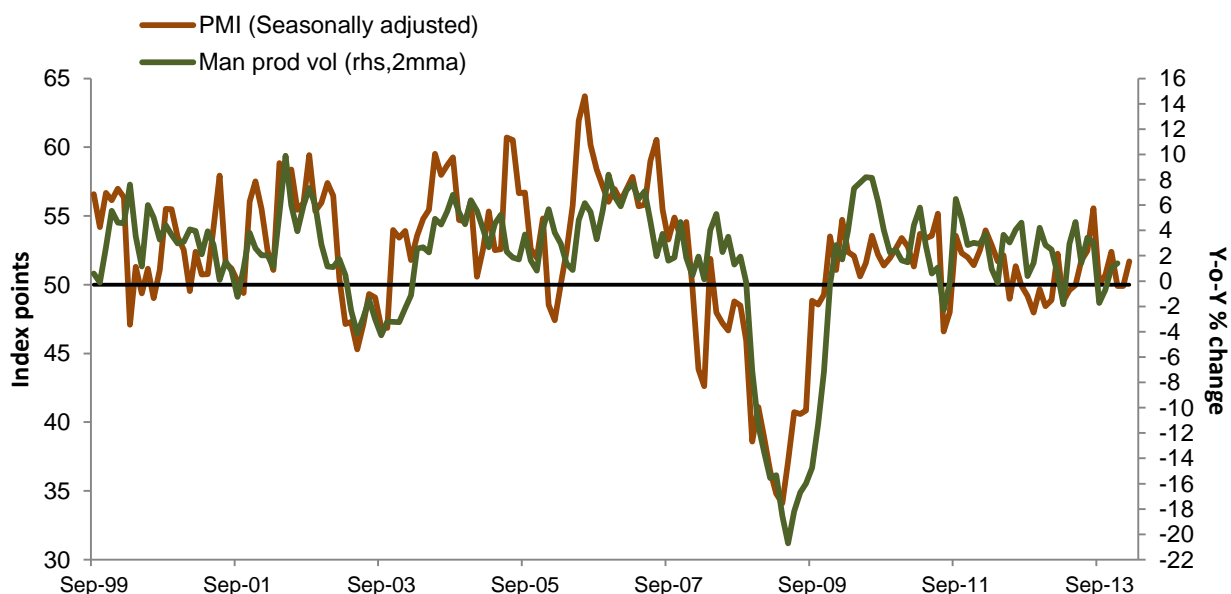
The seasonally adjusted Kagiso **PURCHASING MANAGERS' INDEX™ (PMI™)** rose by 1.8 index points to reach 51.7 in February. This was mainly driven by an improvement in the **new sales orders** index. Of concern was the fact that the **business activity** index remained below the neutral 50-point mark for a third consecutive month.

The **new sales orders** index, the subcomponent with the heaviest weighting, rose by 3.2 index points to 53.4 – the best level since August 2013. On the other hand, the **business activity index** only nudged up by 0.4 index points to reach 48.4. This suggests that production levels remained subdued, despite the apparent improvement in demand. The **employment** index declined from 50.7 to 48.2 index points in February.

The **price** index surged to the highest level recorded since the start of the PMI in September 1999. The index rose by 5.8 index points to 95.1 in February. This was most likely caused by the sustained weak rand exchange rate that pushed up the costs of imported goods paid for in foreign currency. In fact, the currency weakened from an average of R10.87/\$ in January to an average of R10.98/\$ in February.

Going forward, manufacturers were less optimistic about **expected business conditions** in six months' time. This index fell from a high 61.4 index points to 55.7 in February, thereby remaining in positive territory. The **PMI's leading indicator** also dipped further below 1 on the back of a sharp rise in the **inventories** index – a level below 1 generally does not bode well for future production. The inventories index increased to 59.6 from 53.9 index points in January.

Kagiso PURCHASING MANAGERS' INDEX™



## The PMI™ ticked up, but the underlying activity index remained subdued

- The seasonally adjusted **Kagiso PURCHASING MANAGERS' INDEX™ (PMI™)** rose by 1.8 index points to reach a level of 51.7 in February.
- While the headline index signalled a slight improvement in the sector, the **business activity** index (at 48.4 index points) remained below the neutral 50-point mark for a third consecutive month. If sustained, this does not bode well for actual manufacturing production (and GDP) in 2014Q1. In 2013Q4, strong growth in the manufacturing sector significantly contributed to overall GDP growth. However, this was mainly due to a return to normal production levels in the vehicle manufacturing sector after prolonged strikes in the third quarter. This means that mere base effects from the strong growth in Q4 will likely depress quarter-on-quarter manufacturing value added in 2014Q1. Given the weak level of the PMI's business activity index in the first two months of 2014, this bodes particularly ill for manufacturing and overall GDP growth in Q1. The growth outlook is dampened further by the prolonged labour strikes in the platinum mining sector.
- On a positive note, demand for manufactured goods improved. The **new sales orders** index rose from 50.2 to 53.4.
- Given the weak level of the activity index paired with the higher reading on the sales orders index, it was somewhat surprising that the **inventories** index still rose to its highest level since October 2007. However, manufacturers could be stocking up in anticipation of further input cost increases due to the weak rand exchange rate.
- Input cost pressure accelerated significantly, with the **price** index soaring to its highest level ever recorded since the start of the series in 1999. The index rose by 5.8 points to 95.1. To put this figure into perspective, it compares to an average reading of 82.9 index points during 2013. Manufacturers will probably have to push up selling prices in an attempt to defend profitability, which will filter through to higher domestic consumer price inflation.
- The **employment index** shed 2.5 index points and fell to 48.2.
- Manufacturers were less optimistic about **expected business conditions** in six months' time. This index fell from a high 61.4 to 55.7 index points. The **PMI's leading indicator**, the ratio between new sales orders and inventories, also dipped further below 1. This generally does not bode well for production going forward.

### Kagiso PURCHASING MANAGERS' INDEX™: Results for February 2014

	2013						2014
	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Business activity*	58.0	48.1	52.6	54.0	49.3	48.0	<b>48.4</b>
New sales orders*	56.8	49.4	50.6	51.6	51.8	50.2	<b>53.4</b>
Backlog of sales orders	37.8	36.5	41.8	43.2	37.3	38.8	<b>45.8</b>
Inventories*	56.5	52.4	52.8	53.2	46.0	53.9	<b>59.6</b>
Purchasing commitments	54.4	55.3	54.9	55.7	47.0	48.3	<b>49.3</b>
Expected business conditions	55.8	51.8	62.2	59.8	57.9	61.4	<b>55.7</b>
Suppliers' performance*	55.6	53.6	47.9	52.6	55.4	48.8	<b>53.1</b>
Prices	87.2	82.7	80.8	77.8	80.1	89.3	<b>95.1</b>
Employment*	50.1	49.5	49.4	50.8	45.8	50.7	<b>48.2</b>
PMI™ (not seasonally adj.)	54.7	51.8	55.3	58.6	51.4	45.3	<b>52.4</b>
PMI™ (seasonally adjusted)	55.6	50.0	50.7	52.4	49.9	49.9	<b>51.7</b>

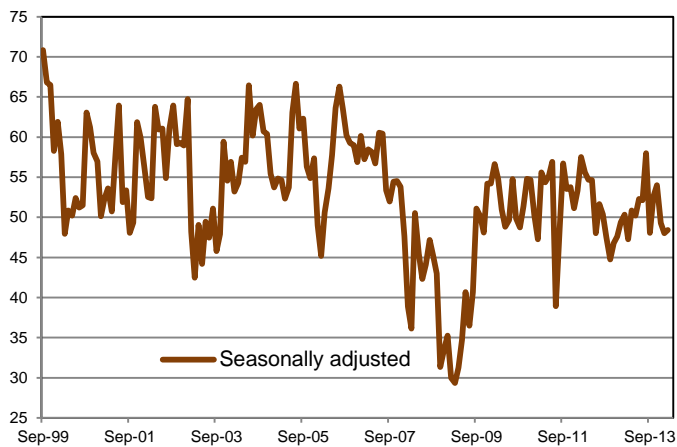
\*These series have been seasonally adjusted using Census X12.



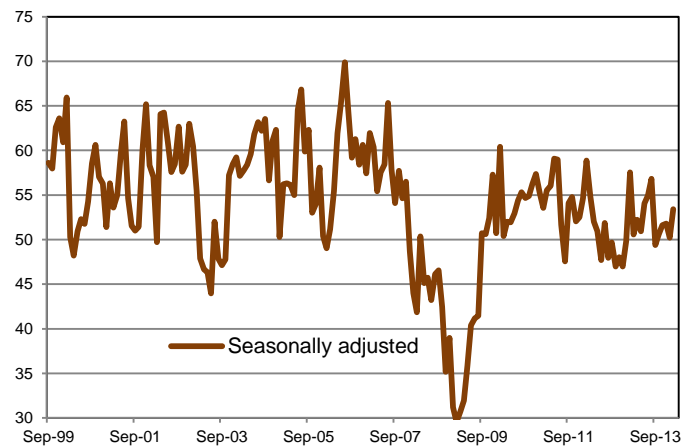
## Demand improved, but activity remained weak

- The **new sales orders** index rose to its best level since August 2013, increasing by 3.2 index points to reach 53.4. The rise possibly reflected better global demand. The preliminary manufacturing PMI for the Eurozone, and particularly that of the US, came in at robust levels in February.
- Despite the apparent improvement in demand, the **business activity** index remained stuck below the neutral 50-point mark for a third straight month. The index stood at 48.4 index points, marginally up from 48.0 in January. While the mining strike could have affected some manufacturing subsectors, the index stayed surprisingly weak. The BER's quarterly manufacturing survey for 2014Q1 might provide some further insight as to why activity in the factory sector remained subdued. The survey results are scheduled for release on 20 March.

Kagiso PMI™: Business Activity



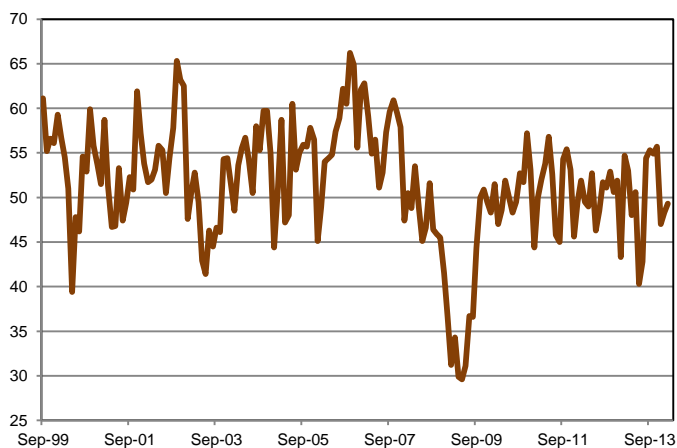
Kagiso PMI™: New Sales Orders



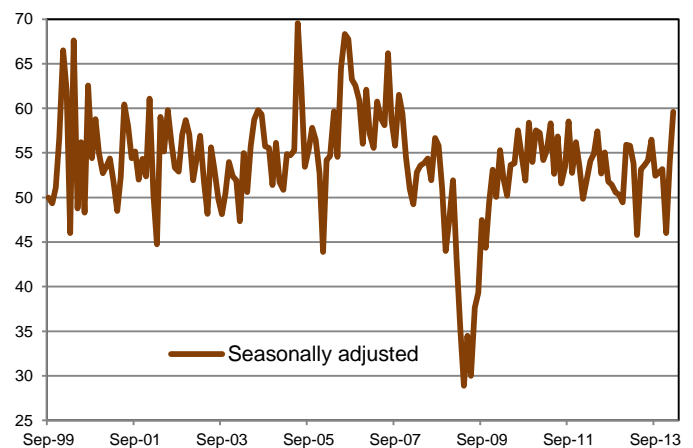
## Inventories up to highest level since late 2007

- The **inventories** index rose to 59.6 index points – the highest level since October 2007. Producers may be stocking up on input goods in anticipation of further price increases.
- The index measuring **purchasing commitments** ticked up, from 48.3 to 49.3 index points.

Kagiso PMI™: Purchasing Commitments



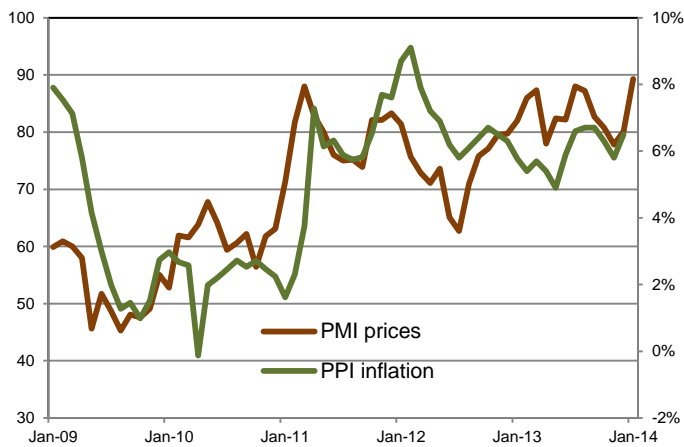
Kagiso PMI™: Inventories



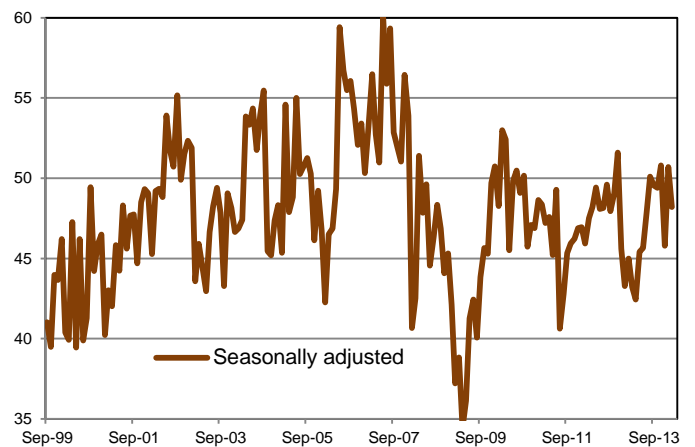
## Input costs pressure at an all-time high

- Input cost pressure accelerated significantly, with the **price** index soaring to its highest level ever recorded since the start of the PMI in 1999. The index rose by 5.8 index points to 95.1. To put this figure into perspective, it compares to an average reading of 82.9 index points during 2013. Manufacturers will probably have to push up selling prices in an attempt to defend profitability. This will likely filter through to higher domestic producer and consumer price inflation. The most recent official inflation figures for January came out higher than expected, with producer price inflation rising from 6.5% in December 2013 to 7.0% year-on-year in January.
- The **employment index** shed 2.5 index points to reach 48.2.

**Kagiso PMI™: Prices**



**Kagiso PMI™: Employment**



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