

# Kagiso Purchasing Managers Index

An economic activity index based on a survey conducted by the Bureau for Economic Research in conjunction with CIPS Southern Africa and sponsored by Kagiso Tiso Holdings

## February 2012

### Executive Summary

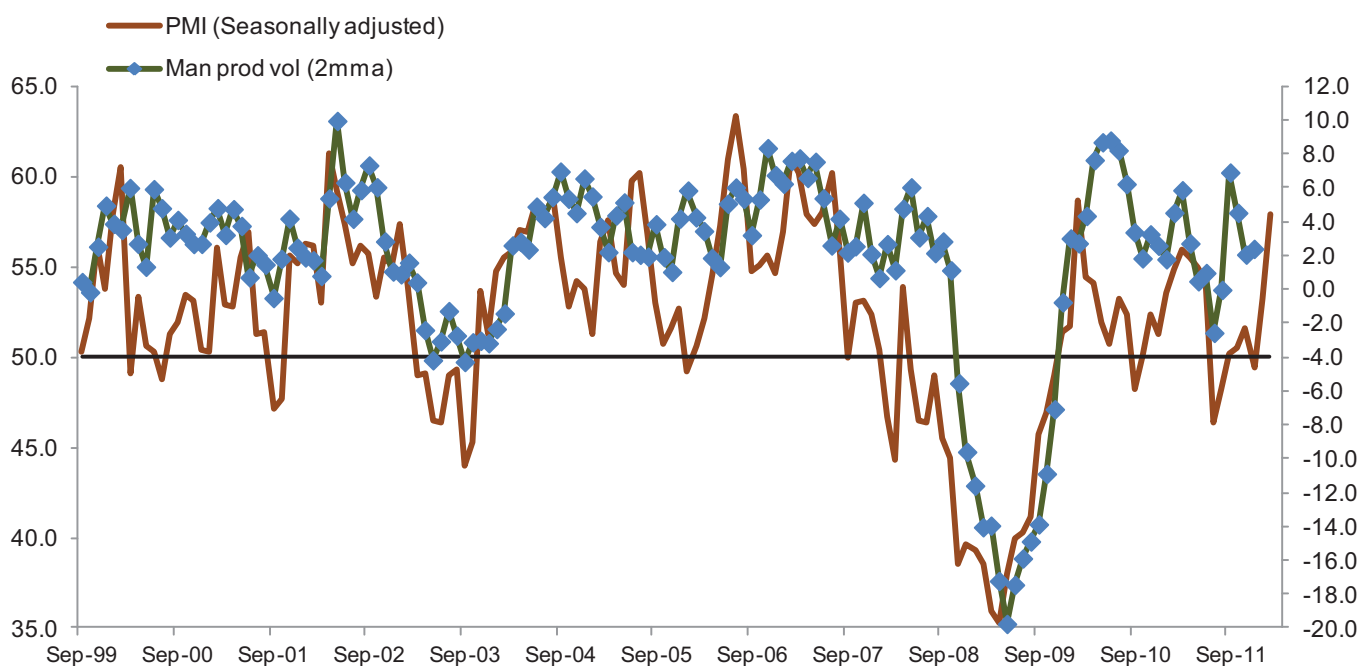
The seasonally adjusted Kagiso PMI posted strong gains in February 2012, rising by 4.7 index points to reach a sturdy 57.9 – the highest level since February 2010.

The seasonally adjusted **business activity** and **new sales orders** indices, the largest weighted PMI components, drove the robust headline increase. The business activity index made the largest positive contribution, courtesy of an 11.6 point jump to a five and a half year high of 65.2. The new sales orders index suggests robust demand for SA factory goods as the index gained 7.5 points to 64.8 index points.

Although some consolidation of the recent strong upward momentum for the PMI will be in order, the forward looking indicators of the PMI suggested a continuation of the current trend. The **expected business conditions** index posted a further marginal increase to 66.2 points, while the PMI **leading indicator** (new sales orders expressed as a ratio of inventories) rose from 1.07 in January to 1.26 during February.

The February PMI also brought some better news on the price front as the PMI **price index** declined by 5.7 points to 75.7. Even on the factory job front the situation seems to be slowly looking up as the **employment** index reached a 12-month peak, albeit that it remained below the all-important 50 mark.

### Kagiso Purchasing Managers Index



## PMI sustains upward momentum, but some consolidation may be in order

- The seasonally adjusted Kagiso PMI posted strong gains in February 2012, rising by 4.7 index points to reach a sturdy 57.9 – the highest level since February 2010. At the current level, the domestic PMI is pointing to significantly stronger domestic factory sector trends than would have been expected given the depressed nature of the manufacturing sectors in SA's key trading partners such as Europe and China. Indeed, the SA PMI has of late tracked the solid performance of the US manufacturing sector more closely. The high level of the PMI may also reflect that the economies of the most important countries that SA exports go to in Europe, including Germany, are still reasonably sound. Furthermore, it may be indicative of solid domestic demand conditions.
- The seasonally adjusted **business activity** and **new sales orders** indices, the largest weighted PMI components, drove the robust headline increase. The business activity index made the largest positive contribution, courtesy of an 11.6 point jump to a five and a half year high of 65.2. Not one of the 26 countries / regions for which PMIs were published in January had a business activity reading above 65 points. The business activity index averaged 59.4 in the first two months of 2012 compared to 51 during 2011Q4, suggesting that actual manufacturing production remained solid in 2012Q1. Because the PMI is a diffusion index that strives to measure how widely a certain trend is dispersed in the factory sector, at the very least one can say that the latest results indicate that the positive trends are being experienced by a growing number of manufacturers. We would like to see further confirmation of this in coming months before making a call on whether it also suggests a notable acceleration in manufacturing production. Some of the other PMI sub-components argue against any thoughts of a domestic PMI pullback in the foreseeable future. The **new sales orders** index points to robust demand for SA factory goods as the index gained 7.5 points to 64.8 index points. As with the headline PMI number, this was the highest level since early 2010.
- The forward looking indicators of the PMI suggest a continuation of the current trend. The **expected business conditions** index posted a further marginal increase to 66.2 points, while the PMI **leading indicator** (new sales orders expressed as a ratio of inventories) rose from 1.07 in January to 1.26 during February. The ratio indicates that the current level of inventories in the manufacturing sector is low relative to the demand for factory goods.
- The February PMI also brought some better news on the price front as the PMI **price index** declined by 5.7 points to 75.7. Although the level of the index continues to point towards a strong increase in actual producer price inflation, it does suggest that we may be nearing a peak in the rate of increase. Even on the factory job front the situation seems to be slowly looking up as the **employment** index reached a 12-month peak, albeit that it remained below the all-important 50 mark.

### Kagiso Purchasing Managers Index: Results for February 2012

	2011					2012	
	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Business activity*	48.7	51.3	50.9	52.3	49.7	53.6	<b>65.2</b>
New sales orders*	46.5	50.3	51.6	51.2	48.3	57.3	<b>64.8</b>
Backlog of sales orders	38.1	45.7	49.0	46.0	40.6	39.4	<b>43.6</b>
Inventories*	53.9	53.1	51.1	54.4	50.9	50.2	<b>51.7</b>
Purchasing commitments	45.0	54.3	55.4	53.1	45.6	49.5	<b>51.9</b>
Expected business conditions	53.7	60.8	62.4	55.0	61.3	65.1	<b>66.2</b>
Suppliers' performance*	52.6	54.5	53.6	56.5	56.0	57.0	<b>48.6</b>
Prices	75.2	73.9	82.1	82.1	83.3	81.4	<b>75.7</b>
Employment*	44.0	43.9	45.6	46.5	45.0	45.2	<b>48.6</b>
PMI (not seasonally adj.)	47.3	55.6	57.0	58.2	53.0	47.5	<b>54.7</b>
PMI (seasonally adjusted)	48.2	50.2	50.5	51.6	49.4	53.2	<b>57.9</b>

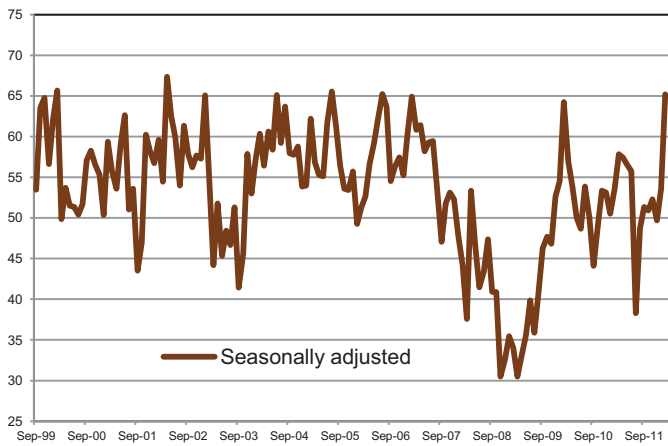
\*These series have been seasonally adjusted using Census X12.



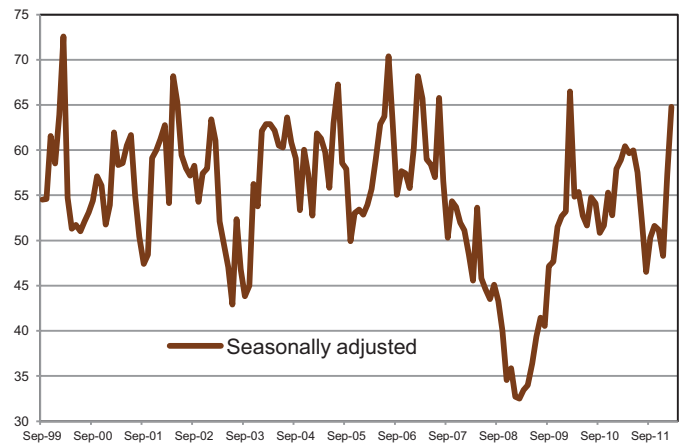
### Output up strongly as demand recovery continues

- The seasonally adjusted **business activity** and **new sales orders** indices, the largest weighted PMI components, drove the robust headline increase. The business activity index made the largest positive contribution, courtesy of an 11.6 point jump to a five and a half year high of 65.2. Not one of the 26 countries / regions for which PMIs were published in January had a business activity reading above 65 points. The index averaged 59.4 in the first two months of 2012 compared to 51 during 2011Q4, suggesting that actual manufacturing production remained solid in 2012Q1.
- The **new sales orders** index gained 7.5 points to 64.8 index points. As with the headline number, this was the highest level since early 2010. Besides signalling robust domestic demand for locally produced factory goods, the high level of the PMI may also reflect that the most important countries that SA exports go to in Europe, including Germany, are still reasonably sound. Furthermore, despite recent gains, the more competitive rand exchange rate has in all likelihood increased the price competitiveness of domestic goods relative to imported manufactured products.

**Kagiso PMI: Business Activity**



**Kagiso PMI: New Sales Orders**



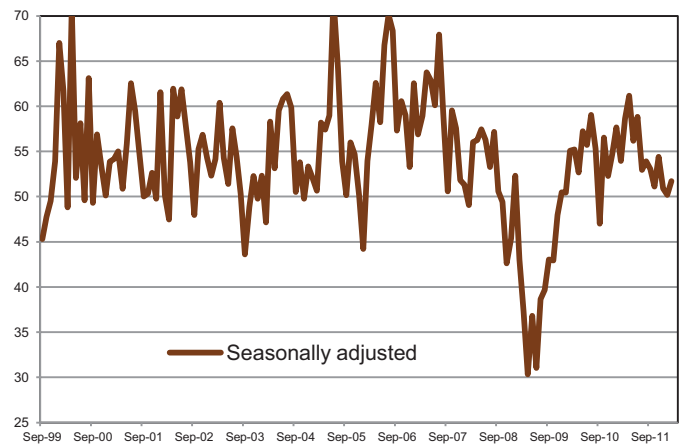
### Inventories and purchasing commitments post gains

- The **inventory index** gained 1.5 index points to 51.7, while **purchasing commitments** moved back above 50 as a 2.4 point gain pushed the index to 51.9.

**Kagiso PMI: Purchasing Commitments**



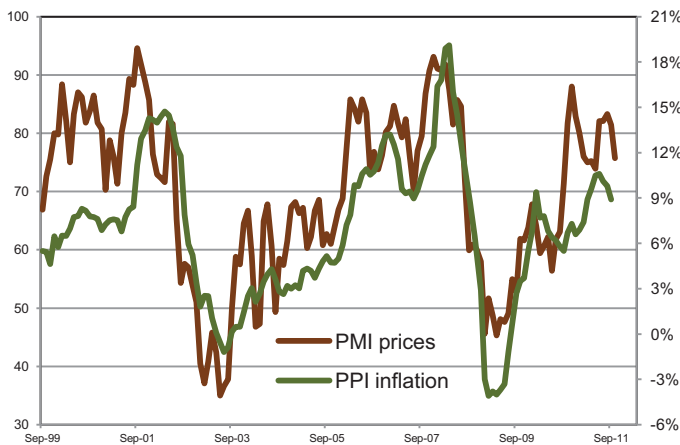
**Kagiso PMI: Inventories**



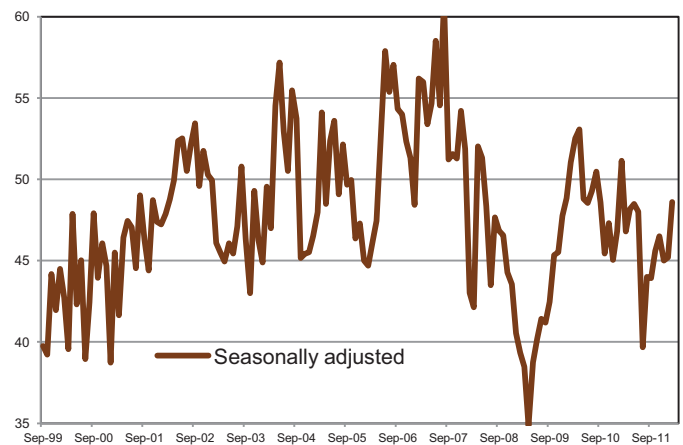
## Some relief on the input cost front; employment prospects slowly improving

- The February PMI brought some better news on the price front as the PMI **price index** declined by 5.7 points to 75.7. Although the level of the index continues to point towards a strong increase in actual producer price inflation, it does suggest that we may be nearing a peak in the rate of increase. However, a further rise in the Brent crude oil price (all else being equal) argues against more moderate input cost gains.
- Even on the factory job front the situation seems to be slowly looking up as the **employment** index reached a 12-month peak, albeit that it remained below the all-important 50 mark at 48.6.

**Kagiso PMI: Prices**



**Kagiso PMI: Employment**



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