

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

March 2012

Executive Summary

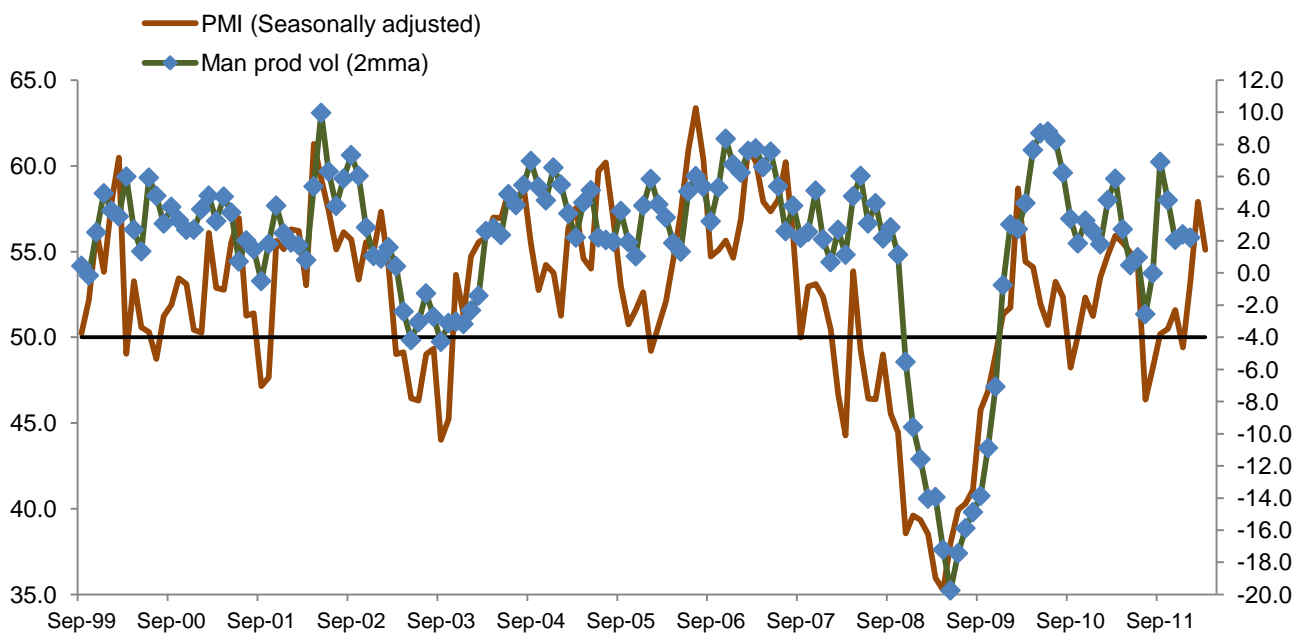
The seasonally adjusted Kagiso PMI gave back some ground in March, but at 55.1 remained at a level consistent with robust manufacturing sector production growth.

Just as the seasonally adjusted **business activity** and **new sales orders** indices (the largest weighted PMI components) drove the sharp rise in the headline PMI to 57.9 during February, they were largely responsible for the March pullback. The business activity index made the largest negative contribution, courtesy of a 7.4 point decline to 57.8. The new sales orders index lost 5.1 points to 59.7.

Although remaining at a favourable level, the forward looking indicators of the PMI also pointed to a somewhat less optimistic outlook. The **expected business conditions** index declined by almost 4 index points to 62.4, while the PMI **leading indicator** (new sales orders expressed as a ratio of inventories) eased from 1.25 during February to 1.04.

The PMI **price index** declined for the third consecutive month to reach 72.9, which corresponds with the latest official producer inflation numbers that suggest manufacturer input costs may have peaked. The PMI **employment** sub-index continued to suggest stable rather than increasing factory sector employment levels.

Kagiso Purchasing Managers Index



PMI takes a breather in March

- The seasonally adjusted Kagiso PMI gave back some ground in March, but at 55.1 remained at a level in line with robust manufacturing sector production growth. The PMI averaged 55.4 during 2012Q1, a strong increase from the 50.5 recorded in the final quarter of 2011. The higher level of the PMI should be consistent with a favourable GDP contribution from the factory sector at the start of 2012.
- Just as the seasonally adjusted **business activity** and **new sales orders** indices (the largest weighted PMI components) drove the sharp rise in the headline PMI to 57.9 during February, they were also largely responsible for the March pullback. The business activity index made the largest negative contribution, courtesy of a 7.4 point decline to 57.8. The index reached a five and a half year high of 65.2 in February and especially in light of the strained manufacturing sector in Europe, the March pullback is not overly surprising. The Eurozone – a key export market for local manufacturers - flash manufacturing PMI declined to a three-month low of 47.7 in March.
- The **new sales orders** index lost 5.1 points to 59.7, which still reflects above-average (long-term average for the index is 54.6) demand for manufactured goods. In light of the problems in the key foreign markets for SA factory sector goods, the high level of the index hints at robust domestic demand. The general expectation is that higher inflation and more moderate nominal wage increases will weigh on real disposable income and consumer spending during 2012. Against this backdrop, it will be interesting to see whether the new sales orders index is able to sustain the recent highs.
- Although remaining at a favourable level, the forward looking indicators of the PMI point towards a somewhat less optimistic outlook. The **expected business conditions** index declined by almost 4 index points to 62.4 points, while the PMI **leading indicator** (new sales orders expressed as a ratio of inventories) eased from 1.25 during February to 1.04. The combination of less robust new sales orders and strong inventory gains was responsible for the less upbeat leading indicator.
- The PMI **price index** declined for the third consecutive month to reach 72.9, which corresponds with the latest official producer inflation numbers that suggest manufacturer input costs may have peaked. The PMI **employment** sub-index continued to suggest stable rather than increasing factory sector employment levels.

Kagiso Purchasing Managers Index: Results for March 2012

	2011				2012		
	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Business activity*	51.3	50.9	52.3	49.7	53.6	65.2	57.8
New sales orders*	50.3	51.6	51.2	48.3	57.3	64.8	59.7
Backlog of sales orders	45.7	49.0	46.0	40.6	39.4	43.6	41.4
Inventories*	53.1	51.1	54.4	50.9	50.2	51.7	57.4
Purchasing commitments	54.3	55.4	53.1	45.6	49.5	51.9	49.5
Expected business conditions	60.8	62.4	55.0	61.3	65.1	66.2	62.4
Suppliers' performance*	54.5	53.6	56.5	56.0	57.0	48.6	50.3
Prices	73.9	82.1	82.1	83.3	81.4	75.7	72.9
Employment*	43.9	45.6	46.5	45.0	45.2	48.6	47.1
PMI (not seasonally adj.)	55.6	57.0	58.2	53.0	47.5	54.7	54.0
PMI (seasonally adjusted)	50.2	50.5	51.6	49.4	53.2	57.9	55.1

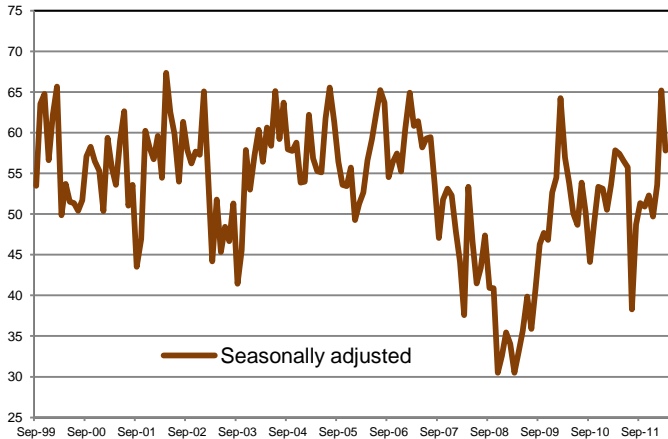
*These series have been seasonally adjusted using Census X12.



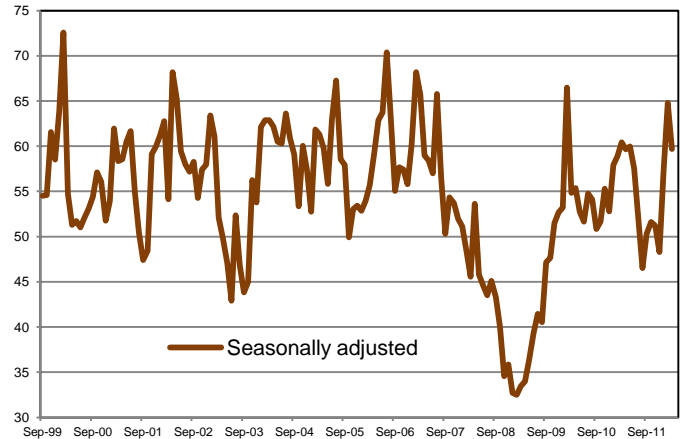
Output and demand down from lofty levels

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Kagiso PMI: Business Activity



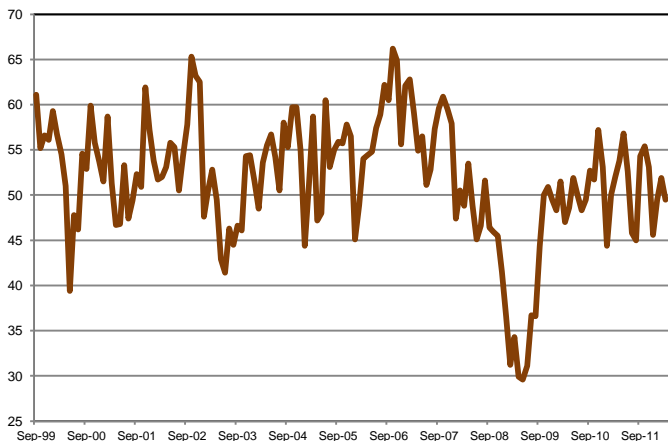
Kagiso PMI: New Sales Orders



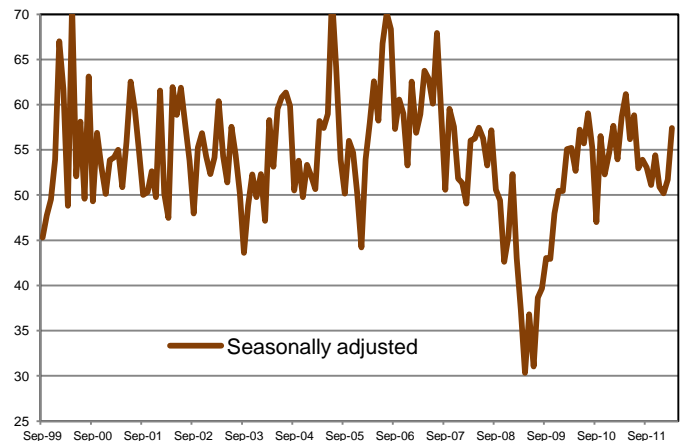
Inventories up nicely, while purchasing commitments back below 50

- The **inventory index** gained 5.7 index points to 57.4, while **purchasing commitments** gave back all of the February gains to 49.5.

Kagiso PMI: Purchasing Commitments



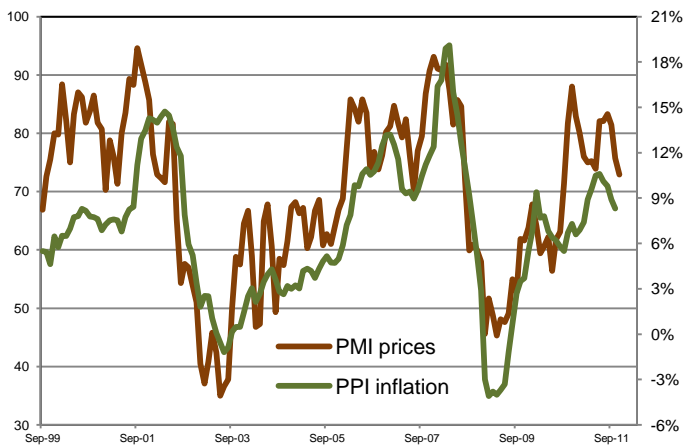
Kagiso PMI: Inventories



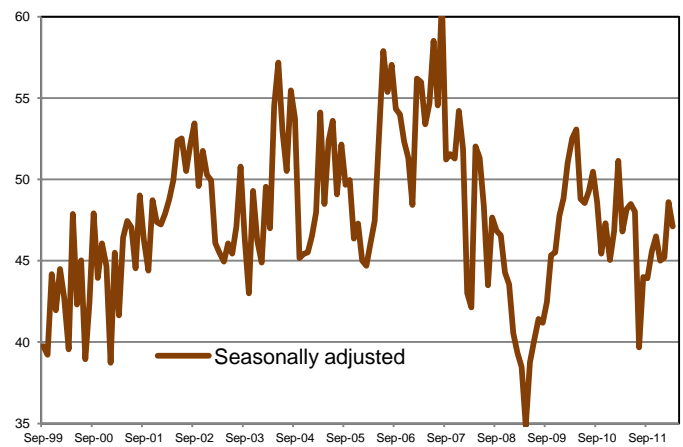
Input cost pressure continues to ease; employment index gyrating below 50

- The PMI **price index** declined for the third consecutive month to reach 72.9, which corresponds with the latest official producer inflation (PPI) numbers that suggest manufacturer input costs may have peaked. Stats SA reported that the PPI moderated from a peak of 10.6% y-o-y in October 2011 to 8.3% during February 2012.
- The PMI **employment** sub-index continued to indicate stable rather than increasing factory sector employment levels. The index lost 1.5 index points to 47.1 in March and averaged 47 during 2012Q1, a somewhat improved performance from the 45.7 recorded in the final three months of 2011.

Kagiso PMI: Prices



Kagiso PMI: Employment



For further information: *Hugo Pienaar, Bureau for Economic Research*
Tel: (021) 880 2287
Mobile: 083 387 1150

2 April 2012

