

Kagiso Purchasing Managers Index

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

March 2013

Executive Summary

The seasonally adjusted Kagiso PMI declined by 4.3 points to 49.3 in March, erasing the robust gains achieved in February. Despite the decline in March, the PMI averaged 50.7 in 2013Q1. This is up from 48 recorded in 2012Q4.

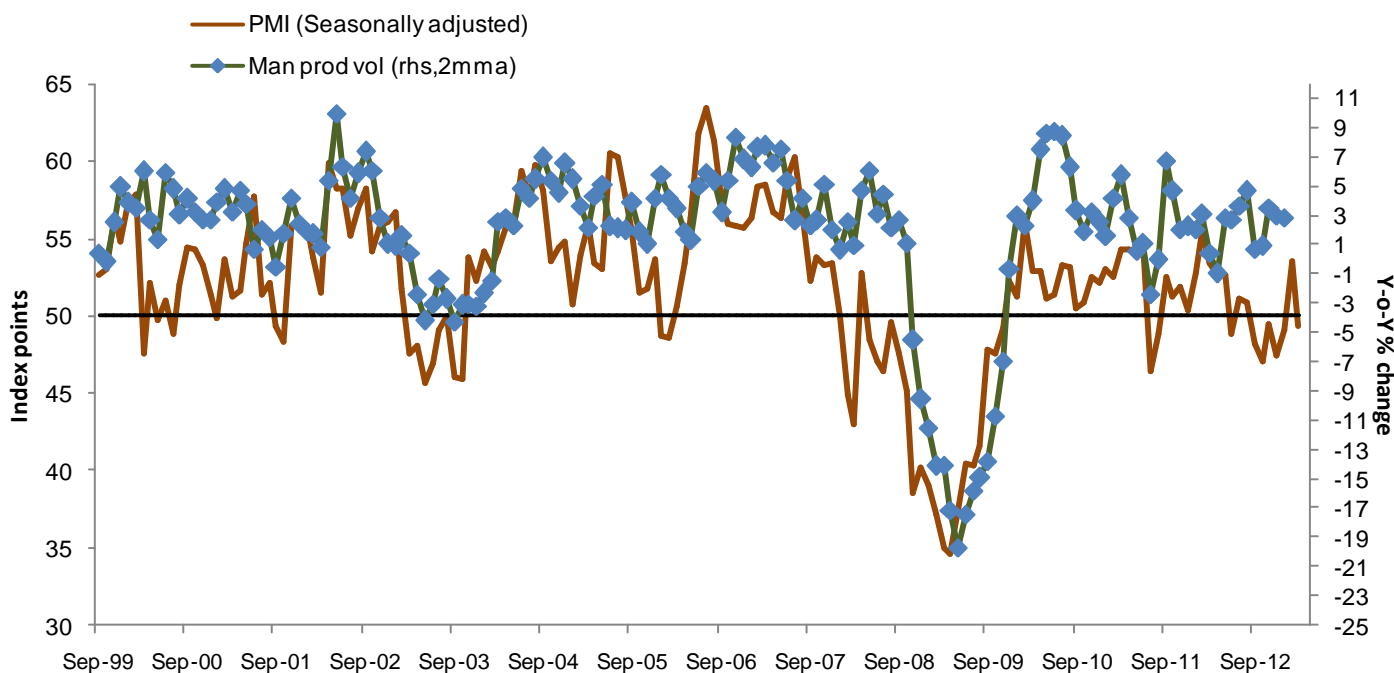
The March pullback in the headline PMI was driven by a sharp decline in the **new sales orders** index. The index lost 8.2 points to 52 after a gain of 9.3 points was recorded in February. Factory sector production also underperformed in March. The **business activity** index declined by 4.5 points and fell below the key 50 point mark to 47.7.

The setback in demand and output conditions was negative for employment in the manufacturing sector. The **employment** index declined by 3.1 points to 42.6.

Despite a lower oil price, input costs continued to rise at a fast pace. The PMI **price** index rose by another 1.3 points to 87.3. The sustained weakening trend for the rand exchange rate could explain the elevated cost pressures in the manufacturing sector.

Purchasing managers were a lot less optimistic about future business conditions in March. The index that measures **expected business conditions** in six months plunged by almost 10 points to 47.

Kagiso Purchasing Managers Index



PMI suffers a setback in March

- The seasonally adjusted Kagiso PMI declined by 4.3 points to 49.3 in March, erasing the robust gains achieved in February. Despite the decline in March, the PMI averaged 50.7 in 2013Q1. This is up from 48 recorded in 2012Q4 and suggests that the manufacturing sector will make a positive contribution to overall GDP growth in Q1. The decline in the SA PMI during March corresponds with the manufacturing environment in the Eurozone, the largest foreign market for locally produced factory goods. The initial March estimate for the EU PMI registered a decline of 1.3 points to 46.6 – a three-month low.
- The March pullback in the headline SA PMI was driven by a sharp decline in the **new sales orders** index. The index lost 8.2 points to 52 after a gain of 9.3 points was recorded in February. The level of the index still indicates that demand increased compared to the previous month. However, it does suggest that an environment of rising demand was much less widely dispersed throughout the sector than was the case in February. In light of slowing consumer spending in SA and the prolonged recession in the EU, the March level for new sales orders is in all likelihood more realistic than was the case in February.
- Factory sector production also underperformed in March. The **business activity** index declined by 4.5 points and fell below the key 50 point mark to 47.7. Even so, the average for Q1 moved up to 49.8 from 45.5 in 2012Q4. The setback in demand and output conditions was negative for employment in the manufacturing sector. The **employment** index declined by 3.1 points to 42.6. This suggests that the manufacturing sector may have shed labour at the start of 2013.
- Despite a lower Brent crude oil price, input costs continued to rise at a fast pace. The PMI **price** index rose by another 1.3 points to 87.3. The sustained weakening trend for the rand exchange rate could explain the elevated cost pressures in the manufacturing sector.
- Purchasing managers were a lot less optimistic about future business conditions in March. The index that measures **expected business conditions** in six months plunged by almost 10 points to 47. The renewed concerns about the outlook for the EU economy in the wake of the Cyprus bailout may have contributed to the more downbeat business expectations.
- Furthermore, the February move above 1 for the **PMI leading indicator** seems to have been temporary. The leading indicator, which is derived by calculating the ratio between new sales orders and inventories, declined to 0.94. A level below 1 indicates that the level of inventories is high relative to the demand for factory goods. This normally does not bode well for future manufacturing production.

Kagiso Purchasing Managers Index: Results for March 2013

	2012				2013		
	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Business activity*	46.2	43.2	45.9	47.3	49.6	52.2	47.7
New sales orders*	48.3	45.3	47.7	44.9	50.9	60.2	52.0
Backlog of sales orders	40.2	43.5	39.3	34.6	30.6	36.3	40.6
Inventories*	49.6	50.0	48.8	47.3	56.8	55.6	55.6
Purchasing commitments	51.1	52.9	50.6	51.9	43.3	54.7	53.0
Expected business conditions	55.5	57.1	52.4	55.1	58.2	56.8	47.0
Suppliers' performance*	51.2	52.3	56.5	56.4	48.8	51.8	51.4
Prices	75.8	77.1	79.5	79.7	82.0	86.0	87.3
Employment*	47.9	49.2	52.0	44.7	42.3	45.7	42.6
PMI (not seasonally adj.)	51.0	52.1	55.4	49.9	44.3	52.9	49.8
PMI (seasonally adjusted)	48.3	47.1	49.5	47.4	49.1	53.6	49.3

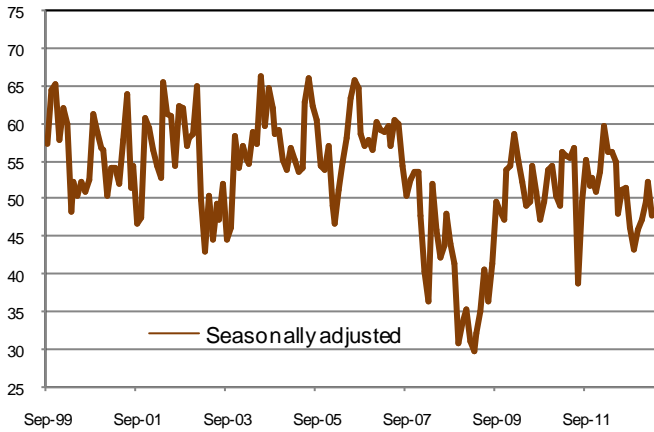
*These series have been seasonally adjusted using Census X12.



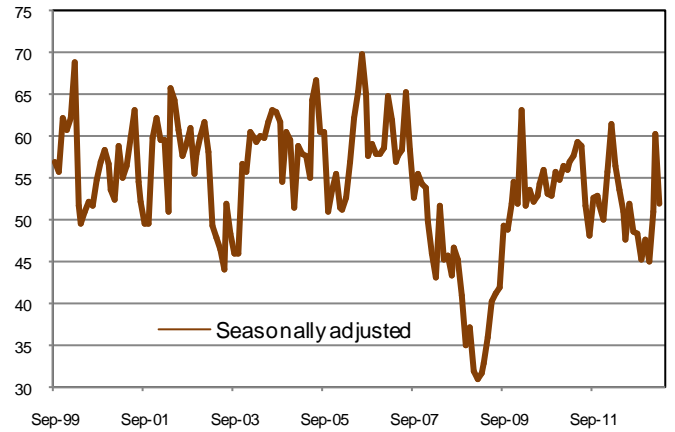
Output and demand erase February gains

- The **business activity** index declined by 4.5 points and fell below the key 50 point mark to 47.7. Even so, the average for Q1 moved up to 49.8 from 45.5 in 2012Q4.
- The **new sales orders** index lost 8.2 points to 52 after a gain of 9.3 points was recorded in February. The level of the index still indicates that demand increased compared to the previous month. However, it does suggest that an environment of rising demand was much less widely dispersed throughout the sector than was the case in February. In light of slowing consumer spending in SA and the prolonged recession in the EU, the March level for new sales orders is in all likelihood more realistic than was the case in February. Despite the March decline, new sales orders averaged a robust 54.4 points in 2013Q1, which was a notable improvement from the level of 46 recorded in 2012Q4.

Kagiso PMI: Business Activity



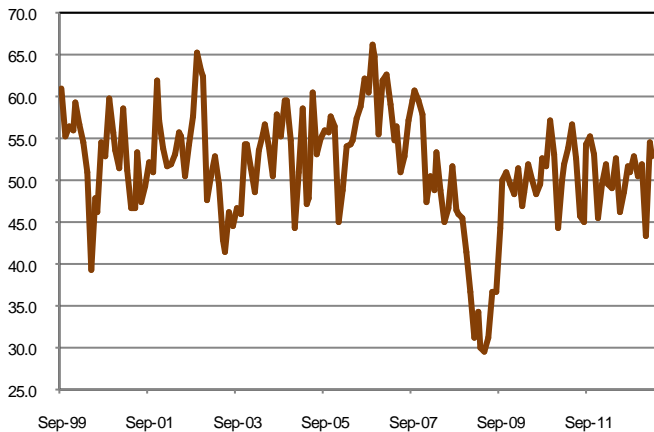
Kagiso PMI: New Sales Orders



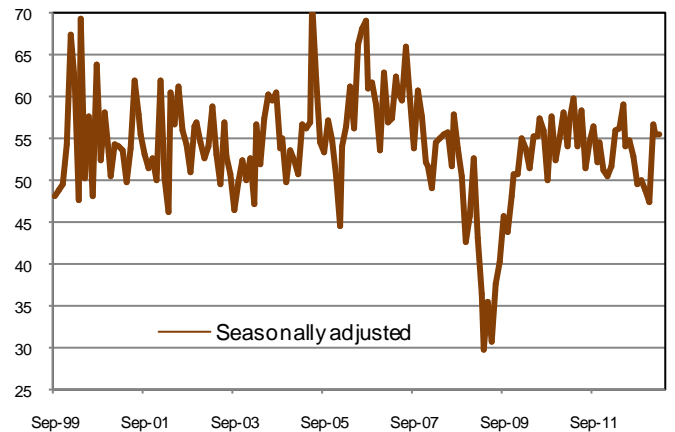
Inventories and purchasing commitments fairly stable

- The **inventory** index remained at a relatively robust level of 55.6. **Purchasing commitments** declined by 1.7 points to reach 53.

Kagiso PMI: Purchasing Commitments

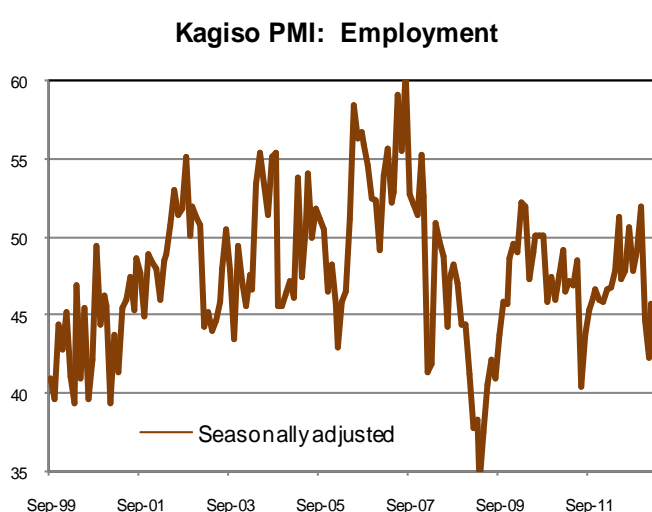
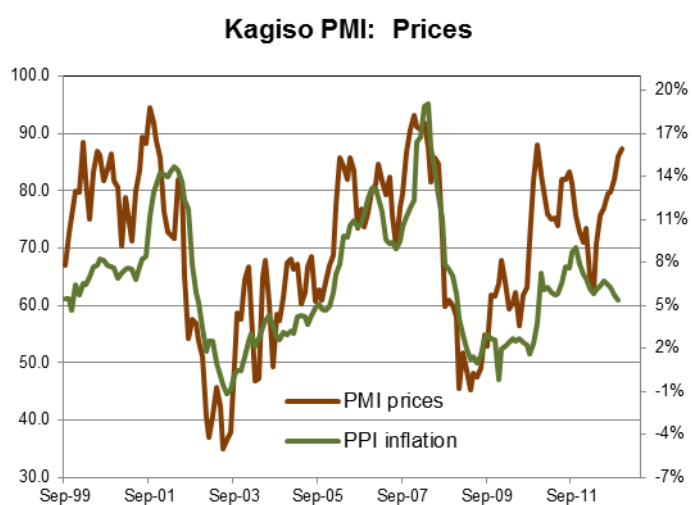


Kagiso PMI: Inventories



Input costs remain elevated, while employment continues to suffer

- The PMI **price** index rose by another 1.3 points to 87.3 in March. This was despite a lower Brent crude oil price, which declined to an average of around \$110/bbl in March from \$117 in February. The sustained weakening trend for the rand exchange rate could explain the elevated cost pressures in the manufacturing sector. The rand averaged about R9.15/\$ in March versus R8.85/\$ in February.
- The setback in demand and output conditions was negative for employment in the manufacturing sector. The **employment** index declined by 3.1 points to 42.6. This suggests that the manufacturing sector may have shed labour at the start of 2013. Indeed, the index only averaged 43.5 index points in 2013Q1. This was much weaker than the already low level of 48.6 recorded in 2012Q4.



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