

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

September 2012

Executive Summary

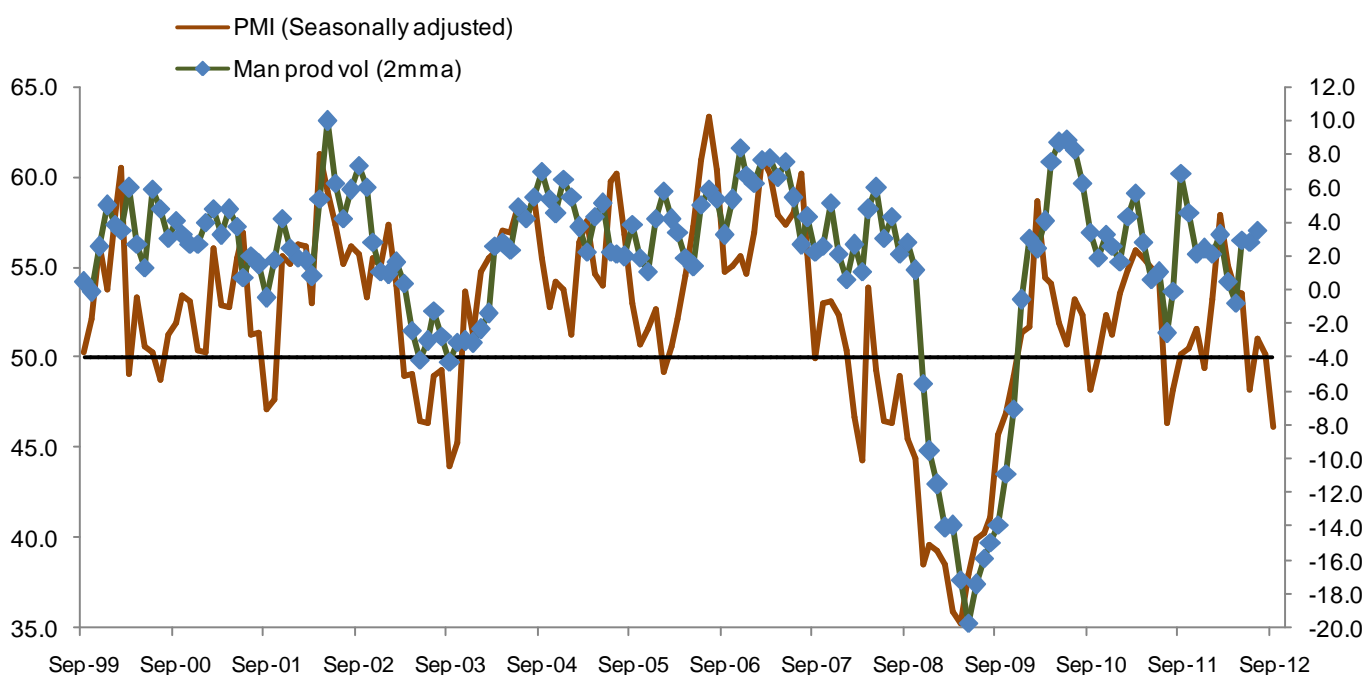
The seasonally adjusted Kagiso PMI lost 4 index points in September and declined below the key 50 point mark to 46.2. The pullback does not bode well for actual factory sector output in Q3. Manufacturing production declined by 1% quarter-on-quarter (annualised) during Q2.

These concerns were reinforced by the **business activity** index, which fell by a significant 7.6 index points to 43. The activity sub-index was responsible for almost half of the overall PMI decline. Business activity measured 48.1 for Q3 as a whole, down from 53.6 during Q2 and 58.9 in the first three months of the year. The non-seasonally adjusted business activity index actually posted a small increase to 50 from 48.9 in August, but a large seasonal factor weighed on the adjusted number.

New sales orders remained soft, losing 0.7 index points to 46.2. Another important feature of the September PMI was that the **price index** increased further after the 8.2 index point jump recorded in August. The price component rose by another 4.9 points to 75.8 – the highest level since January 2012. As expected, the August increase to back above 50 for the PMI **employment** index proved to be short-lived as the index lost 4.5 index points to 46.5.

On a more positive note, following three consecutive months where purchasing managers downgraded their outlook for future business activity, the **expected business conditions** index gained 2.6 points to 55.5 during September. The somewhat more upbeat prospects were corroborated by the **PMI leading indicator**, which rose to just below 1 at 0.99.

Kagiso Purchasing Managers Index



PMI suggests Q3 manufacturing weakness

- The seasonally adjusted Kagiso PMI lost 4 index points in September and declined back below the key 50 point mark to 46.2. The pullback does not bode well for actual factory sector output in Q3. Manufacturing production declined by 1% quarter-on-quarter (annualised) during Q2.
- Based on the PMI, the deterioration in the local manufacturing sector has been stark in recent months. Following an average level of 54.7 points during the first five months of 2012, the PMI lost ground and only averaged 48.9 between June and September 2012. After still averaging 51.8 during Q2, at 49.1 the index dipped below 50 (on average) in Q3.
- The domestic PMI is now on par with the trends in the factory sectors of SA's key trading partners. The domestic PMI is now on par with the trends in the factory sectors of SA's key trading partners. The official September PMI reading for China, which was released today, is 49.8 and the initial reading for the EU remains below 50.
- Concerns about domestic manufacturing production were reinforced by the **business activity** index, which fell by a significant 7.6 index points to 43. One has to go back to July 2011 - a period when the manufacturing sector was hit by widespread industrial action – to find the index at a weaker level. The activity sub-index was responsible for almost half of the overall PMI decline. Business activity measured 48.1 for Q3 as a whole, down from 53.6 during Q2 and 58.9 in the first three months of the year. The non-seasonally adjusted business activity index actually posted a small increase to 50 in September from 48.9, but a large seasonal factor weighed on the adjusted number.
- **New sales orders** remained soft, losing 0.7 index points to 46.2. Another important feature of the September PMI was that the **price index** increased further after the 8.2 index point jump recorded in August. The price component rose by another 4.9 points to 75.8 – the highest level since January 2012. As expected, the August increase to back above 50 for the PMI **employment** index proved to be short-lived. The index lost 4.5 index points to 46.5.
- On a more positive note, following three consecutive months where purchasing managers downgraded their outlook for future business activity, the **expected business conditions** index gained 2.6 points to 55.5 during September. The somewhat more upbeat prospects were corroborated by the **PMI leading indicator**, which rose from 0.90 in August to just below 1 at 0.99. The leading indicator measures the ratio between new sales orders and inventories – any number below 1 indicates that inventories exceed the demand for manufactured goods, which normally does not bode well for factory sector production.

Kagiso Purchasing Managers Index: Results for September 2012

	2012						
	Mar	Apr	May	Jun	Jul	Aug	Sep
Business activity*	57.8	57.7	56.0	47.0	50.8	50.6	43.0
New sales orders*	59.7	55.4	51.7	46.5	52.2	46.9	46.2
Backlog of sales orders	41.4	42.2	43.3	36.8	40.1	37.9	40.2
Inventories*	57.4	57.6	61.3	54.5	56.5	52.2	46.6
Purchasing commitments	49.5	49.0	52.7	46.3	48.5	51.7	51.1
Expected business conditions	62.4	56.2	59.0	57.4	54.0	52.9	55.5
Suppliers' performance*	50.3	47.9	48.8	50.8	50.8	53.5	50.7
Prices	72.9	71.1	73.6	65.1	62.7	70.9	75.8
Employment*	47.1	48.8	53.0	46.8	47.0	51.0	46.5
PMI (not seasonally adj.)	54.0	50.1	51.8	45.1	46.7	49.2	51.0
PMI (seasonally adjusted)	55.1	53.7	53.6	48.2	51.0	50.2	46.2

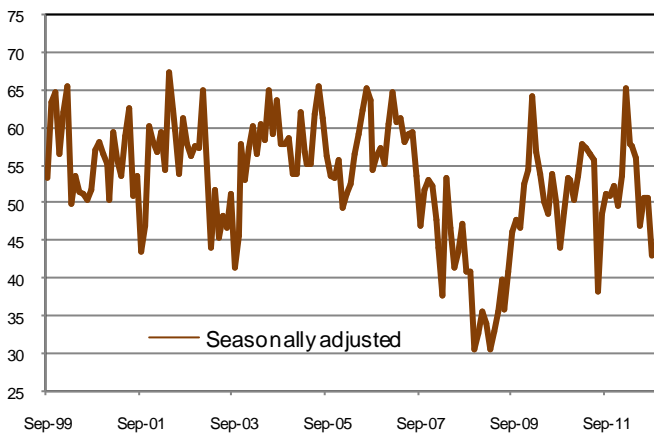
*These series have been seasonally adjusted using Census X12.



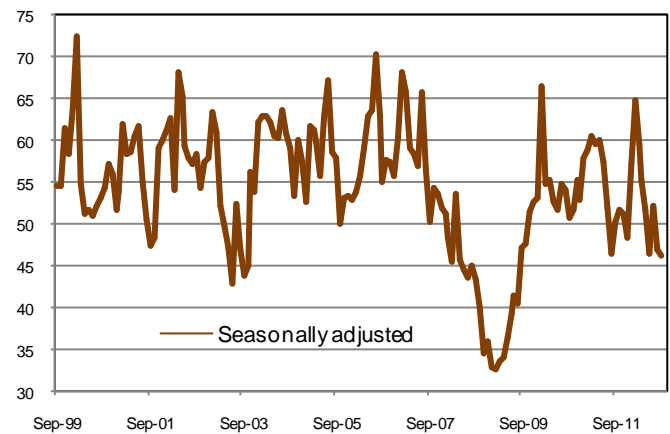
Output down sharply as demand remains soft

- The **business activity** index suffered the biggest decline of the key PMI sub-components in September, losing 7.6 index points to 43. One has to go back to July 2011 - a period when the manufacturing sector was hit by widespread industrial action – to find the index at a weaker level. The activity sub-index was responsible for almost half of the overall PMI decline. Business activity measured 48.1 for Q3 as a whole, down from 53.6 during Q2 and 58.9 in the first three months of the year. The weaker production trend for Q3 was also visible in the BER’s Q3 manufacturing business survey where a net majority of only 10% of factory sector respondents reported higher production compared with 2011Q3. In 2012Q2, the net majority reporting increased output was 18%. The non-seasonally adjusted business activity index actually posted a small increase to 50 from 48.9, but a large seasonal factor weighed on the adjusted number.
- **New sales orders** remained soft, losing 0.7 index points to 46.2. Besides weak demand emanating from the rest of the world, the on-going strikes in the SA mining sector may also be dampening new orders for factory goods.

Kagiso PMI: Business Activity



Kagiso PMI: New Sales Orders

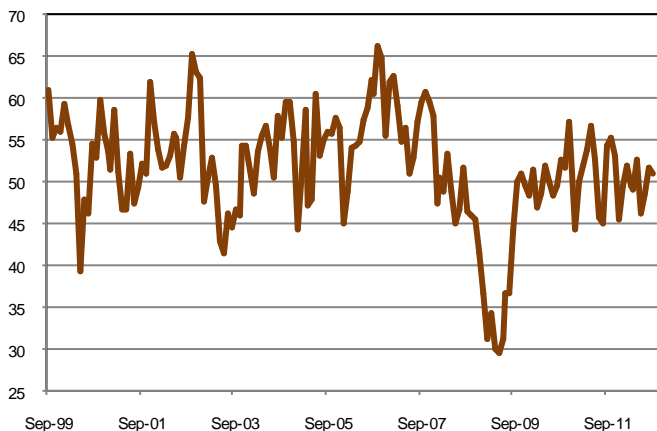


Inventories continue to decline; purchasing commitments lower

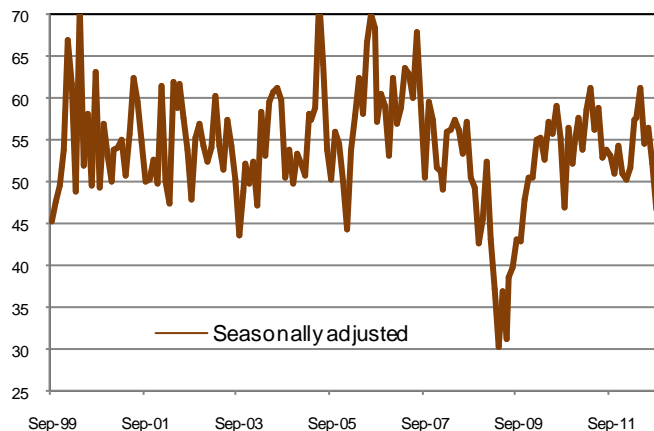
- The **inventory index** declined by 5.6 index points to 46.6 - the lowest level since the end of 2009. **Purchasing commitments** were largely stable, but nevertheless lost 0.6 points to 51.1.



Kagiso PMI: Purchasing Commitments



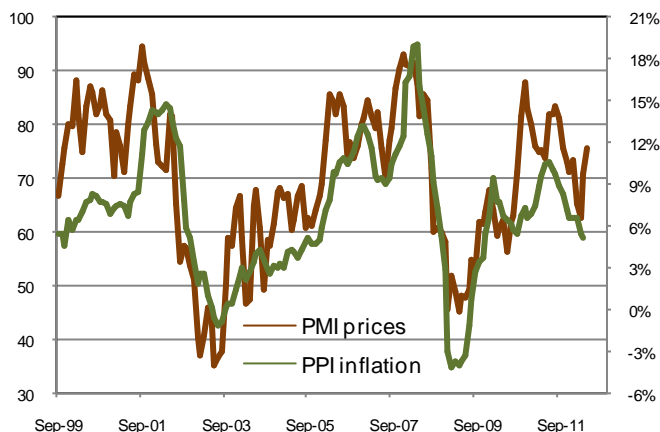
Kagiso PMI: Inventories



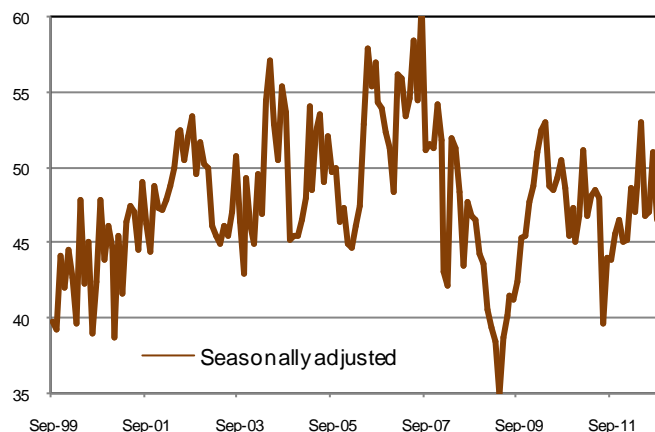
Input costs continue to accelerate as factory sector employment worsens again

- An important feature of the September PMI was that the **price index** increased further after the 8.2 index point jump recorded in August. The price component rose by another 4.9 points to 75.8 – the highest level since January 2012. The further gain reported for input costs may well be in response to the 69c/litre rise in the diesel price during the first week of September.
- As expected, the August increase to back above 50 for the PMI **employment** index proved to be short-lived. The index lost 4.5 index points to 46.5. Earlier in September, Stats SA’s Quarterly Employment Statistics indicated that the manufacturing sector shed 9,000 jobs during the second quarter. The PMI data for Q3 indicates that a recovery in factory sector employment is unlikely over the short term.

Kagiso PMI: Prices



Kagiso PMI: Employment



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