

# 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

## August 2012

### Executive Summary

The seasonally adjusted Kagiso PMI was largely unchanged in August and lost a marginal 0.8 points to 50.2. The level of the index suggests that there was no growth in factory sector output between August and July 2012.

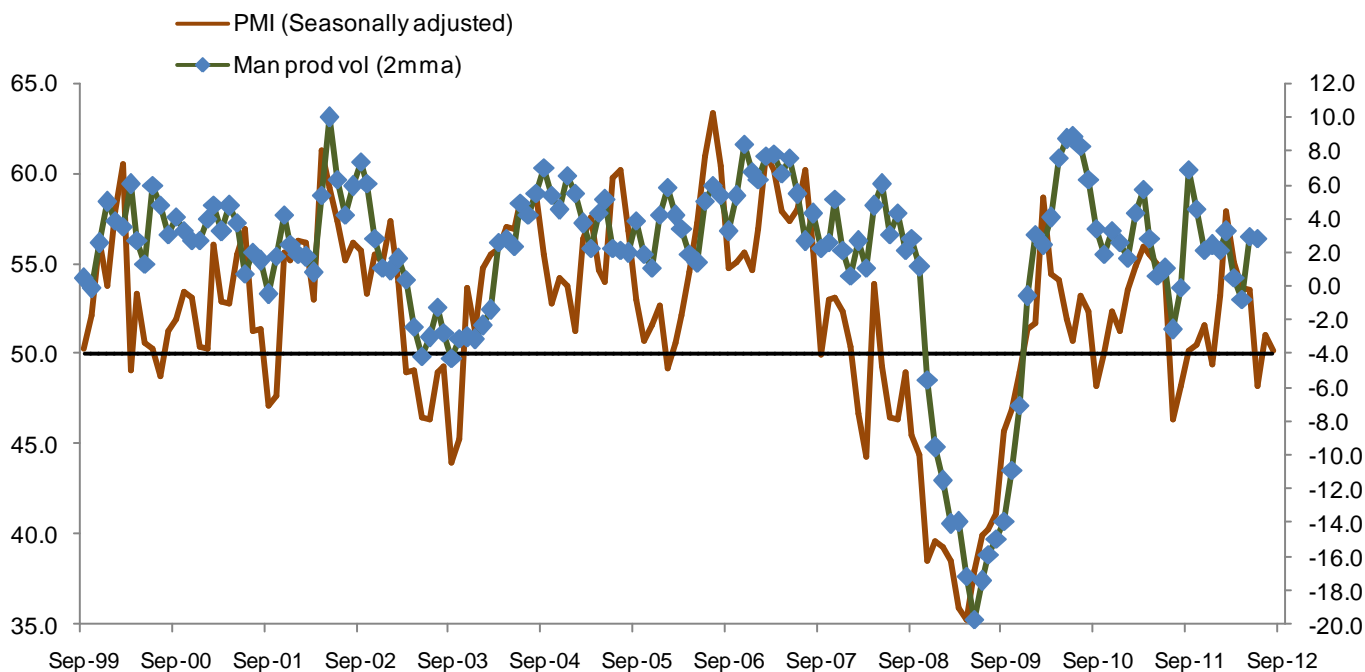
The seasonally adjusted business activity, new sales orders and inventory indices all lost ground in August, but the declines were compensated for by gains in the employment and suppliers performance sub-components.

A notable development was the sharp rise (8.2 points) in the **PMI price index** to 70.9, which in all likelihood reflects the sustained oil price increase during August.

Purchasing managers continued to downscale their expectations – the index measuring **expected business conditions** in six months' time declined for the third consecutive month to reach 52.9 index points. One has to go back to June 2009 to find a weaker reading. The fairly downbeat outlook was again corroborated by the PMI leading indicator, which remained below 1 for the fifth month in a row.

On a more positive note, the **PMI employment index** rose above the key 50 point mark to 51, but as was the case in May, we would caution that not too much should be read into a single data point.

### Kagiso Purchasing Managers Index



## PMI gives back some ground, but remains above 50

- The seasonally adjusted Kagiso PMI was largely unchanged in August and lost a marginal 0.8 points to 50.2. The level of the index suggests that there was no growth in factory sector output between August and July 2012. The average PMI for the first two months of the third quarter is 50.6, down from average readings of 51.8 and 55.4 during Q2 and 2012Q1 respectively. This indicates that, as was the case in Q2, the manufacturing sector could again be a drag on overall GDP growth during Q3. The domestic factory sector's weak start to Q3 is in line with indications that the PMIs in our major trading partners (Europe and China) remained below the 50 point mark in August.
- The seasonally adjusted business activity, new sales orders and inventory indices all lost ground in August, albeit only marginally (-0.2 points) in the case of the **activity index**. The **new sales orders index**, which continues to be quite volatile from month to month, lost 5.3 points and in the process declined back below 50 to 46.9, while the **inventory index** declined by 4.3 points to 52.2.
- The softer readings were compensated for by gains in the **employment** and **suppliers performance** sub-components. In a positive development, the **PMI employment index** rose above the key 50 point mark to 51, but as was the case in May, we would caution that not too much should be read into a single data point. Indeed, one has to go back to the period between February and April 2010 to find the employment index above the 50 point mark for more than two consecutive months. Even more striking is that 2007 was the last time that the index measured above 50 for more than three months in a row.
- A notable development in August was the sharp rise (8.2 points) in the **PMI price index** to 70.9, which in all likelihood reflects the sustained oil price increase during August.
- Purchasing managers continued to downscale their expectations – the index measuring **expected business conditions** in six months' time declined for the third consecutive month to reach 52.9 index points. One has to go back to June 2009 to find a weaker reading. The fairly downbeat outlook was again corroborated by the PMI leading indicator, which remained below 1 for the fifth month in a row. 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 does not bode well for factory sector production.

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

	2012						
	Feb	Mar	Apr	May	Jun	Jul	Aug
Business activity*	65.2	57.8	57.7	56.0	47.0	50.8	<b>50.6</b>
New sales orders*	64.8	59.7	55.4	51.7	46.5	52.2	<b>46.9</b>
Backlog of sales orders	43.6	41.4	42.2	43.3	36.8	40.1	<b>37.9</b>
Inventories*	51.7	57.4	57.6	61.3	54.5	56.5	<b>52.2</b>
Purchasing commitments	51.9	49.5	49.0	52.7	46.3	48.5	<b>51.7</b>
Expected business conditions	66.2	62.4	56.2	59.0	57.4	54.0	<b>52.9</b>
Suppliers' performance*	48.6	50.3	47.9	48.8	50.8	50.8	<b>53.5</b>
Prices	75.7	72.9	71.1	73.6	65.1	62.7	<b>70.9</b>
Employment*	48.6	47.1	48.8	53.0	46.8	47.0	<b>51.0</b>
PMI (not seasonally adj.)	54.7	54.0	50.1	51.8	45.1	46.7	<b>49.2</b>
PMI (seasonally adjusted)	57.9	55.1	53.7	53.6	48.2	51.0	<b>50.2</b>

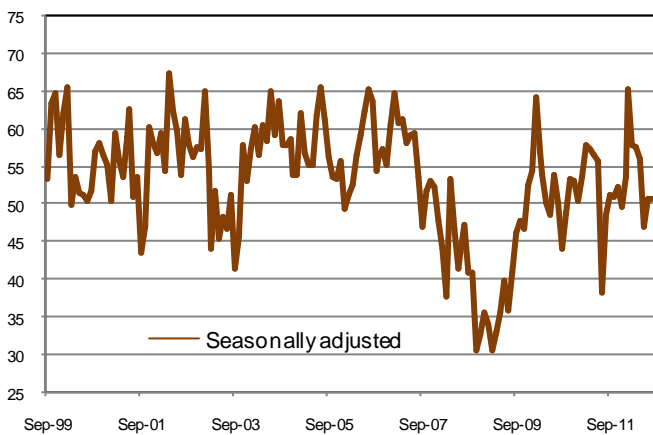
\*These series have been seasonally adjusted using Census X12.



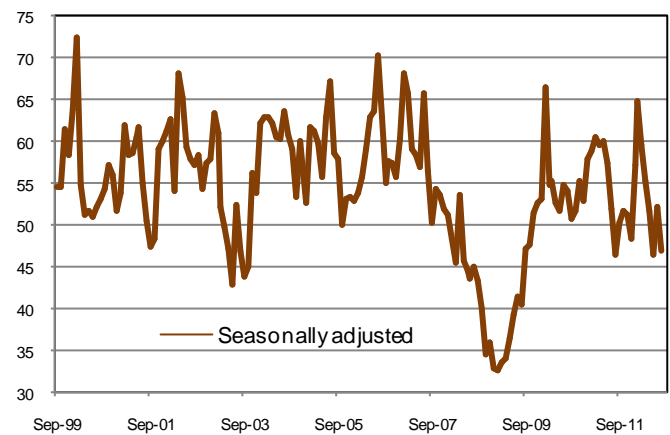
## Output stable, but demand remains volatile

- The **business activity** index was largely unchanged in August as it lost an insignificant 0.2 points to remain just above the key 50 point level at 50.6. When compared with the average of 53.6 recorded during 2012Q2, the business activity indicator points towards fairly flat factory sector output in the third quarter.
- The seasonally adjusted **new sales orders index**, which continues to be quite volatile from month to month, lost 5.3 points and in the process declined back below 50 index points to 46.9. Despite the monthly volatility, a clear downward trend is emerging in relation to the demand for factory goods. After averaging a robust 60.6 index points during 2012Q1, the new sales orders index declined to an average of 51.2 in Q2. The average for July and August is even lower at 49.6.

**Kagiso PMI: Business Activity**



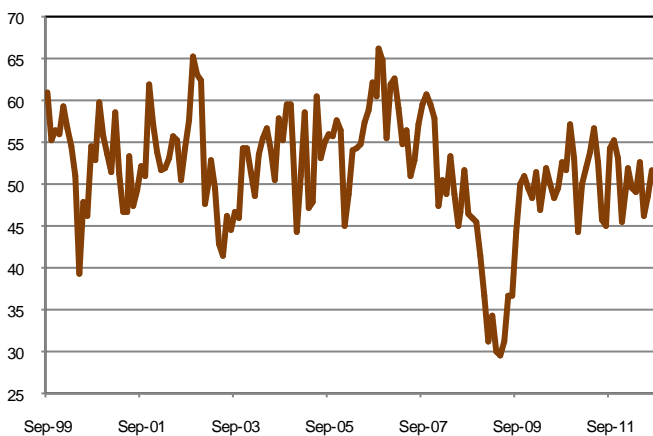
**Kagiso PMI: New Sales Orders**



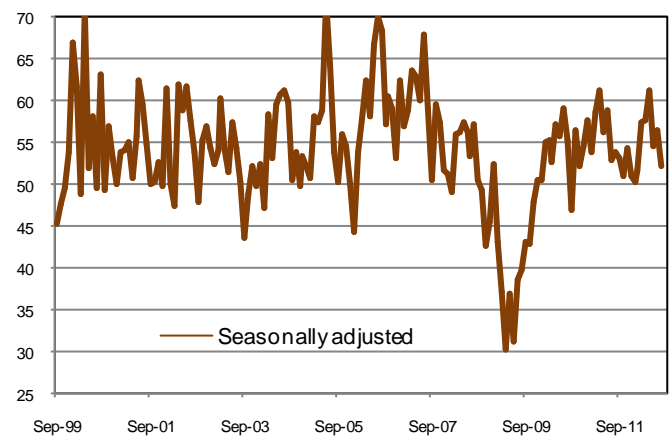
## Inventories and purchasing commitments post gains

- The **inventory index** declined by 4.3 index points to 52.2. **Purchasing commitments** rose for the second consecutive month, posting a gain of 3.2 points to reach a level of 51.7.

**Kagiso PMI: Purchasing Commitments**



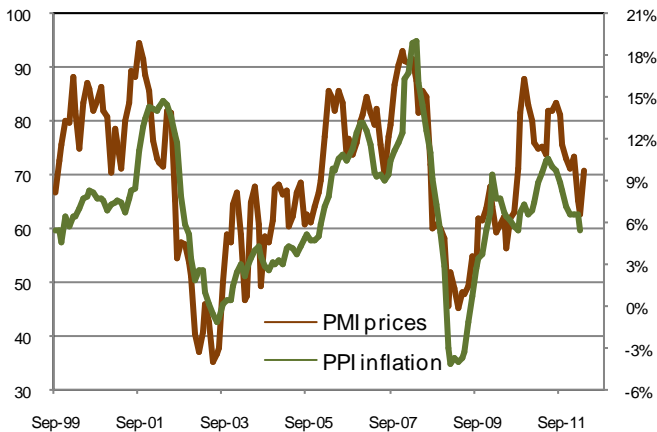
**Kagiso PMI: Inventories**



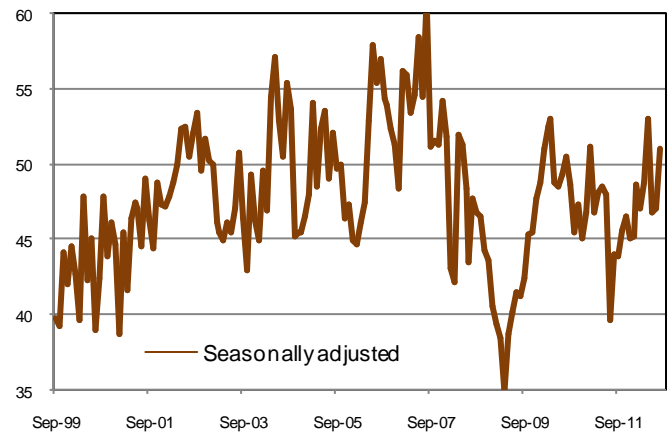
## Oil spike fuels input costs; too soon to get excited about employment gains

- The **PMI price index** increased by a notable 8.2 points to 70.9, which in all likelihood reflects the sustained oil price gain during August - the Brent crude oil price has been trading above \$110/bbl for some time. The Department of Energy has announced that domestic fuel costs (petrol and diesel) will rise by between 69 and 93c/litre in the beginning of September.
- The **PMI employment index** rose above the key 50 point mark to 51, but as was the case in May, we would caution that not too much should be read into a single data point. One has to go back to the period between February and April 2010 to find the employment index above the 50 point mark for more than two consecutive months. Even more striking is that 2007 was the last time that the index measured above 50 for more than three months in a row.

**Kagiso PMI: Prices**



**Kagiso PMI: Employment**



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