

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

June 2012

Executive Summary

The seasonally adjusted Kagiso PMI ended the second quarter on a weak note as the index declined sharply to below the key 50 index point mark. At 48.2, the PMI lost 5.4 index points and is now at the lowest level since August 2011 with almost all of the key sub-indices posting meaningful losses.

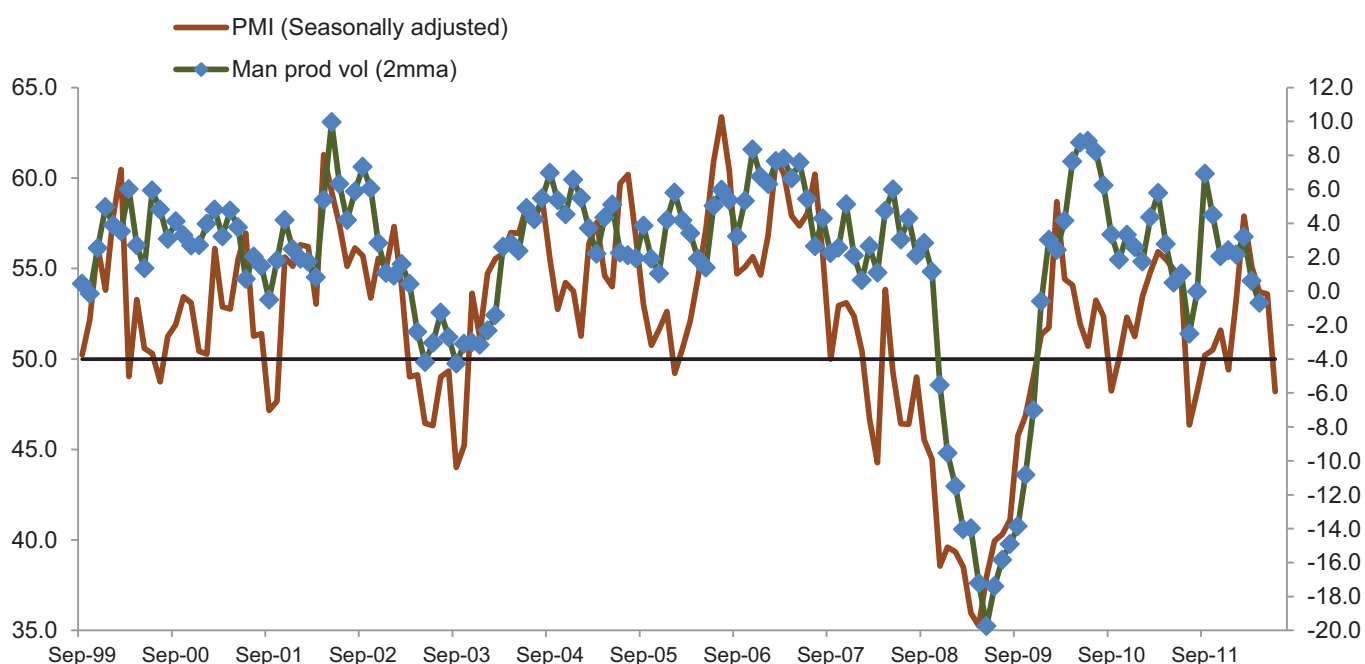
The **business activity** index was the hardest hit as it registered a fall of 9 index points to 47 points, the lowest level since mid-2011 when industrial action weighed heavily on factory sector output. The demand for domestically produced factory goods was under pressure in June as the **new sales orders** index lost 5.2 points to 46.5 index points.

There was nothing in the June numbers to suggest a quick turnaround in fortunes for the manufacturing sector. The **PMI leading indicator** – measured as the ratio between new sales orders and inventories – remained well below 1 at 0.85. The index measuring **expected business conditions** in 6 months' time declined by 1.6 points to 57.4.

After solid gains in May, the PMI **employment** index eased back below 50 to 46.8. On a more positive note, input cost pressures moderated significantly – the PMI **price** index lost 8.5 index points to reach 65.1.

The latest PMI numbers indicate that after a strong first quarter, actual manufacturing production moderated during Q2, which does not bode well for overall GDP growth in the quarter.

Kagiso Purchasing Managers Index



After strong start to the year, PMI declines into negative territory

- The seasonally adjusted Kagiso PMI ended the second quarter on a weak note as the index declined sharply to below the key 50 index point mark. At 48.2, the PMI lost 5.4 index points and is now at the lowest level since August 2011 with almost all of the key sub-indices posting sharp losses. Whereas the early stages of 2012 saw the domestic PMI registering significantly more positive results than was the case in our key export markets such as the EU and China, the latest figures are more in line with the weak numbers seen in these countries for some time already.
- Besides soft external demand for domestically produced goods, the latest data may also point towards a continued slowdown in domestic demand through Q2. Indeed, the PMI **new sales orders** index lost 5.2 points to 46.5 index points in June. The latest SA Reserve Bank Quarterly Bulletin reported that real final consumption expenditure moderated to 3.7% in 2012Q1 from 4.6% in the second half of 2011.
- The **business activity** index was the hardest hit of the major PMI subcomponents as it registered a fall of 9 index points to 47 points, the lowest level since mid-2011 when industrial action weighed heavily on factory sector output. There was nothing in the June numbers to suggest a quick turnaround in fortunes for the manufacturing sector. The **PMI leading indicator** – measured as the ratio between new sales orders and inventories – remained well below 1 at 0.85. The ratio indicates that inventories remain high relative to the demand for manufactured goods. The index measuring **expected business conditions** in 6 months' time declined by 1.6 points to 57.4.
- After solid gains in May, the PMI **employment** index eased back below 50 to 46.8. It therefore seems that the May jump to 53 for the index was an outlier rather than the start of an improved trend for factory sector employment.
- On a more positive note, input cost pressures moderated significantly – the PMI **price** index lost 8.5 index points to reach 65.1. The continued decline in the oil price and other raw material prices seems to have outweighed the impact of the rand exchange rate that continued to trade at weaker levels versus the US dollar.
- The latest PMI numbers indicate that after a strong first quarter, actual manufacturing production moderated during Q2, which does not bode well for overall GDP growth in the quarter.

Kagiso Purchasing Managers Index: Results for June 2012

	2011		2012				
	Dec	Jan	Feb	Mar	Apr	May	Jun
Business activity*	49.7	53.6	65.2	57.8	57.7	56.0	47.0
New sales orders*	48.3	57.3	64.8	59.7	55.4	51.7	46.5
Backlog of sales orders	40.6	39.4	43.6	41.4	42.2	43.3	36.8
Inventories*	50.9	50.2	51.7	57.4	57.6	61.3	54.5
Purchasing commitments	45.6	49.5	51.9	49.5	49.0	52.7	46.3
Expected business conditions	61.3	65.1	66.2	62.4	56.2	59.0	57.4
Suppliers' performance*	56.0	57.0	48.6	50.3	47.9	48.8	50.8
Prices	83.3	81.4	75.7	72.9	71.1	73.6	65.1
Employment*	45.0	45.2	48.6	47.1	48.8	53.0	46.8
PMI (not seasonally adj.)	53.0	47.5	54.7	54.0	50.1	51.8	45.1
PMI (seasonally adjusted)	49.4	53.2	57.9	55.1	53.7	53.6	48.2

*These series have been seasonally adjusted using Census X12.



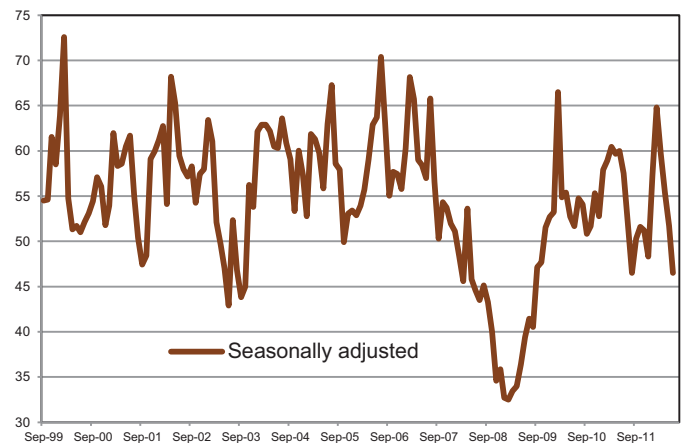
Output and demand experience sharp declines

- The seasonally adjusted **business activity** index was the hardest hit of the major PMI subcomponents as it registered a fall of 9 index points to 47, the lowest level since mid-2011 when industrial action weighed heavily on factory sector output. After averaging almost 59 points during 2012Q1, the index declined to an average of 53.6 in Q2. While the level of the index still indicates that production expanded during the second quarter, it certainly is indicative of much slower growth than in the first three months of the year.
- The latest data for the PMI **new sales orders** index point towards a continued slowdown in domestic demand through Q2. The PMI index with the largest weighting lost 5.2 points to 46.5 index points in June. The latest SA Reserve Bank Quarterly Bulletin reported that real final consumption expenditure moderated to 3.7% in 2012Q1 from 4.6% in the second half of 2011.

Kagiso PMI: Business Activity



Kagiso PMI: New Sales Orders



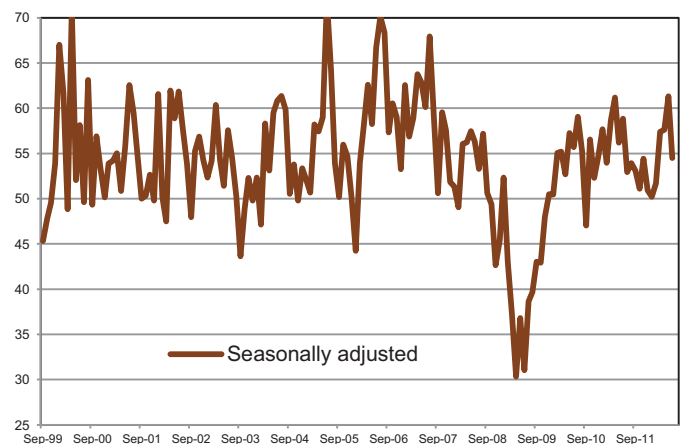
Inventories and purchasing commitments also lower

- The **inventory index** lost 6.8 index points to 54.5. While the level of the index indicates that purchasing managers continued to increase their stock levels, the rate at which this is happening moderated in June. At the same time, the **purchasing commitments** index lost 6.4 points to 46.3.

Kagiso PMI: Purchasing Commitments



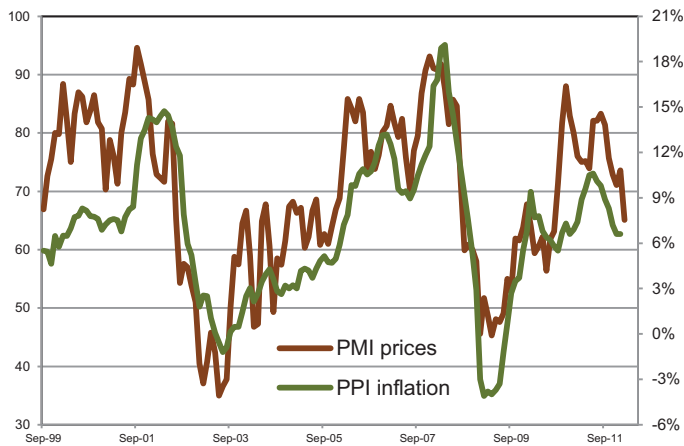
Kagiso PMI: Inventories



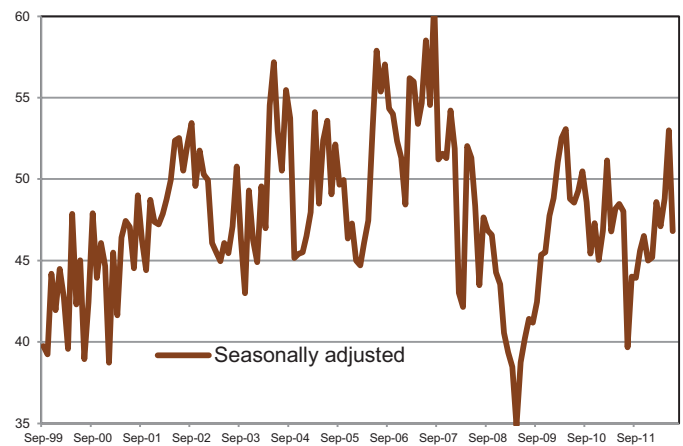
Input cost pressures continue to ease; after brief respite, employment remains static

- The PMI **price** index lost 8.5 index points to reach 65.1. The continued decline in the oil price and other raw material prices seems to have outweighed the impact of the rand exchange rate that continued to trade at weaker levels versus the US dollar. Actual producer price inflation moderated from a peak of 10.6% year-on-year in October 2011 to 6.6% during April and May 2012.
- After solid gains in May, the PMI **employment** index eased back below 50 to 46.8. It therefore seems that the May jump to 53 for the index was an outlier rather than the start of an improved trend for factory sector employment. As we have argued for a number of months, the fall back below 50 does not necessarily imply that manufacturers are shedding jobs. Most of the respondents reported that employment levels were stable between May and June. Unfortunately, the important point is that the PMI continues to reflect a sector that is not in a position to increase employment on any grand scale.

Kagiso PMI: Prices



Kagiso PMI: Employment



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