

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

November 2011¹

Executive Summary

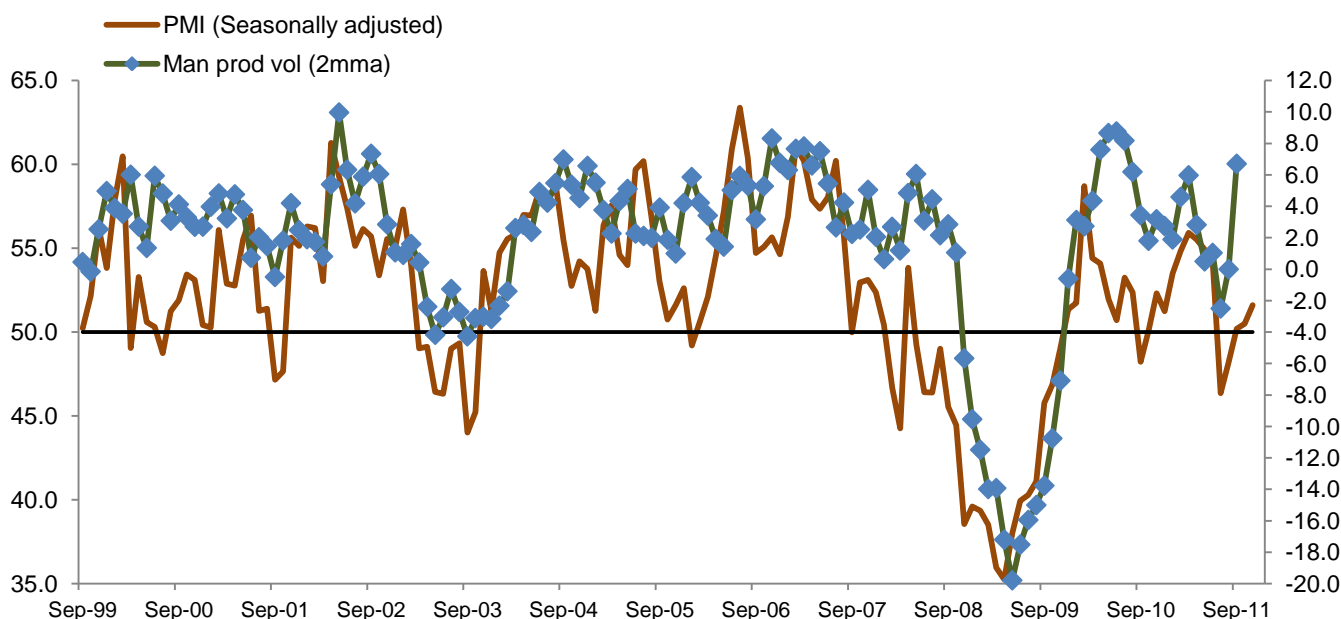
The seasonally adjusted Kagiso PMI picked up some momentum in November, rising by 1.1 index points to 51.6. November was the fourth consecutive month of gains for the PMI, but the index remains below the level of 54.2 reached before the widespread factory sector strikes in July.

Despite a more upbeat overall PMI number, purchasing managers reported increased concern about future prospects. The uncertain outlook is reflected in the **expected business conditions** index, which declined by 7.4 points to 55 – the lowest level since August 2011. The less upbeat prospects were corroborated by the **PMI leading indicator** (i.e. ratio between new sales orders and inventories) that declined to 0.94 from 1.01 during October.

The **new sales orders** index, which at 30% has the largest weighting of the key PMI sub-components, eased marginally by 0.4 points to 51.2, while the **inventory** index was the biggest gainer (+3.3 index points) to reach 54.4. This may suggest that purchasing managers expected demand to be somewhat stronger than it turned out to be, i.e. they purchased inputs in anticipation of increased demand, which did not materialise.

On a more positive note, the **business activity** index rose by 1.4 points to 52.3. The index averaged 51.6 during October and November versus 46.1 in Q3, which suggests improved actual factory output (compared to Q3) in the final three months of the year.

Kagiso Purchasing Managers Index



¹ The results of the December 2011 PMI will be released on Wednesday, 18 January 2012.

PMI continues to recover, but outlook clouded by global risks

- The seasonally adjusted Kagiso PMI picked up some momentum in November, rising by 1.1 index points to 51.6. November was the fourth consecutive month of gains for the PMI, but the index remains below the level of 54.2 reached before the widespread factory sector strikes in July.
- However, the increases of recent months mean that after averaging 48.3 during 2011Q3, the average for Q4 to date (October and November) rose to 51.1. This suggests that actual manufacturing production is likely to make a positive contribution to overall GDP growth in the final quarter of 2011 after subtracting from growth in 2011Q2 and Q3.
- The further PMI gain in November goes against the trend for SA's major trading partners. Indeed, the Markit Eurozone flash PMI estimate for November came in at only 46.4 index points, the lowest level since June 2009 and down from the 47.1 recorded during October. Furthermore, the HSBC Chinese flash PMI fell to a 32-month low of 48 in November.
- The soft global PMI numbers question the sustainability of the domestic PMI recovery. The uncertain outlook is reflected in the **expected business conditions** index, which declined by 7.4 points to 55 – the lowest level since August 2011. The less upbeat prospects were corroborated by the **PMI leading indicator** (i.e. ratio between new sales orders and inventories) that declined to 0.94 from 1.01 during October.
- The **new sales orders** index, which at 30% has the largest weighting of the key PMI sub-components, eased marginally by 0.4 points to 51.2, while the **inventory** index was the biggest gainer (+3.3 index points) to reach 54.4. This may suggest that purchasing managers expected demand to be somewhat stronger than it turned out to be, i.e. they purchased inputs in anticipation of increased demand, which did not materialise.
- On a more positive note, the **business activity** index rose by 1.4 points to 52.3. The index averaged 51.6 during October and November versus 46.1 in Q3, which also suggests improved actual factory output (compared to Q3) in the final three months of the year.
- Although the **PMI price index** did not increase further, it remained at a high level of 82.1, indicating that input cost pressures remained elevated during the month. The **employment** sub-component continued to slowly tick higher in November, but at 46.5 remained well below the 50 mark that separates job growth from contraction.

Kagiso Purchasing Managers Index: Results for November 2011

	2011						
	May	Jun	Jul	Aug	Sep	Oct	Nov
Business activity*	56.5	55.7	38.3	48.7	51.3	50.9	52.3
New sales orders*	60.0	57.5	52.0	46.5	50.3	51.6	51.2
Backlog of sales orders	43.8	40.3	43.2	38.1	45.7	49.0	46.0
Inventories*	56.2	58.8	52.9	53.9	53.1	51.1	54.4
Purchasing commitments	56.8	52.6	45.8	45.0	54.3	55.4	53.1
Expected business conditions	66.7	64.3	59.5	53.7	60.8	62.4	55.0
Suppliers' performance*	49.9	50.3	53.1	52.6	54.5	53.6	56.5
Prices	80.0	76.0	75.0	75.2	73.9	82.1	82.1
Employment*	48.5	48.0	39.7	44.0	43.9	45.6	46.5
PMI (not seasonally adj.)	53.2	50.8	42.3	47.3	55.6	57.0	58.2
PMI (seasonally adjusted)	54.9	54.2	46.4	48.2	50.2	50.5	51.6

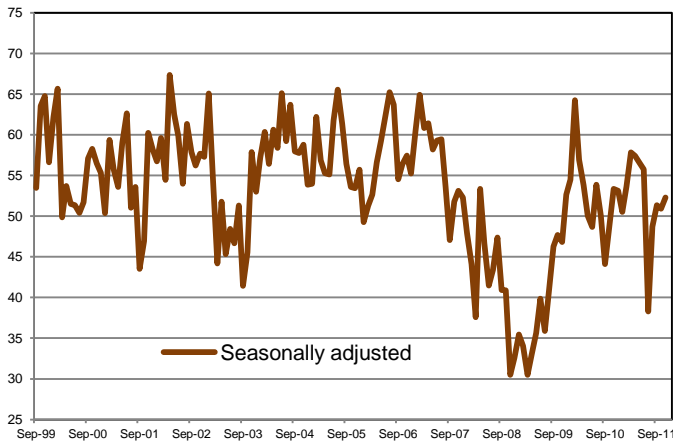
*These series have been seasonally adjusted using Census X12.



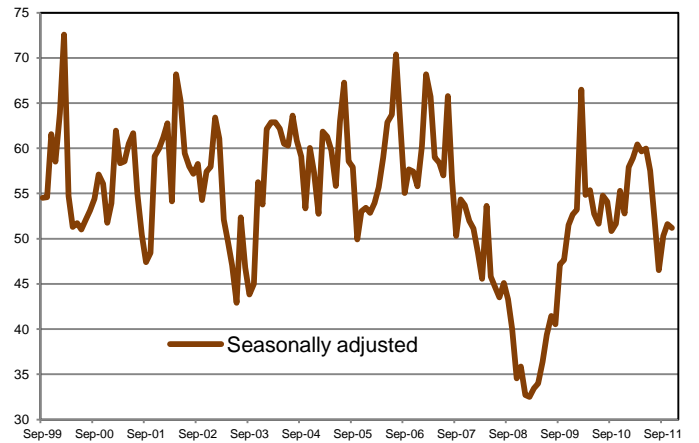
Output posts gain, but demand less upbeat

- The **business activity** index rose by 1.4 points to 52.3. The index averaged 51.6 during October and November versus 46.1 in Q3, suggesting improved actual factory output (compared to Q3) in the final three months of the year. The sustained weaker level of the rand exchange rate may be providing a welcome production boost, not just because of the potential for improved exports, but import substitution may also be less of a threat to local manufacturers in a softer currency environment. However, while a weaker rand should provide some defence against an EU / global growth downturn, it is unlikely to compensate entirely in the case of reduced international demand for SA factory goods.
- On that note, the PMI **new sales orders index** - which at 30% has the largest weighting of the key PMI sub-components - eased marginally by 0.4 points to 51.2 index points in November.

Kagiso PMI: Business Activity



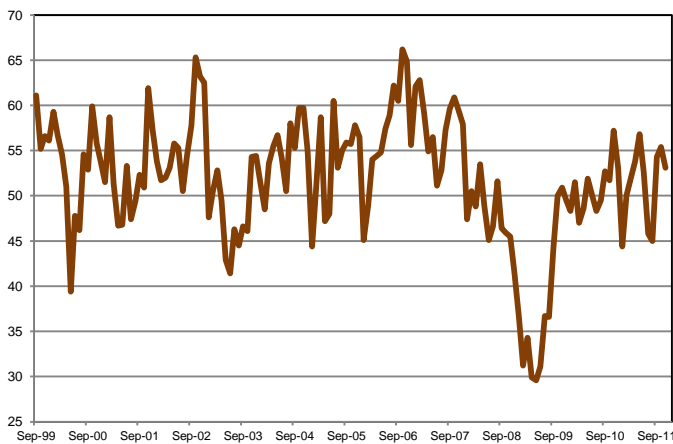
Kagiso PMI: New Sales Orders



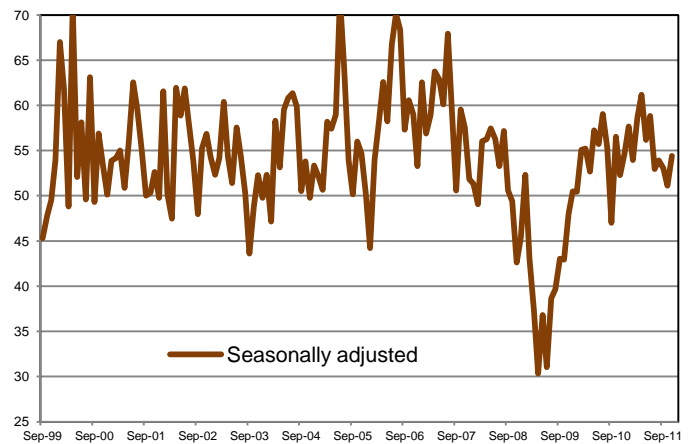
Inventories up, while purchasing commitments ease

- The **inventory index** increased by 3.3 index points to 54.4, while **purchasing commitments** – after rising by a combined 10.4 index points in September/October – declined by 2.3 points to 53.1 in November.

Kagiso PMI: Purchasing Commitments



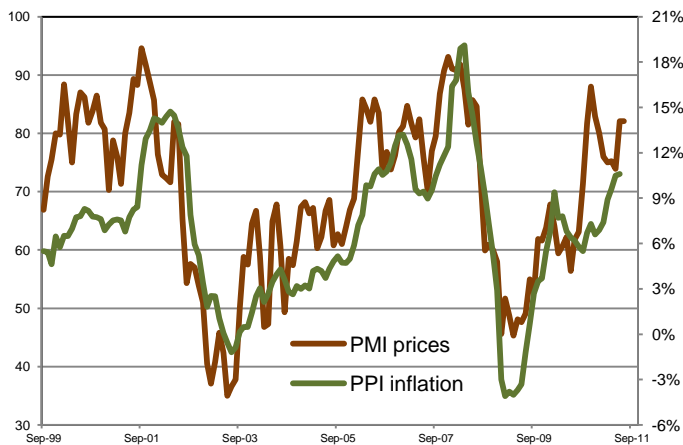
Kagiso PMI: Inventories



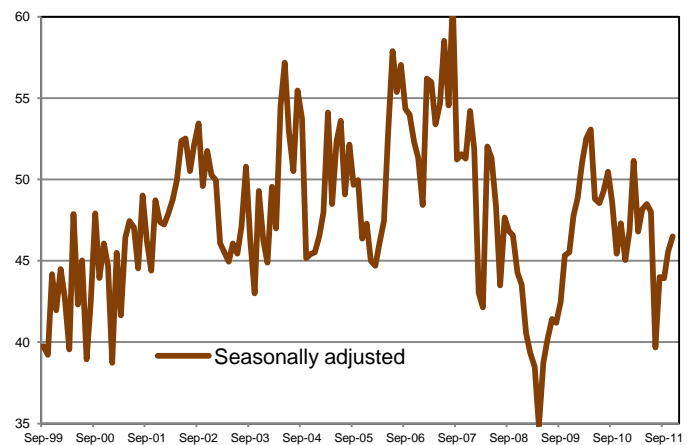
Input costs remain elevated, while employment index slowly grinds higher

- Although the **PMI price index** did not increase further, it remained at a high level of 82.1 during November, indicating that input cost pressures remained elevated during the month. With commodity prices under pressure from the soft global growth outlook, the sustained weaker rand exchange rate poses the biggest risk to factory sector input costs.
- The **employment** sub-component continued to slowly tick higher in November, but at 46.5 remained well below the 50 mark that separates job growth from contraction. Having said that, the long-term average for the index is 47.8 so the index is moving closer to that level. Given the history, a figure below 50 may therefore not necessarily always indicate that manufacturers are shedding labour. What it does suggest is that the factory sector is in no hurry to employ people on a large scale, a trend also evident in the BER's Q4 quarterly manufacturing survey.

Kagiso PMI: Prices



Kagiso PMI: Employment



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