

Kagiso Purchasing Managers Index

An economic activity index based on a survey conducted by the Bureau for Economic Research in conjunction with the Institute of Purchasing Managers in South Africa and sponsored by Kagiso.

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December 2009

Executive Summary

The seasonally adjusted Kagiso PMI rose by 2.2 index points to reach 52.5 in December 2009 – this is the first time since January 2008 that the PMI has remained above the key 50 point mark for two consecutive months.

Both the **business activity** (55.1) and **new sales orders** (54.7) indices indicate that output volumes increased during December.

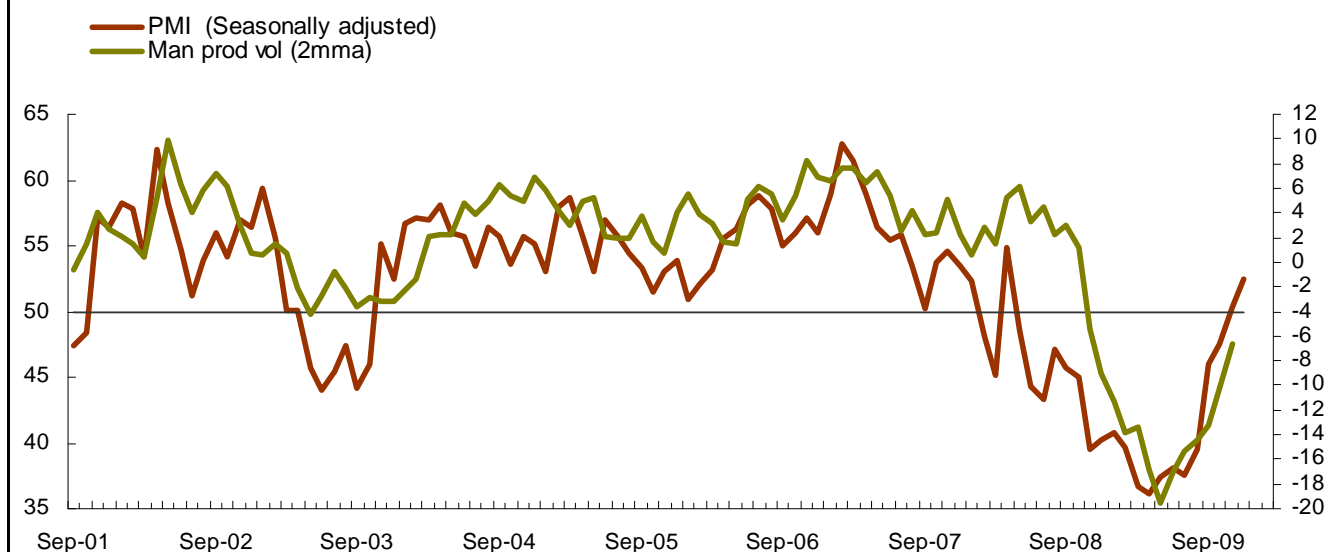
The positive trends seen in output are also visible in near-term demand indicators. The **backlog of sales orders** index (44.0) indicates that manufacturers are consistently busier than during 2009H1. Also, the increase in the seasonally adjusted **inventories** index (55.6) shows that the improved demand conditions are expected to continue. **Purchasing commitments** (49.5) remained resilient compared to earlier in 2009.

The improvement in production activity was accompanied by a drop in the rate of retrenchment. The seasonally adjusted employment index rose for the 4th consecutive month and at 48.2 is now close to neutral.

The PMI **price index** increased further in December, suggesting that producer price deflation may soon be something of the past. Purchasing managers remained positive about future prospects with the **expected business conditions** index rising to 69.5 from 65 points.

André Coetzee, Kagiso Securities

Kagiso Purchasing Managers Index



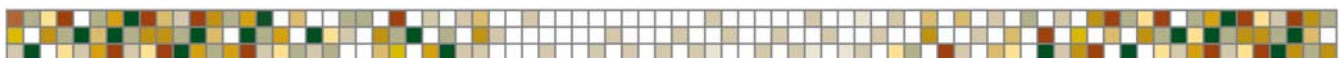
Kagiso PMI stays above 50, ending the year on a positive note

- The seasonally adjusted Kagiso PMI increased to 52.5 index points in December from 50.3 during November. In the wake of the longest and most severe decline in the factory sector since the SA PMI was launched in 1999, it comes as a relief that the headline PMI has now risen for five months in a row.
- After an initial lag, the South African manufacturing rebound is now very close to being on par with the global trend. The global PMI reached 55 – the highest since April 2006 - in December 2009. In August 2009, the gap between the global and SA PMI reached a record high of 13.75 index points. The gap closed to only 2.5 points during December, illustrating that the domestic “catch up” to the improved global conditions is gathering steam.
- In line with the expansionary PMI readings, the decline in actual manufacturing production volumes continued to ease in October and November 2009. In Q3, the PMI averaged 41 index points, while in Q4 the average PMI rose strongly to 50.1 points. The gain bodes well for December’s factory output data and in a broader sense also the 2009Q4 GDP report.
- In November, the expansionary reading of the seasonally adjusted new **sales orders index** (54.4) provided hope for a real expansion in manufacturing output. Indeed, the further gain in **new sales orders** (to 54.7) in December was accompanied by a big jump in the seasonally adjusted **business activity** index (from 47.3 to 55.1). The December reading was the highest since mid-2007 and is promising for actual December manufacturing output.
- The upward trend shown in output volumes was matched by positive expectations: the seasonally adjusted **inventories** index, a near-term demand indicator, rose sharply to 55.6 (48.4 in November). These positive signs of recovery are also accompanied by a sustained positive medium-term outlook: the **expected business conditions** index increased to 69.5 in December (65.0 during November).

Kagiso Purchasing Managers Index: Results for December 2009

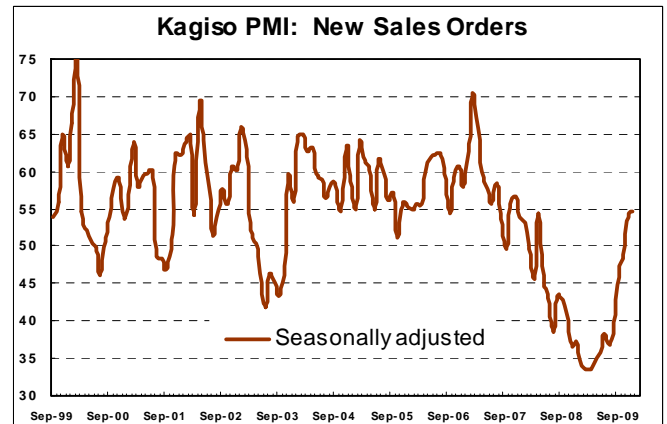
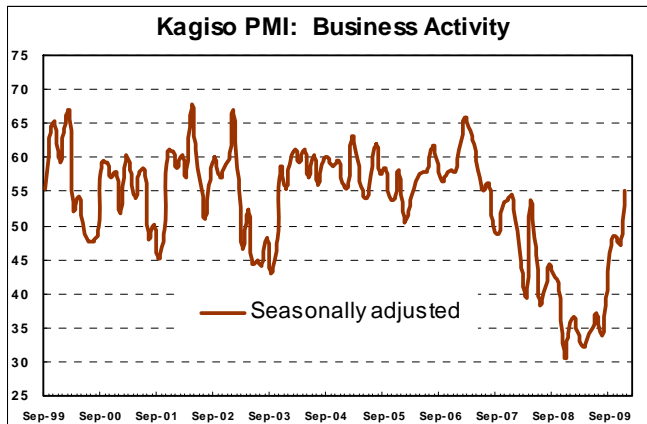
	2009						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Business activity*	37.0	33.9	38.3	48.0	48.4	47.3	55.1
New sales orders*	38.4	36.7	38.9	46.6	48.9	54.4	54.7
Backlog of sales orders	23.9	29.7	27.3	34.4	41.6	45.3	44.0
Inventories*	30.0	34.5	36.7	45.5	42.9	48.4	55.6
Purchasing commitments	31.1	36.7	36.6	44.3	50.0	50.9	49.5
Expected business conditions	52.8	55.1	59.3	70.3	67.9	65.0	69.5
Suppliers’ performance*	44.5	43.5	44.9	46.7	50.0	53.4	47.6
Prices	51.7	48.7	45.3	48.1	47.6	49.1	55.0
Employment*	38.0	40.0	39.4	42.0	45.0	46.6	48.2
PMI (not seasonally adj.)	37.6	36.9	40.2	50.6	53.0	55.2	55.2
PMI (seasonally adjusted)	38.0	37.5	39.5	45.9	47.6	50.3	52.5

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



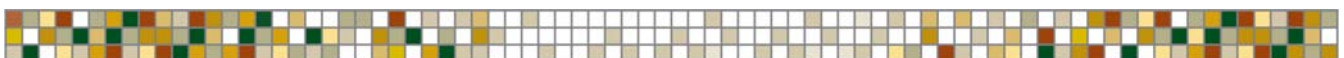
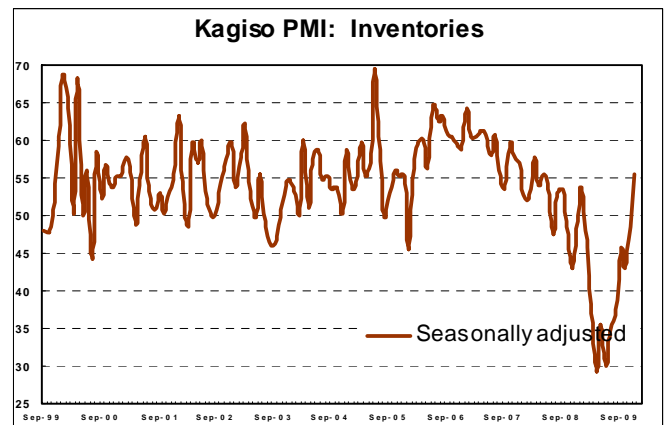
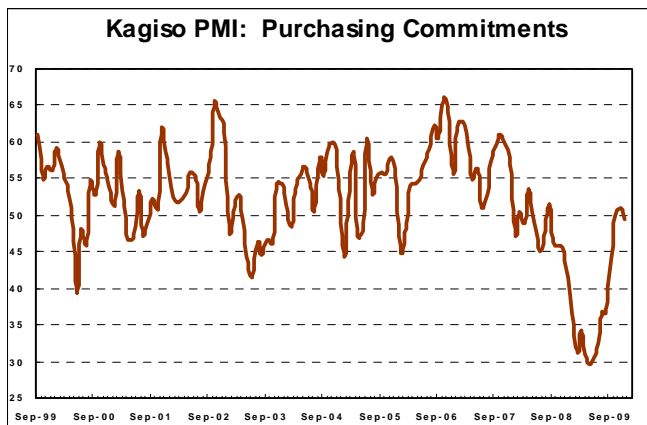
Manufacturing output volumes increase during December

- Output volumes rose during December – the seasonally adjusted business activity index rose by 7.8 points to 55.1. South Africa's manufacturing recovery seems to be well under way.
- The seasonally adjusted new sales orders index remained above 50 (54.7 points in December). This, along with expanding business activity, indicates that demand has returned to the sector.



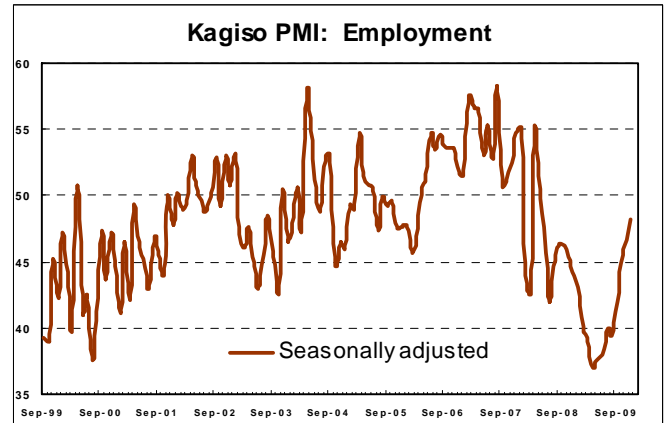
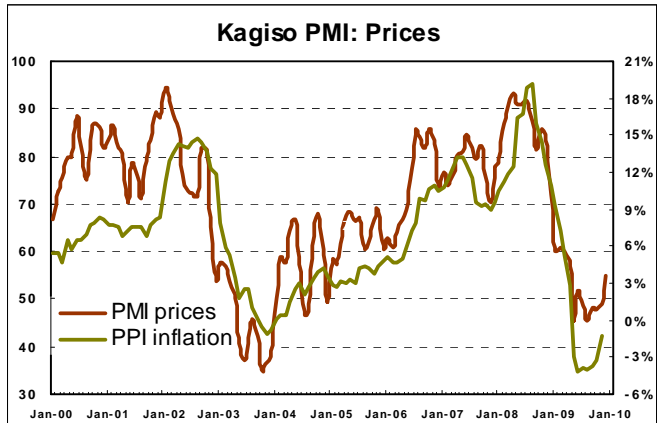
Purchasing commitments resilient while inventories increase sharply

- Near-term demand conditions continue to show resilience: the seasonally adjusted inventories index increased by 7.2 index points to 55.6 during December. Purchasing commitments remained largely flat (down slightly from 50.9 to 49.5 index points in December).



Signs of returning cost pressures; rate of retrenchments continue to ease

- The PMI price index rose for a second consecutive month to 55.0 in December, hinting that producer price deflation may soon come to an end.
- Very encouraging is that the recovery in current business conditions and demand continues to filter through to factory employment trends – the seasonally adjusted **employment index** increased for the 4th consecutive month to 48.2 index points during December. In August 2009, the index was still below 40 points at 39.4.



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