

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.



March 2010

Executive Summary

The seasonally adjusted Kagiso PMI gave back some of February's strong gains in March, falling by 4.8 index points to 55.6. Despite the decline, the PMI averaged 56.5 during 2010Q1 – the best reading since 2007Q2 and up strongly from 50.1 in 2009Q4. The quarterly figures suggest that the manufacturing sector will again make a positive GDP contribution in the first quarter of 2010.

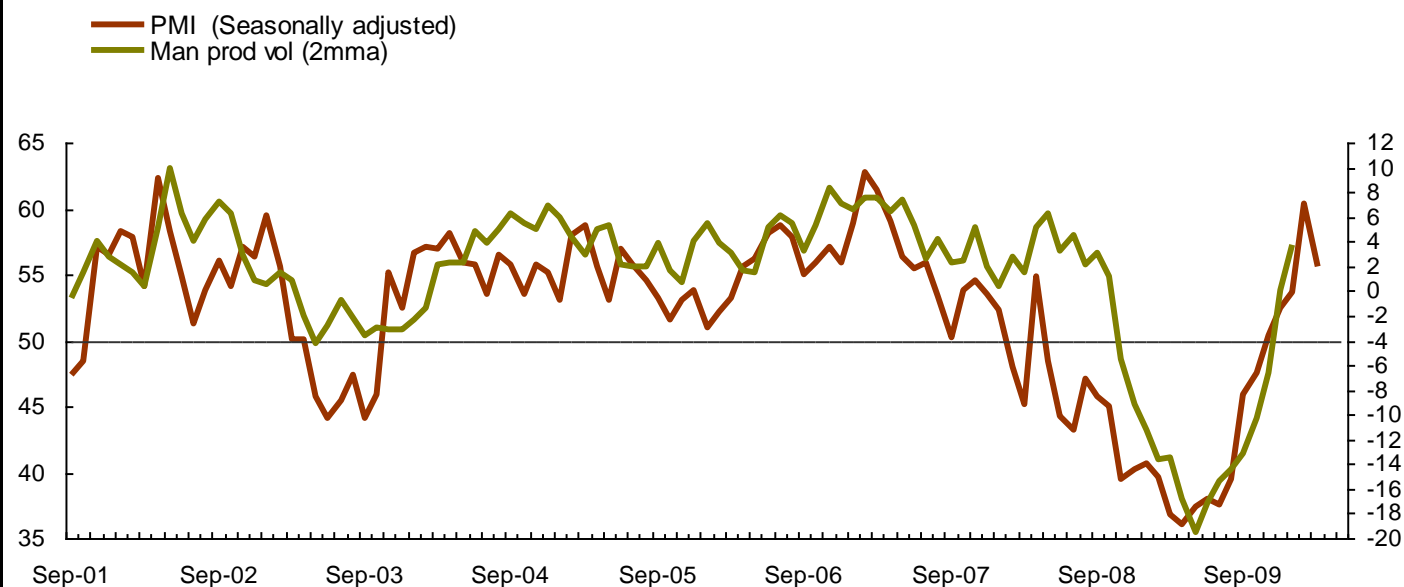
The March decline was mainly as a result of the **new sales orders** index, which reversed February's 13.2 points surge and declined by 13.8 points. Even after the big fall, the March reading (54.8) is in line with the long-term average of 54.6. At this stage, we interpret the sharp fall as a normalization to a more sustainable level for the index rather than indicating the possible start of a more worrisome trend.

On a more positive note, the PMI **employment index** posted a further marginal gain to 53.2 index points. March was the third consecutive month of above 50 readings, indicating that the factory sector may be increasing its workforce.

Purchasing managers remained very optimistic about future prospects with the **expected business conditions** index above 70 points (73.2 in March) for the third month in a row. One has to go back to 2004Q2 to find expectations at such a high level for more than two consecutive months.

André Coetzee, Kagiso Securities

Kagiso Purchasing Managers Index



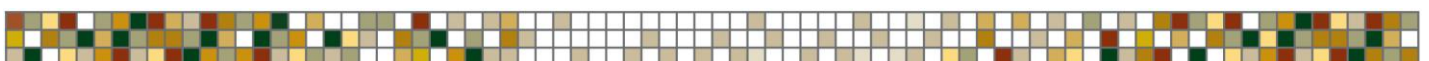
Kagiso PMI down in March, but definitely not out

- The seasonally adjusted Kagiso PMI gave back some of February's strong gains in March, falling by 4.8 index points to 55.6. Despite the decline, the PMI averaged 56.5 during 2010Q1 – the best reading since 2007Q2 and up strongly from 50.1 in 2009Q4. The quarterly figures suggest that the manufacturing sector will again make a positive GDP contribution in the first quarter of 2010.
- The March decline was mainly as a result of the **new sales orders** index, which reversed February's 13.2 points surge and declined by 13.8 points. Even after the big fall, the March reading (54.8) is in line with the long-term average of 54.6. At this stage, we interpret the sharp fall as a normalization to a more sustainable level for the index rather than indicating the possible start of a more worrisome trend. Having said that, the **PMI leading indicator** (new sales orders minus inventories) reversed sharply in March to -2 from +9.9 during February. The indicator can be volatile on a monthly basis so not too much should be read into a single month's movement, but it is a measure worth keeping an eye on in the upcoming months.
- The leading indicator is in contrast to purchasing managers' own expectations regarding future prospects. The **expected business conditions** index remained above 70 (73.2 in March) for the third month in a row. One has to go back to 2004Q2 to find expectations at such a high level for more than two consecutive months.
- The **business activity** index declined by 5.3 points to a still elevated 59.9 during March. The long-term average for the index is 53.6 – despite the fall, the March reading remains well above the historical norm. This implies, at least for the foreseeable future, that actual factory output will remain on a recovery path. The official manufacturing output data is only available up to January 2010.

Kagiso Purchasing Managers Index: Results for March 2010

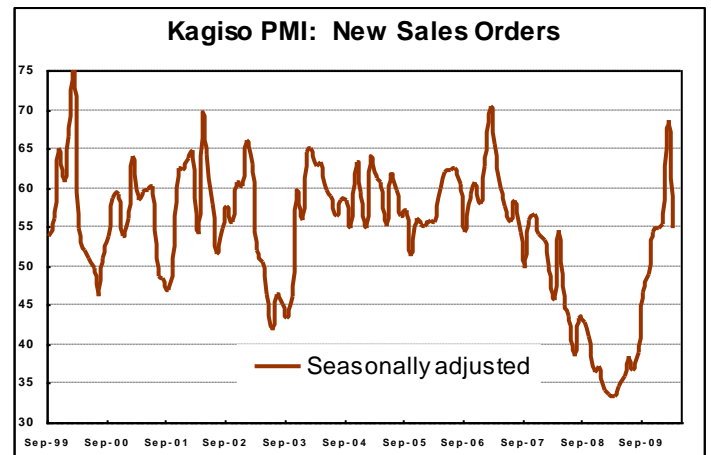
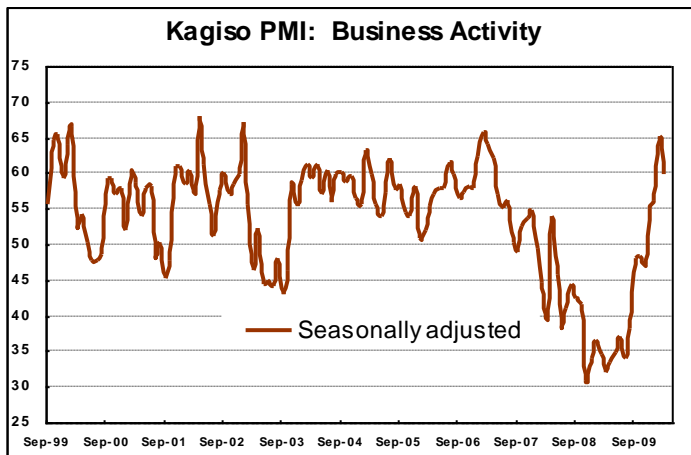
	2009				2010		
	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Business activity*	48.0	48.4	47.3	55.1	56.2	65.2	59.9
New sales orders*	46.6	48.9	54.4	54.7	55.4	68.6	54.8
Backlog of sales orders	34.4	41.6	45.3	44.0	29.9	41.1	38.9
Inventories*	45.5	42.9	48.4	55.6	51.8	58.7	56.8
Purchasing commitments	44.3	50.0	50.9	49.5	48.3	51.5	47.0
Expected business conditions	70.3	67.9	65.0	69.5	73.3	74.0	73.2
Suppliers' performance*	46.7	50.0	53.4	47.6	49.2	48.1	52.4
Prices	48.1	47.6	49.1	55.0	52.8	61.9	61.6
Employment*	42.0	45.0	46.6	48.2	51.9	52.1	53.2
PMI (not seasonally adj.)	50.6	53.0	55.2	55.2	46.2	55.5	53.4
PMI (seasonally adjusted)	45.9	47.6	50.3	52.5	53.6	60.4	55.6

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



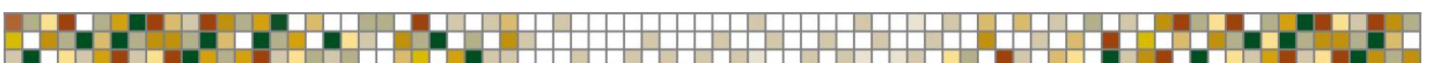
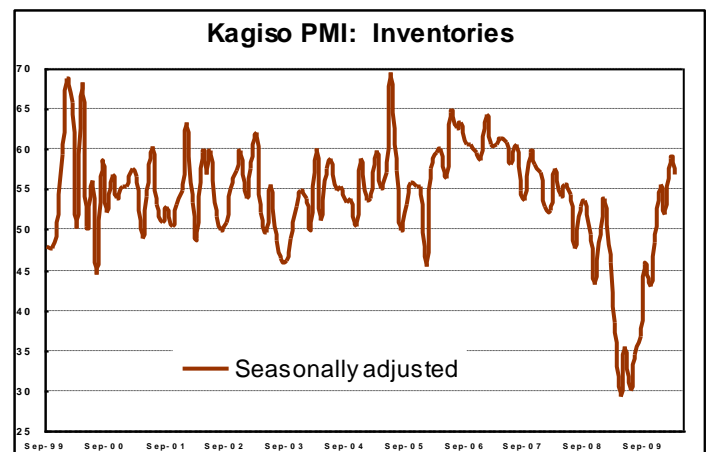
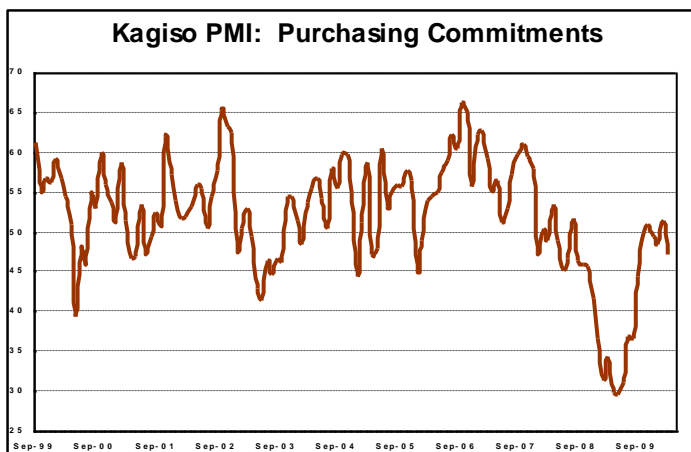
Demand for factory goods consolidates

- The **new sales orders** index reversed February's 13.2 points surge and declined by 13.8 points. Even after the big fall, the March reading (54.8) is in line with the long-term average of 54.6. Furthermore, the March Quarterly Bulletin showed that consumer spending growth returned during 2009Q4 (measuring 1.4% q/q, annualized) following five quarters of decline. Boosted by last week's 50bps interest rate reduction, the consumer spending recovery should continue through 2010, increasing the demand for manufactured goods.
- The **business activity** index declined by 5.3 points to a still elevated 59.9 during March. The long-term average for the index is 53.6 – despite the fall, the March reading remains well above the historical norm and suggests that actual manufacturing production continued to rebound in February and March 2010. The official manufacturing output data is only available up to January 2010.



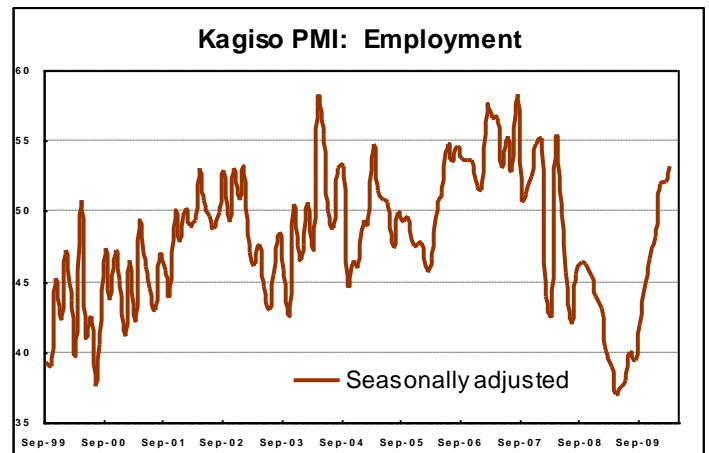
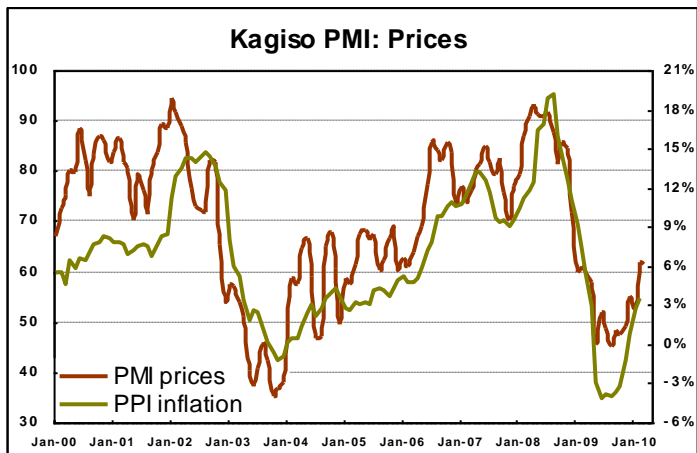
Inventories and purchasing commitments ease

- The inventory index posted a marginal decline, but at 56.8 remained well above the 50 level, indicating that purchasing managers continue to purchase stock in anticipation of a continued demand recovery. Purchasing commitments, which have fluctuated around the 50 level since October 2009, declined below the neutral level to 47 points in March.



Input costs stabilize; positive employment trends

- After a strong increase in February, the PMI **price index** stabilized at an elevated level of 61.6 during March. Judged by the level of the index, a further acceleration for Stats SA's producer price index should be expected in coming months.
- Perhaps the most welcome developments of the March PMI data is the further (albeit marginal) improvement in the seasonally adjusted **employment index** to 53.2 index points. The index averaged 52.4 in 2010Q1, which was the first time since the final quarter of 2007 that the employment measure expanded for three months in a row.



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