**Executive Summary**

The seasonally adjusted Kagiso Purchasing Managers’ Index (PMI) increased by 1.2 points to 50.5 in April, to move back above the key 50 point mark. The index declined to 49.3 points in March, following the robust gains achieved in February. The two largest weighted subcomponents of the PMI, i.e. business activity and new sales orders, mainly accounted for the headline PMI improvement in April.

The **business activity** index regained all of the ground lost in March to reach 52.2 in April. While the improvement is a positive sign, the level of the index at just above 50 continues to suggest that manufacturing output remains under pressure. The **new sales orders** index increased marginally by 1.7 points to 53.7 in April, indicating that demand for manufactured goods improved somewhat.

Meanwhile, the **employment index** continued its downward trend, declining to 42.1 points from 42.6 in March. The index is now at the lowest level since July 2011. On a more positive note, the **price index** declined by 9.3 index points to 78.0. This fall may possibly be due to the lower oil prices in April. However, the relatively high index level still indicates that purchasing managers face input cost pressure.

The index measuring **expected business conditions** in six months’ time increased by 4.3 points to 51.3. The improved sentiment was supported by the **PMI leading indicator**, which moved above 1 to 1.1.
PMI suggests improving but tough operating environment

- The seasonally adjusted Kagiso PMI increased by 1.2 points to 50.5, to move back above the key 50 mark in April. The index declined to 49.3 points in March, following the robust gains achieved in February.

- The domestic PMI bucked the downward trend of SA’s key trading partners. The April Flash PMI for the Eurozone reached a four-month low of 46.5, down from 46.8 in March. Furthermore, the Flash China HSBC PMI reached a new two-month low of 50.5 in April.

- The two largest weighted subcomponents of the PMI, i.e. business activity and new sales orders, mainly accounted for the improved headline PMI in April. Following a major pullback in March, the business activity index showed a welcome rebound, gaining 4.5 index points to 52.2 in April. While the improvement is a positive sign, the level of the index continued to suggest that manufacturing output remains under pressure. The new sales orders index increased marginally by 1.7 points to 53.7 in April, indicating that the demand for manufactured goods improved somewhat.

- The inventory index declined sharply by 8.6 points to 47.0 in April, the lowest level since October 2009. This indicates that manufacturers were destocking, likely driven by caution in the face of uncertain economic conditions in especially the EU and China. The employment index continued its downward trend, and at 42.1 points is now at the lowest level since July 2011.

- On a more positive note, the price index declined by 9.3 index points to 78. This is possibly due to lower oil prices in April. The decline was preceded by eight consecutive monthly increases. The relatively high index level still indicates that manufacturers face significant input cost pressure.

- While the PMI results for April have shown that conditions only improved marginally (i.e. still a challenging environment), the outlook for the sector looks relatively more positive. Following a decline in March, the index measuring expected business conditions in six months’ time increased by 4.3 points to 51.3 April. The PMI leading indicator, which expresses new sales orders as a ratio of inventories, moved above 1 to 1.1. A level above 1 suggests that inventory levels are low relative to demand and usually bodes well for future manufacturing production. However, the operating environment remains challenging with muted demand and relatively high input prices.

**Kagiso Purchasing Managers Index: Results for April 2013**

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<thead>
<tr>
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<th>2012</th>
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<tbody>
<tr>
<td></td>
<td>Oct</td>
<td>Nov</td>
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<tr>
<td>Business activity*</td>
<td>43.2</td>
<td>45.9</td>
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<tr>
<td>New sales orders*</td>
<td>45.3</td>
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<td>Backlog of sales orders</td>
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<td>Inventories*</td>
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<td>Purchasing commitments</td>
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<td>Expected business conditions</td>
<td>57.1</td>
<td>52.4</td>
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<tr>
<td>Suppliers’ performance*</td>
<td>52.3</td>
<td>56.5</td>
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<tr>
<td>Prices</td>
<td>77.1</td>
<td>79.5</td>
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<tr>
<td>Employment*</td>
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<td>52.0</td>
</tr>
<tr>
<td>PMI (not seasonally adj.)</td>
<td>52.1</td>
<td>55.4</td>
</tr>
<tr>
<td>PMI (seasonally adjusted)</td>
<td>47.1</td>
<td>49.5</td>
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*These series have been seasonally adjusted using Census X12.*
Output and demand post gains but remain soft

- The **business activity index** regained all of the ground lost in March and increased by 4.5 index points to 52.2 in April. While the improvement is a positive sign, the level of the index at just above the 50 mark continues to suggest that manufacturing output remains under some pressure.

- The **new sales orders index** increased marginally by 1.7 points to 53.7 in April, indicating that the demand for manufactured goods improved somewhat.

Inventories continue to decline; purchasing commitments lower

- The **inventory index** declined by 8.6 points to 47 in April, the lowest level since October 2009. This indicates that manufacturers were destocking, likely driven by caution in the face of uncertain economic conditions especially in the EU and China.

- Purchasing commitments declined by 5 index points to reach 48.
Input costs moderate as factory employment continues to worsen

- The price index declined by 9.3 index points to 78 in April. Purchasing managers may have benefited from the lower Brent crude oil price, which declined to an average price of $103/bbl in April from $110 in March. The local currency held its ground in April, averaging R9.13/$ compared to R9.15 in March. While the price index declined notably in April, the relatively high level still indicates that manufacturers face input cost pressures. This index decline was preceded by eight consecutive monthly increases.

- The upward price pressures faced by manufacturers are mainly as a result of higher fuel (transport), electricity and labour costs.

- The employment index continued its downward trend, and at 42.1 points is at the lowest level since July 2011. This may suggest that manufacturers remained reluctant to increase production capacity until there are notable and sustained demand side improvements.

For further information:  
Abdul Davids, Head of research: Kagiso Asset Management  
Tel: (021) 673 6321  
Mobile: 083 357 5229

Andre Coetzee, CIPS Africa  
Tel: (012) 345 6177  
Mobile: 082 335 8395

Hugo Pienaar / Muhammad Paruk, Bureau for Economic Research  
Tel: (021) 887 2810  
Mobile: 083 387 1150

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