

# Purchasing managers' index reaches 49.5 in October

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The seasonally adjusted Kagiso Tiso Holdings purchasing managers index (PMI) added 2.4 index points in November to 49.5 from 47.1 in October.

The PMI is a key leading indicator for activity in the manufacturing sector and is conducted on a monthly basis by the Bureau for Economic Research (BER) and the Chartered Institute of Purchasing and Supply.

An index level of below 50 represents contraction in the manufacturing sector, while a reading of more than 50 signifies expansion in activity.

The BER noted that while the PMI improved last month, it remained in contraction for the third consecutive month.

The reading of 49.5 places the average PMI reading for the first two months of the fourth quarter at 48.3, lower than the average level of 50.1 recorded in the third quarter.

Kagiso Asset Management head of research Abdul Davids said the weak PMI data was in line with the trends currently at play in some of SA's key trading partners.

"PMI readings in the eurozone, the leading foreign market for our locally-produced goods, remains in contraction," he said. "China, however, is showing some improvement as its November PMI reading rose to a 13-month peak of 50.4. In addition, the declining trend in the average PMI suggests that the manufacturing sector's contribution to fourth quarter GDP could be lower than the third quarter."

The business activity index of the PMI gained 2.7 points to reach 45.9. Davids pointed out that while this was an improvement, the level of the index continued to suggest that output remained under pressure.

"Similarly, while new sales orders rose by 2.4 points, its level of 47.7 points to persistently weak demand," he said.

Input costs continued to accelerate, with the price index recording its fourth consecutive increase to 79.5, the highest level since January this year.

"The rise in costs over the last few months is largely due to the weaker rand, which averaged R8.78 to the US dollar in November compared with R8.65 in October," said Davids.

Following gains in September and October, the expected business conditions index declined by nearly five points.

The PMI leading indicator remained below one, indicating that supply continues to outstrip demand.

On a more positive note, the employment index broke through the 50-point mark to reach 52, its highest level this year.

Davids cautioned, however, against reading too much into the figure as recent research showed that executives in the manufacturing sector were pessimistic about employment trends and expected a further deterioration in the job market during the first quarter of 2013.

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