Kagiso January PMI unchanged at 49.9 points

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3 Feb 2014

Trading conditions in the manufacturing sector remain challenging, with the seasonally adjusted Kagiso purchasing managers index (PMI) starting the year unchanged at 49.9 points.

The PMI has remained unchanged in February although manufacturers are still quite optimistic about conditions for the rest of the year. Image: Ratch0013 Free Digital Photos

The January PMI was under pressure, with both the business activity and new sales orders indices weakening as demand remained subdued.

The business activity index fell for the second consecutive month to reach 48 - its lowest level since March last year.

Kagiso Asset Management's head of research, Abdul Davids, said business activity at such a low level was not conducive to manufacturing production growth in the first quarter of 2014.

In contrast, the eurozone's manufacturing sector was in much better shape than expected. The preliminary PMI reading showed that underlying demand for manufactured goods in the eurozone was at its strongest level in nearly three years, lifting the headline index to a 32-month high of 53.9 points.

Sales orders

The deterioration in the business activity and new sales orders indices was balanced by a more pronounced improvement in employment and inventories. After declining by five points in December, the employment index rose to 50.7 points in January. The index has been hovering around the 50-point mark for a few months. Davids said this could signal a stabilisation in labour demand after continued job shedding following the 2008-09 recession.

The price index rose from 80.1 in December to 89.3 in January - its highest level since mid-2008. "This sharp increase is likely because the weaker rand is elevating the costs of imported input goods," said Davids. "Increased input prices will place pressure on manufacturers' profitability levels and will also filter through to higher prices for consumers," he added.

The inventories index rose from 46 points to 53.9 in January. The rebound in inventory levels without an accompanying improvement in new sales orders does not generally bode well for production. However, Davids said manufacturers could have stocked up in anticipation of further price increases.

Despite tough conditions, manufacturers were still optimistic as the index measuring expected business conditions in six months' time rose by 3.5 points to 61.4.

"Given that local demand is likely to remain relatively weak, manufacturers may be expecting a boost to exports because of improved demand from the eurozone and a possible competitive edge from the weak rand," said Davids. However, he cautioned that the combination of higher inventory levels and weaker orders did not bode well for future production.