Manufacturing to boost GDP on resurgent PMI

Although most economists are downgrading their 2012 SA gross domestic product (GDP) forecasts, a resurgent seasonally adjusted Kagiso Purchasing Managers' Index (PMI) in January could mean a revising of forecasts upwards in coming months as production finally catches up with strong consumer demand.

South African Reserve Bank

In the first nine months of 2011, the South African Reserve Bank reported that household consumption expenditure grew by 5.2% y/y compared with a 3.7% increase for all of 2010. Statistics SA said on January 18 that real retail sales grew by 5.7% year on year (y/y) in the first 11 months of 2011 compared with 5.1% for all of 2010, which includes demand from 2010 Soccer World Cup foreign fans. November sales were up 6.8% y/y and anecdotal reports show that there was a bumper Christmas shopping season.

One of the reasons for the 22.6% year-on-year (y/y) rise to a record R102.065 billion in SA government revenue in December 2011, was consumers were panicking that the rand would continue weaker in 2012 after it lost 20% of its value in the months after July 2011.

The rand weakened from a monthly average of 6.79 per US dollar in July to 8.16 in November. It is now trading at 7.86 per dollar.

Panic buying

The panic buying to beat potential price increases of imported goods resulted in Value Added Tax (VAT) collections soaring by 30.5% y/y to R18.2 billion. Import VAT jumped by 37.1% y/y to R9.4 billion, while customs duties on imports surged by 34.3% y/y to R3.1 billion.

The panic buying has led to a far better than expected increase in revenue as VAT collections were only expected to rise by 2.1% in the 2011/12 fiscal year compared with the 2010/11 fiscal year.

The resurgence in manufacturing is not isolated to SA as the global PMI compiled by JP Morgan rose to 51.2 in January from 50.5 in December.

David Hensley, JP Morgan's director of Global Economics Coordination, said: "The global PMI rose to a seven-month high at the start of 2012. The PMI shows that order growth has picked up while inventory growth has slowed - a positive combination. The underlying trend in output growth is still soft, although it will be flattered in the very near-term by the post-flood bounce in Thailand and the resulting restoration of global supply chains."

The latest organisation to lower its SA GDP forecast was Business Unity SA (BUSA) which cut their 2012 GDP growth forecast to 2.7% from 3.0% and that for 2013 to 3.3% from 3.8%.

PMI rebounds

The PMI, which is a measure of activity in the SA manufacturing sector with 50 the breakeven level, rebounded to 53.2 in January after slipping to 49.4 in December from 51.6 in November. This was well above what economists expected.

Abdul Davids, the head of Research at Kagiso Asset Management, said "the January reading of 53.2 is substantially above the consensus expectation of 50.2 and also above most developed countries' flash readings for January."

The SA PMI increase was largely the result of the seasonally adjusted new sales orders index, which jumped to a seven-month peak of 57.3 in January from 48.3 in December and 51.2 in November.

The seasonally adjusted business activity index recovered to 53.6 in January from 49.7 in December and 52.3 in November and only 38.3 in July, when the manufacturing sector was hurt by strike action.

The inventory index declined by 0.7 points to 50.2 and failed to keep pace with new sales orders. As a result, the PMI leading indicator (new sales orders expressed as a ratio of inventories) rose back above 1, which suggests that the level of inventories is currently low relative to the demand for manufactured goods.

Most manufacturing sub-divisions in positive territory

Barclays Capital said in its reaction to the November manufacturing data that seven of the 10 manufacturing sub-divisions in November tracked by Stats SA were in positive growth territory, while the remaining three (textiles, clothing and footwear; motor vehicles, parts and accessories; and furniture and other manufacturing divisions) remained in negative territory.

Momentum growth in production on a quarterly seasonally adjusted and annualised growth basis has remained positive at 8.1%. Barclays cautioned, however, that monthly growth will have needed to sustain in December in order for SA's manufacturing sector to be able to contribute meaningfully to the fourth quarter 2011 gross domestic product (GDP) growth after two consecutive quarters of contraction.

Barclays said on Wednesday that "all-in-all we are encouraged by the impressive bounce back in the January PMI, but note that is likely as a result of improved sentiment after some more positive global macro indicators of late rather than a sudden turnaround in the sector's performance. Indeed the significant risks and headwinds to this sector's outlook (predominantly because of the still significant challenges which the global economy continues to face) have not disappeared and therefore, we remain cautious in reading too much into one month's print."

January data 'welcome'

Kevin Lings from Stanlib said "the January data is a welcome respite after six months of disappointing PMI data - the PMI data has, in general, been weak since July 2011, dropping below the key 50 index level on a number of occasions. It is particularly encouraging to see that the key forward looking component of the PMI index (namely New Sales Orders), jumped by a massive 9.0 index points to 57.3. This follows a decline of 3.0 index points in December 2011. It will be crucial to see if this type of improvement is sustained, given the volatility of the manufacturing data, more than one month's improvement in the index is required in order to raise expectations.

Standard Bank said "today's data bodes well for the manufacturing sector which is technically in recession after falling by

1.9% quarter-on-quarter seasonally-adjusted annualised rate in the third quarter after a 8.8% decline in the second quarter. The data shows that the manufacturing sector may have started 2012 on a positive note. If sustained, manufacturing production may contribute positively to first quarter 2012 GDP after being in recession in H2:11.

Standard Bank noted that the SA data was consistent with the unexpected rebound in the PMI of its trading partners such as China, US and the UK.