

# Stanbic Bank Kenya PMI™

compiled by markit

## PMI declines to record low in February

### Key findings:

- PMI falls to record low to signal broadly stagnant business conditions
- Output declines for first time since survey began in January 2014
- Employment growth eases to marginal pace

Latest survey data signalled broadly stagnant business conditions across Kenya's private sector economy with the PMI posting its lowest reading since the inception of the series in January 2014. Weighing on the headline index was a fall in output albeit marginal while growth in new orders eased to the second-weakest in the series history. Employment meanwhile increased only fractionally, which contributed to a further rise in backlogs of work. Firms raised their input buying at a modest pace to cater for an increased volume of new orders. Output charges rose only slightly, to reflect efforts at some firms to stimulate demand despite a further increase in input costs.

The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

At 50.1 in February, down from 52.0 in January, the seasonally adjusted PMI signalled broadly stagnant business conditions. Notably, the index reading was the lowest seen over 38 months of data collection.

The fall in the PMI index was partly driven by reduced output, which declined for the first time since the inception of the survey in January 2014, albeit only marginally. Fewer than expected sales and cash shortages among clients were cited as the key reasons behind lower output.

Moreover, data indicated that growth of new business eased to a 17-month low, though marked overall. This was despite a stronger increase in new export business in February, which reportedly occurred due to increased international demand and expansion into new export markets.

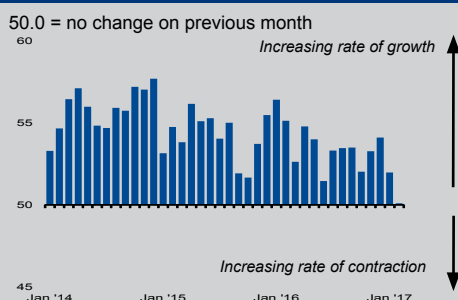
With growth of new business outstripping that for output, backlogs of work continued to rise markedly. Panellists commented that cash flow difficulties had also contributed to greater amounts of unfinished work. At the same time, employment rose at the joint-weakest rate on record in February, rising only slightly overall.

In line with the trend for new business, growth of buying activity eased in February and was the slowest seen in 16 months. As a result, stocks of purchases rose at a rate that, though solid, was the weakest since June 2016.

On the prices front, output charge inflation eased to a four-month low as firms' abilities to pass on higher input costs to clients were restricted due to efforts to stimulate customer demand. Greater market prices for raw materials were reported to have driven input costs higher, while staff costs also rose in February.

Finally, delivery times continued to improve sharply amid reports of increased competition between suppliers.

Stanbic Bank Kenya *Purchasing Managers' Index™ (PMI™)*



Purchasing Managers' Index

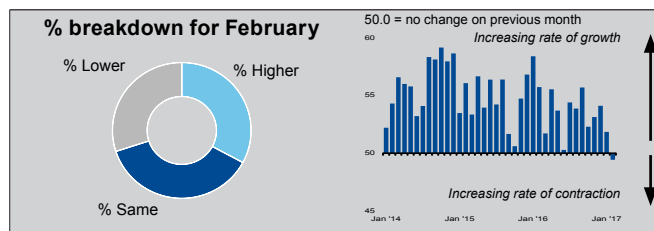
		Unadj.	Seas. Adj.
<b>2016</b>	Dec	57.6	54.1
<b>2017</b>	Jan	45.1	52.0
	Feb	51.8	50.1

The Stanbic Bank Kenya Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the Kenyan economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Stanbic Bank use the above marks under licence. IHS Markit is a registered trade mark of IHS Markit Group Limited.

## Output Index

Q. Please compare your production/output this month with the situation one month ago.

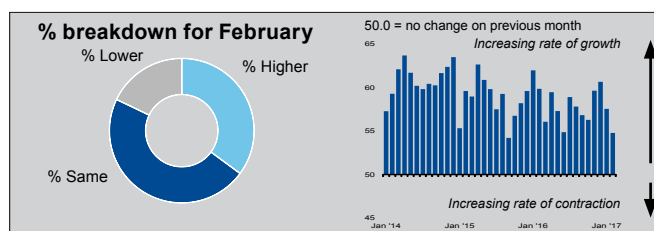
For the first time in the survey's 38-month history, the seasonally adjusted Output Index posted below the 50.0 neutral threshold to signal reduced Kenyan private sector output in February. That said, the rate of contraction was marginal overall. Some panellists linked lower output to fewer than expected new orders, while others reported weaker purchasing power among clients.



## New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

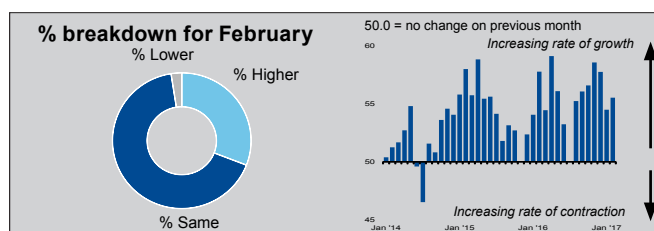
Continuing a trend that has been seen throughout the survey history, the level of new business received by Kenyan private sector firms increased during February. Although solid, the rate of expansion eased to its second-weakest since data collection began in January 2014 (behind September 2015). Anecdotal evidence indicated that new client wins and successful marketing strategies had lifted new business.



## New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

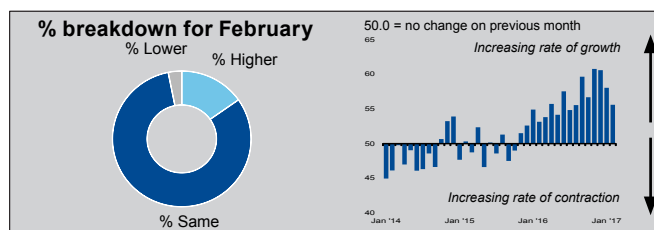
Latest data pointed to a seventh successive monthly rise in new export orders during February. The rate of expansion was marked overall, and stronger than that seen at the start of the year. Roughly 31% of panellists registered export sales growth, with a number of firms commenting on increased international demand and expansion into new export markets.



## Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

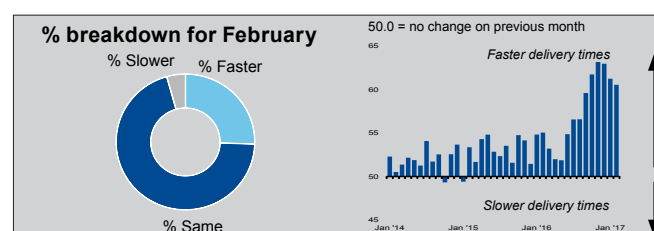
The level of unfinished work in Kenya's private sector increased for the sixteenth month running in February. The rate of accumulation eased to a six-month low, but remained steep overall. Higher new order book volumes and cash flow difficulties were reportedly the key factors behind the latest rise in work-in-hand (but not yet completed).



## Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

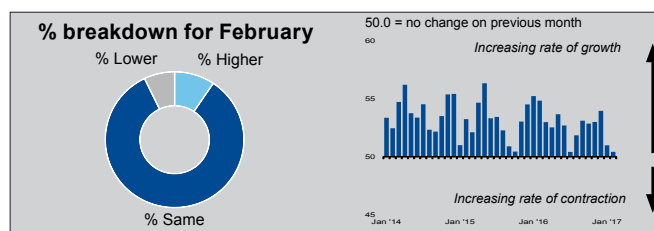
Average lead times for inputs shortened in February, as highlighted by the respective index posting above the neutral 50.0 threshold. The extent to which vendor performance improved remained sharp, with around one-in-four survey participants noting quicker delivery times. Where improvements were noted, respondents generally associated this with increased competition between suppliers.



### Employment Index

*Q. Please compare the level of employment at your unit with the situation one month ago.*

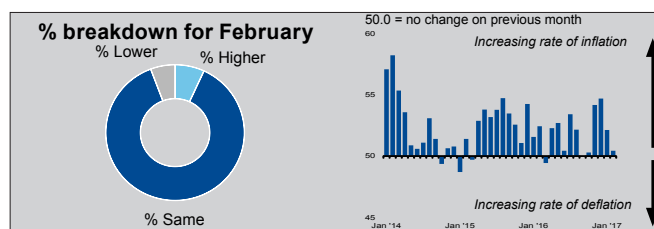
Kenyan private sector employment remained in growth territory during February. Job creation has been recorded continuously since the inception of the survey in January 2014, but the rate of growth in the latest survey period was the joint-slowest on record and marginal overall. Where hiring was evident, this was to facilitate planned business expansions and marketing activities.



### Output Prices Index

*Q. Please compare the average prices you charged this month with the situation one month ago.*

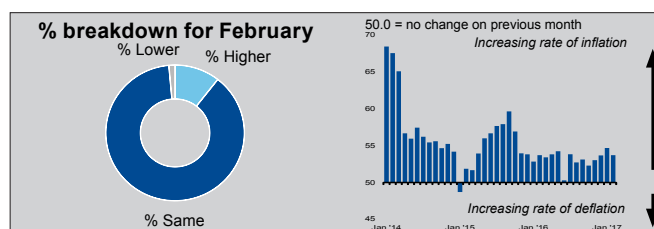
Following a modest rise in January, output prices rose only slightly during February. This was signalled by the seasonally adjusted Output Prices Index registering just above the crucial 50.0 threshold. Some firms that raised their charges suggested that this was due to rising input costs, whereas others offered discounts in an effort to attract new customers.



### Overall Input Prices Index

*Q. Please compare your overall average input prices this month with the situation one month ago.*

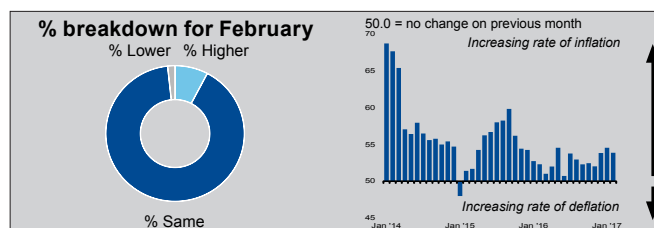
As has been the case for nearly two years, overall input prices increased during February. The rate of inflation softened from January's 15-month high, but was nonetheless solid. Underlying data signalled that upward cost pressures were driven by greater purchasing prices as well as higher staff costs in the latest period.



### Input Costs: Purchase Prices Index

*Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.*

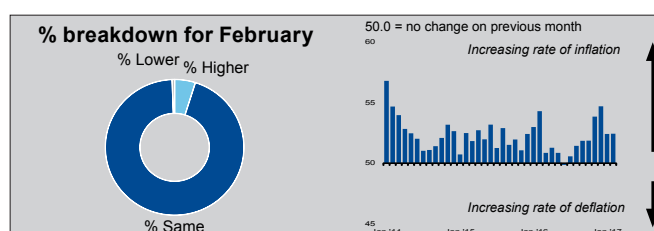
In line with the trend seen for overall input costs, average purchase prices rose for the twenty-fifth month in succession during February. Despite softening since the start of 2017, the rate of inflation was solid overall. Respondents generally linked greater costs to higher market prices for raw materials.



### Input Costs: Staff Costs Index

*Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.*

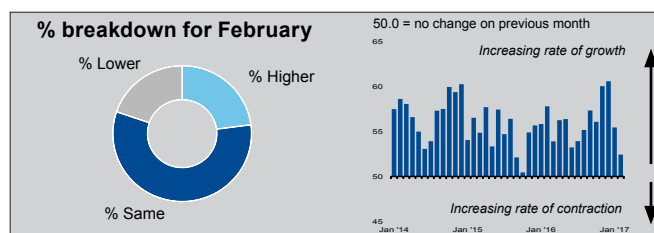
Staff costs continued to rise in February, stretching the current upward trend to eight months. The rate of wage inflation was unchanged from the previous month and modest overall. Where an increase in salaries was recorded, survey respondents commented on greater volumes of overtime payments and efforts to motivate staff.



## Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

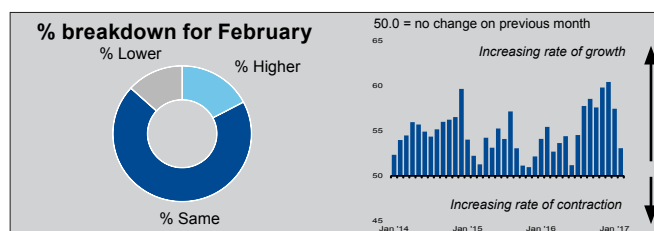
Sustained growth in purchasing activity was seen in February, as indicated by the respective index remaining above the no-change 50.0 value for the thirty-eight successive month. That said, the rate of accumulation eased to its weakest since October 2015 and was moderate. Where input buying rose, there were mentions of increased volumes of new orders.



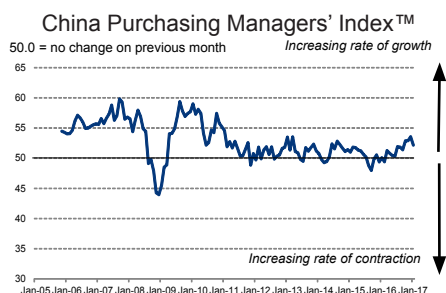
## Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

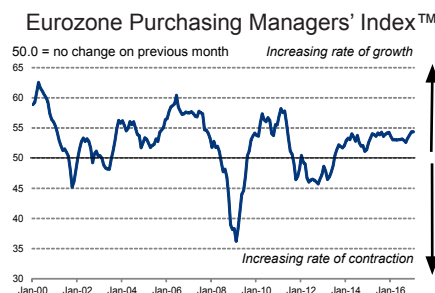
February data indicated a further expansion in inventories across the Kenyan private sector. Although solid overall, the rate of stock-building eased to the weakest in eight months and was slower than the long-run series average. A number of firms input stocks raised their inventories due to expectations of further improvements in client demand.



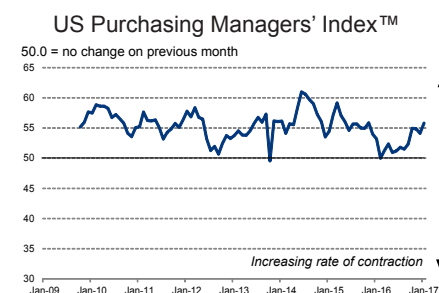
## International PMI summary



Sources: Caixin, IHS Markit



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled a slight softening of growth momentum across China at the start of 2017. At 52.2 in January, the Composite Output Index fell from December's 45-month high of 53.5 to indicate a moderate rate of expansion that was the slowest since September 2016.

The eurozone economy made a strong start to 2017, with output growth maintained at December's five-and-a-half year high and job creation accelerating to a near-nine year record. The Markit Eurozone PMI Composite Output Index posted 54.4 in January, unchanged from December. The headline index has signalled expansion in each of the past 43 months.

At 55.8 in January, up from 54.1 in December, the Markit U.S. Composite PMI™ Output Index signalled the strongest rise in private sector business activity since November 2015. This reflected positive contributions to growth from both the manufacturing and service sectors at the start of 2017.

## Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the Kenyan economy, including agriculture, mining, manufacturing, construction, retail and services. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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