

Stanbic Bank Kenya PMI™

compiled by markit

Kenyan private sector grows at faster pace in December

Key findings:

- New orders rise at fastest pace for 11 months
- Purchasing activity increases at sharpest rate in survey history
- Higher costs burdens continue to be passed on to clients

Private sector companies in Kenya noted another improvement in business conditions during December, thereby continuing a trend that has been evident since data collection began in January 2014. Supporting growth was another sharp rise in new orders, which, in turn, contributed to another expansion in business activity. With client demand picking up, companies raised their purchasing activity at a record pace, contributing the sharpest build-up of pre-production inventories since the survey's inception. Capacity pressures persisted despite a further round of job creation. Meanwhile, input cost inflation continued to be offset by higher selling prices.

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.

The seasonally adjusted PMI accelerated to 54.1 in December, up from November's reading of 53.3. The latest figure was the sharpest since April, but remained below the long-run average for the series (54.6).

Driving the improvement in sector growth was another marked rise in the level of new business placed with private sector companies in Kenya. Moreover, the latest expansion in new orders was the most marked since January.

The rise in total new orders was broad-based, as foreign

demand for Kenyan goods and services also increased in December. The rate of growth softened slightly from November, but remained marked in the context of the series.

Data showed that favourable demand conditions had encouraged firms to raise their output levels during December. Furthermore, the rate of growth accelerated from the previous month and was solid overall, albeit marginally more subdued than the long-run average.

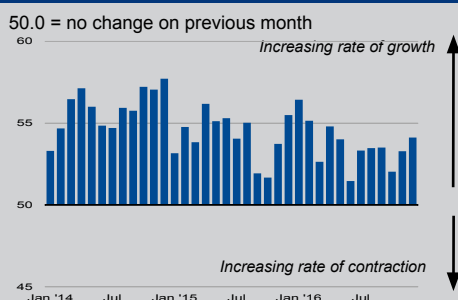
Higher output requirements contributed to the sharpest rise in purchasing activity in the survey's three-year history, which led to a record build-up of pre-production inventories.

Another result of higher workloads was a rise in headcounts. Moreover, the rate of job creation was the fastest in ten months. Nevertheless, backlogs continued to accumulate at a marked pace.

Meanwhile, companies were faced with a further rise in average input costs in December, with increases evident in both wages and purchase prices. Firms continued to pass higher cost burdens on to their clients by increasing their average selling prices.

Finally, average lead times on inputs shortened for the twenty-third consecutive month during December.

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



Purchasing Managers' Index

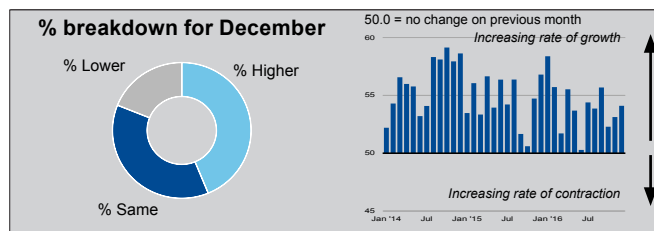
		Unadj.	Seas. Adj.
2016	Oct	52.2	52.0
	Nov	55.5	53.3
	Dec	57.6	54.1

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 trademarks of Markit Economics Limited or licensed to Markit Economics Limited. Stanbic Bank use the above marks under licence. IHS Markit is a registered trademark of IHS Markit Group Limited.

Output Index

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

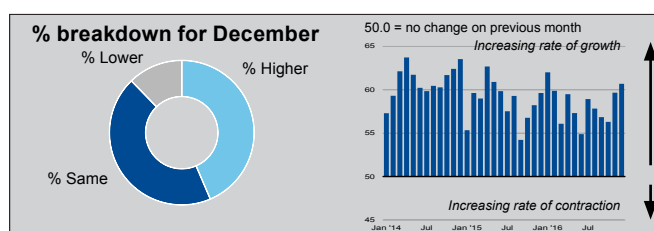
Kenyan private sector companies reported a rise in output during December, thereby continuing a trend that has been evident since data collection began in January 2014. Furthermore, the rate of growth accelerated from November and was solid overall. Anecdotal evidence suggested that a rise in client demand was the principal factor behind the expansion.



New Orders Index

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

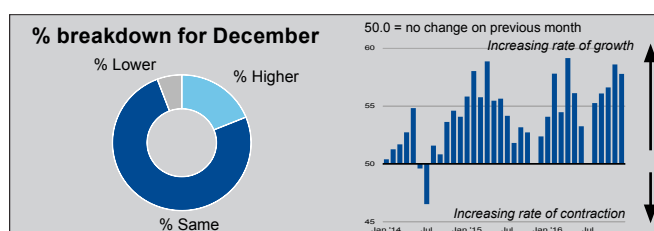
The seasonally adjusted New Orders Index posted above the neutral 50.0 threshold in December and signalled a further expansion in the amount of new business placed with private sector companies in Kenya. Moreover, the rate of growth was the most marked in 11 months. Where an increase was reported firms generally commented on a greater client base.



New Export Orders Index

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

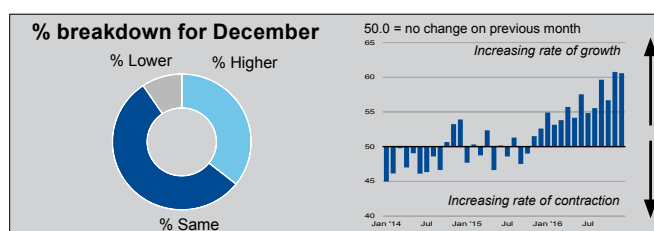
A further sharp rise in foreign demand reinforced growth in total new work during December. The rate of expansion remained marked, albeit slightly weaker than in the previous month. Approximately 19% of survey respondents registered a rise in exports orders compared to just 6% that recorded a decline.



Backlogs of Work Index

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

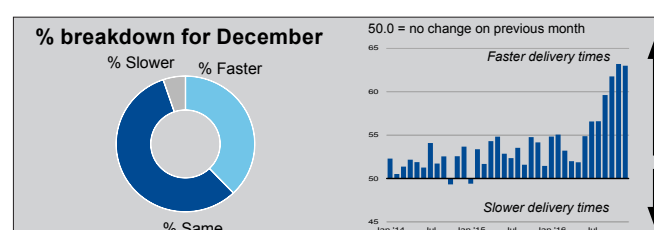
Indicative of the sharp increase in total new work, the volume of outstanding business in the Kenyan private sector rose in December. This was highlighted by the respective seasonally adjusted index posting above the 50.0 no-change benchmark. Furthermore, the rate of backlog accumulation remained marked, despite easing fractionally from November.



Suppliers' Delivery Times Index

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

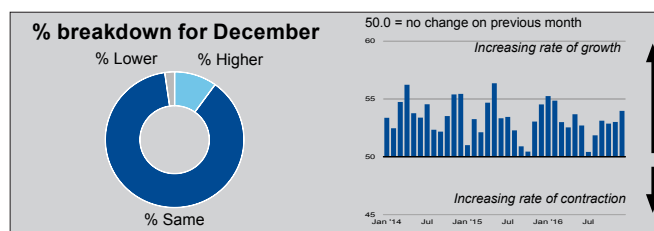
Average lead times shortened for the twenty-third consecutive month in December. Although easing fractionally from the previous month's series record, the rate of improvement in vendor performance remained marked overall. Anecdotal evidence suggested that delivery times lessened due to increased competition amongst suppliers.



Employment Index

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

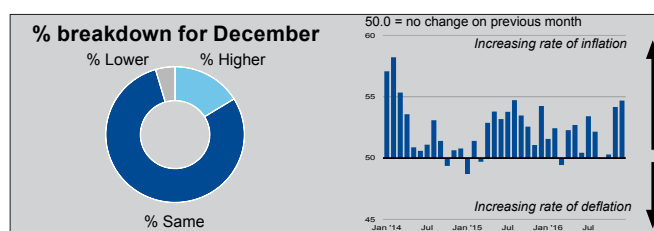
Reflective of pick-ups in output and new orders, Kenyan private sector companies hired additional staff at a faster pace during December. Moreover, the rate of job creation was the most marked since February. Where an increase was reported, panel members frequently commented on a rise in new work.



Output Prices Index

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

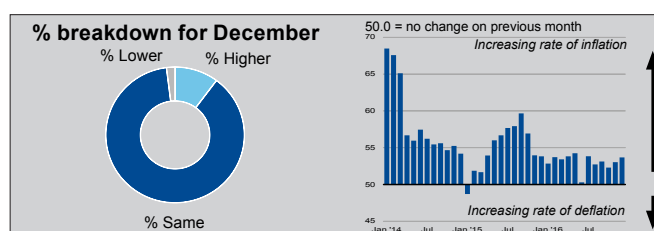
Prices charged by Kenyan private sector companies increased for the third consecutive month in December. Furthermore, the rate of charge inflation was the sharpest since August 2015. Where an increase was recorded, firms commented on a combination of higher client demand and greater input costs.



Overall Input Prices Index

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

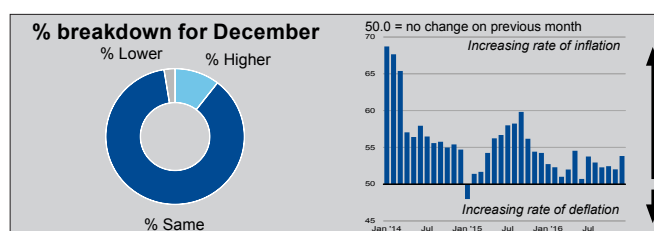
The seasonally adjusted Overall Input Prices Index posted above the 50.0 no-change benchmark in December, and signalled a twenty-third consecutive round of input price inflation. The latest rise was the sharpest in five months, but remained below the long-run average for the series. Both average salaries and purchase costs rose more quickly than in November.



Input Costs: Purchase Prices Index

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

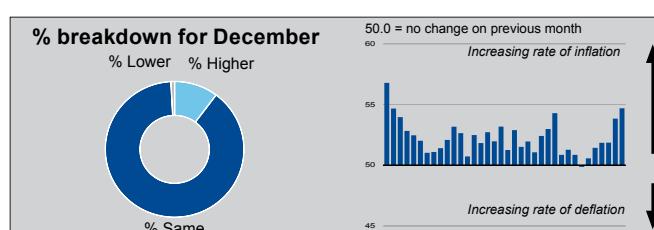
As has been the case since February 2015, average purchase costs faced by private sector companies in Kenya increased during December. Moreover, the rate of inflation was the sharpest in five months and solid overall. Anecdotal evidence suggested that higher fuel prices had exerted upward pressure on buying costs.



Input Costs: Staff Costs Index

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

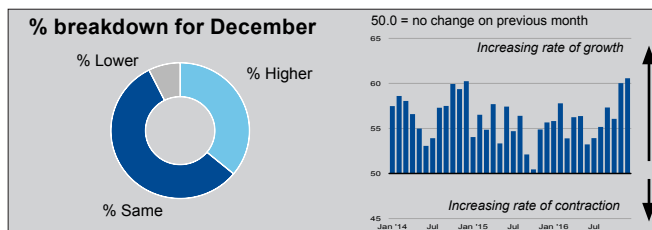
Average salaries rose for a sixth successive month during December. Moreover, the rate of wage inflation accelerated to the sharpest in this sequence and was the most marked since February 2014. Where an increase was reported, companies commented on a combination of a rise in new work and motivational incentives.



Quantity of Purchases Index

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

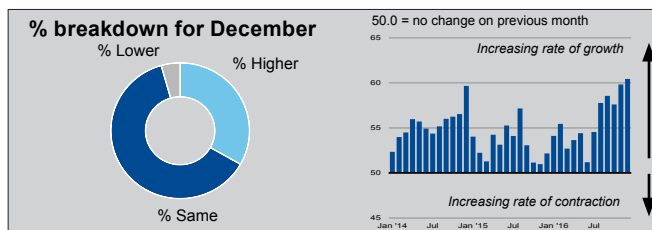
Growth in the Kenyan private sector was reflected by firms' purchases at the end of 2016. Input buying increased to the greatest extent since data collection began three years' ago, with exactly 36% of panellists reporting higher purchases compared to just 7% that signalled a decline. Firms widely attributed the rise to greater sales volumes.



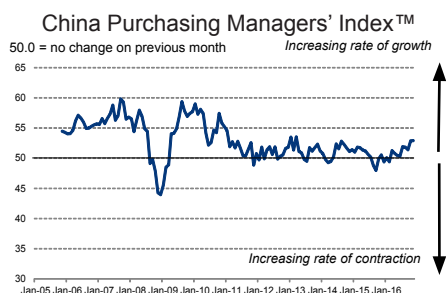
Stocks of Purchases Index

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

In line with the trend for buying activity, private sector firms in Kenya continued to build up their pre-production inventories in December. This was highlighted by the seasonally adjusted Stocks of Purchases Index posting above the all important neutral 50.0 threshold. Moreover, the rate of expansion signalled was the most marked in the series history so far.



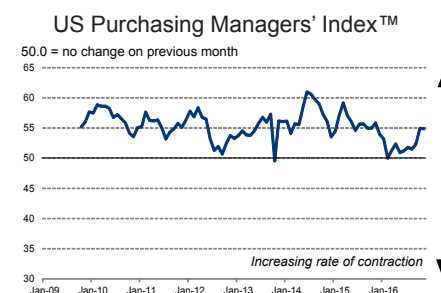
International PMI summary



Sources: Caixin, IHS Markit



Source: IHS Markit



Source: IHS Markit

Caixin China Composite PMI data (which covers both manufacturing and services) showed a further solid increase in Chinese business activity in November. The Composite Output Index was unchanged from October's 43-month record of 52.9.

The rate of eurozone economic expansion accelerated to its highest in the year to date during November. This was highlighted by the Markit Eurozone PMI Composite Output Index posting 53.9, the best reading since December 2015.

The seasonally adjusted Markit U.S. Services Business Activity Index registered 54.9 in November, to remain above the 50.0 no-change value for the ninth consecutive month. The reading was unchanged from October with the rate of growth remaining stronger than at any time in the first half of 2016.

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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