

CfC Stanbic Bank Kenya PMI™

compiled by markit

July PMI signals rebound in private sector growth

Key findings:

- **Headline index picks up from June's record low**
- **Output growth accelerates amid sharp rise in new business...**
- **...but employment nears stagnation**

Growth of Kenya's private sector economy picked up in July, as business conditions improved at a faster pace. June had seen the overall rate of expansion ease to a record low but the slowing trend was reversed in the latest period, helped by sharper rises in output and new work. Notably, new orders rose at a marked pace in spite of a stagnation in exports. Employment barely increased, however, suggesting that firms remain cautious about the sector's longer term outlook. Meanwhile, both input and output prices rose, though cost pressures remained relatively subdued.

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.

After having dropped to a survey-record low of 51.5 in June, the seasonally adjusted PMI signalled a rebound in growth during July. At 53.3, the latest reading pointed to a solid improvement in business conditions, albeit one that was weaker than the series trend (54.8).

Data showed that higher new work was the main driver of private sector expansion in July. New business rose at the quickest rate in three months, with panellists indicating that enhanced marketing strategies had helped them to take advantage of an improvement in underlying demand.

Growth of total new business was centred on the domestic market, however, as exports were unchanged in July. Some respondents suggested that they had been unable to raise production sufficiently to meet foreign demand.

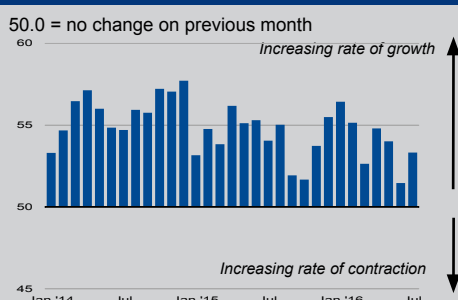
Output rose solidly in July, following a negligible expansion in the previous month. That said, the rate of increase was weaker than that seen for new work and below the series average.

Purchasing activity also increased, and at a faster pace. Anecdotal evidence highlighted new business gains as the key factor behind the rise. This enabled firms to build up their stocks of pre-production items. Some panellists attributed inventory building to expectations of future improvements in demand.

Job creation almost stalled in July, however. The rate of hiring eased to the weakest in 31 months of data collection so far. A lack of workforce growth coupled with sharply rising new orders led to a ninth successive accumulation of backlogs of work.

On the price front, both input costs and output charges rose more quickly than in June. The respective increases had neared stagnation at the end of the second quarter, but the latest rises were solid. According to respondents, costs rose on the back of high taxation and the strength of the US dollar, and this fed through to charges in a number of cases.

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



Purchasing Managers' Index

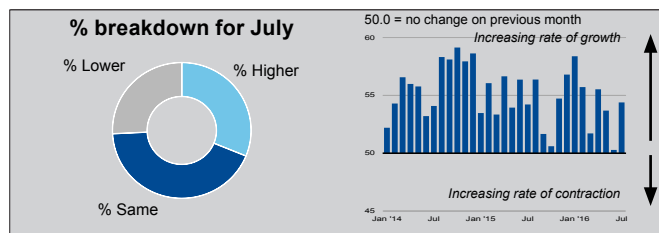
		Unadj.	Seas. Adj.
2016	May	54.1	54.0
	Jun	50.1	51.5
	Jul	53.1	53.3

The CfC 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. CfC 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.

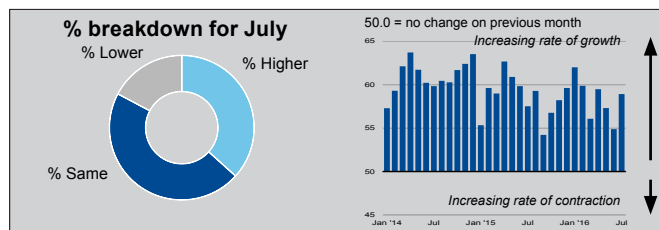
Kenyan private sector output growth rebounded from June's survey-record low at the start of the third quarter. The seasonally adjusted index pointed to a solid expansion of activity, after having signalled near-stagnation in the previous month. Higher output was widely attributed by panellists to an improvement in underlying demand.



New Orders Index

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

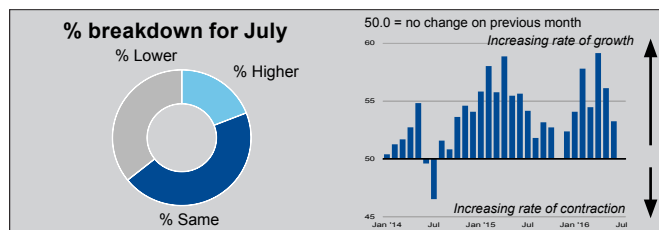
July data showed the expansion of new work in Kenya's private sector picking up speed, following a loss of momentum in the preceding two months. Prior slowdowns meant that growth had eased to a near-record low in June, but the latest rise was marked and only slightly weaker than the overall series average. A number of respondents commented on new client wins and enhanced marketing strategies.



New Export Orders Index

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

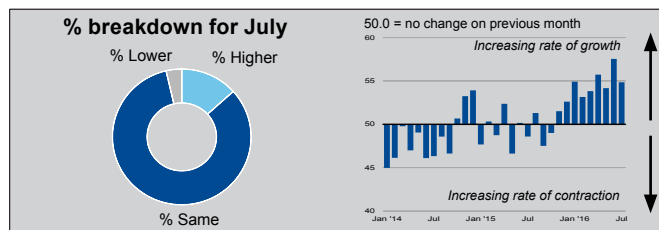
Contrasting with faster growth of total new business, new export orders stagnated in July. This was signalled by the seasonally adjusted index posting exactly at the 50.0 no-change value, thereby ending a seven-month period of expansion. Some companies reported new work inflows across export markets, but others indicated that they had been unable to raise production sufficiently to meet foreign demand.



Backlogs of Work Index

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

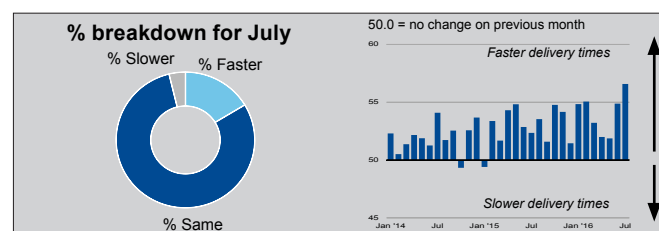
Volumes of outstanding business rose for the ninth month in a row during July. The rate of backlog accumulation was slower than in June, but still solid overall. Data highlighted pressure on capacity as the rate of new order growth outstripped that for output. Anecdotal evidence pointed to a similar trend, with some firms suggesting that subdued production had allowed backlogs to build up.



Suppliers' Delivery Times Index

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

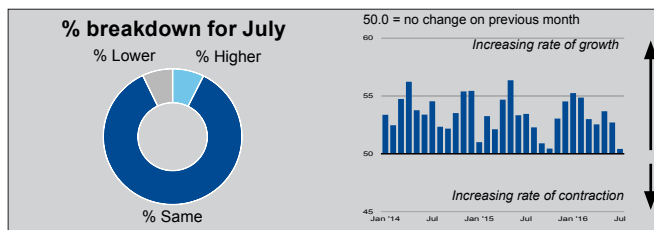
Average lead times shortened further in July, stretching the current sequence of improving vendor performance to one-and-a-half years. Moreover, the extent to which deliveries quickened was the strongest since the survey began in January 2014. According to panel members, intense competition among suppliers was the main reason behind shorter lead times.



Employment Index

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

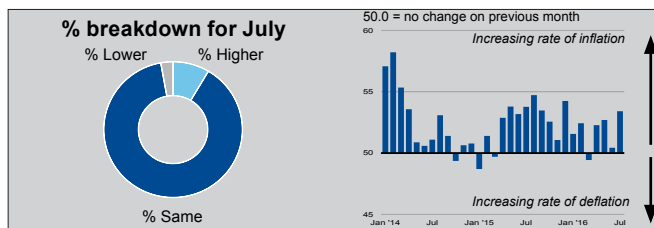
In spite of sharper expansions in output and new work, the rate of job creation eased to the weakest in 31 months of data collection so far during July. In fact, payroll numbers were broadly stagnant, with the majority of respondents (86%) seeing no change since June. Where hiring was evident, there were some reports of the opening of new branches.



Output Prices Index

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

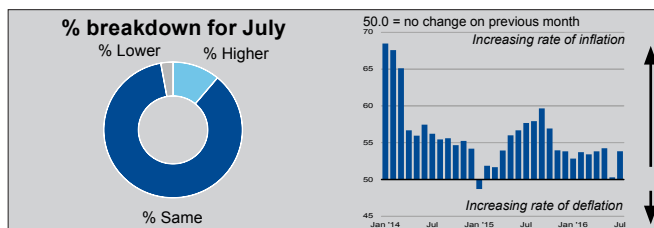
Prices charged by Kenyan private sector businesses rose to the greatest extent so far this year during July. In fact, the latest rise was the second-fastest in ten months. Panellists that raised their charges did so in response to higher input costs. On the other hand, some companies reduced selling prices in an effort to attract new clients.



Overall Input Prices Index

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

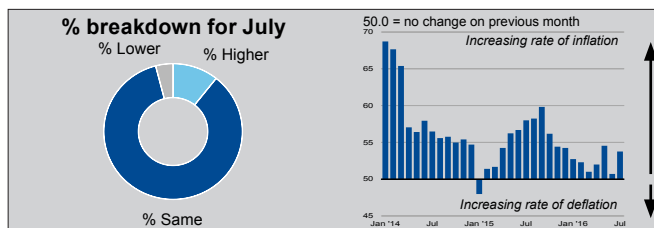
Total input costs rose solidly in July, following a fractional rise at the end of the second quarter. That said, cost pressures remained muted in the context of historical data, with more than 86% of the panel reporting stable prices compared to June. Both salaries and purchasing costs increased, with the former returning to growth and the latter rising at a robust pace.



Input Costs: Purchase Prices Index

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

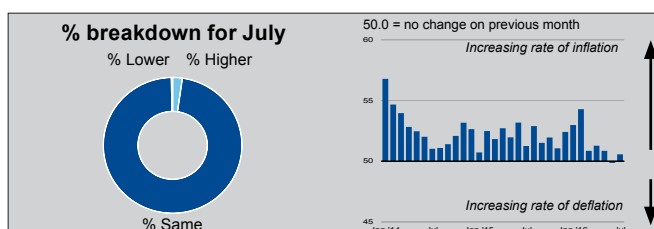
Kenyan private sector firms saw purchase prices increase for the eighteenth month in succession during July. The latest rise was faster than June's recent low but slower than the series average, mirroring the trend seen for overall input prices. A number of panellists commented on higher raw material costs, particularly fuel. High taxation and the strength of the US dollar were also mentioned as factors behind inflation.



Input Costs: Staff Costs Index

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

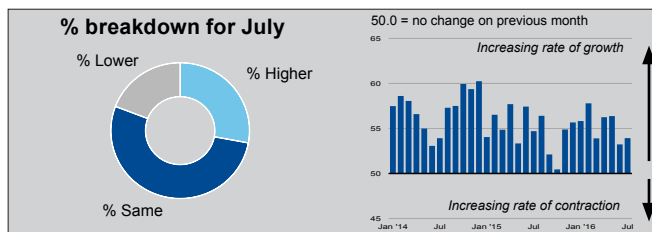
After having dropped below the 50.0 threshold for the first time in the survey's history during June, the seasonally adjusted Staff Costs Index signalled a renewed increase in salaries at the start of the third quarter. The rate at which average wages rose was only slight, however, with the overwhelming majority of respondents (98%) noting no change since the prior month.



Quantity of Purchases Index

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

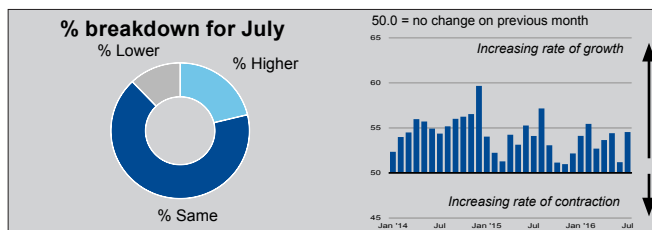
Reflective of a sharp rise in new business, purchasing activity increased at a faster pace in July. That said, the rate of growth picked up only slightly since June, when the respective index slipped to an eight-month low, and was below the survey average. Roughly 28% of monitored companies raised their input buying, versus 19% that saw a reduction.



Stocks of Purchases Index

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

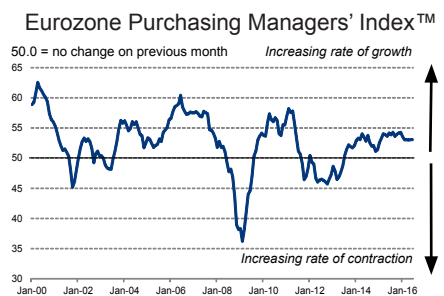
The seasonally adjusted Stocks of Purchases Index climbed to a five-month high in July, up from a near-record low seen in June. The latest reading pointed to a solid rate of inventory building at Kenyan private sector firms. Stocks were reportedly raised in line with expectations of future improvements in demand, as well as current sales.



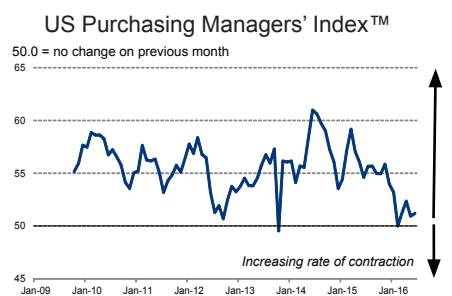
International PMI summary



Sources: Caixin, IHS Markit



Source: IHS Markit



Source: IHS Markit

Caixin China Composite PMI data (which covers both manufacturing and services) signalled increased total business activity across China at the end of the second quarter. That said, the Composite Output Index posted 50.3 in June, down from 50.5 in May, to signal a fractional rate of growth that was the weakest in four months.

June saw the growth rate of eurozone economic output hold steady at a moderate pace. The Markit Eurozone PMI Composite Output Index posted 53.1, unchanged from May. This left the average reading for the headline index for the second quarter a shade below that for the opening quarter (53.1 versus 53.2) and at its lowest level since the final quarter of 2014.

The seasonally adjusted Markit U.S. Composite PMI Output Index registered 51.2 in June, to signal a further marginal expansion of private sector output. The latest reading was up from 50.9 in May but still well below the post-crisis average. Marginal growth was recorded for both service sector activity and manufacturing production.

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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