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CfC Stanbic Bank
A member of Standard Bank Group

CfC Stanbic Bank Kenya PMI™

compiled by markit

PMI drops to survey-record low

Key findings:

- **Business conditions improve at weakest pace in series history**
- **Slower expansions in output, new business and employment**
- **Cost pressures hit 18-month high amid currency weakness**

Latest data indicated that Kenyan private sector growth stalled somewhat at the end of Q3. Business conditions improved only modestly in September, with the respective rates of expansion in output and new work easing to record lows. Employment also rose at the weakest pace in the series history, further restricting growth of the sector as a whole. Meanwhile, purchasing costs were affected by another depreciation of the Kenyan shilling against the US dollar.

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 dropped to a survey-record low of 51.9 in September. Down from 55.0 in August, the latest figure signalled only a modest improvement in business conditions at Kenyan private sector firms. As a result, the third quarter was the weakest on average (53.7) since the survey began at the beginning of last year.

Rates of expansion in output and new business were both the slowest on record in September, mirroring the overall trend signalled by the headline index. Activity rose only modestly, with data pointing to a sharp easing in new order growth. New business gains were reportedly undermined by a number of factors including currency weakness and teachers' strikes. Meanwhile, new export work increased at a faster pace, with panellists commenting on expansions into new foreign markets.

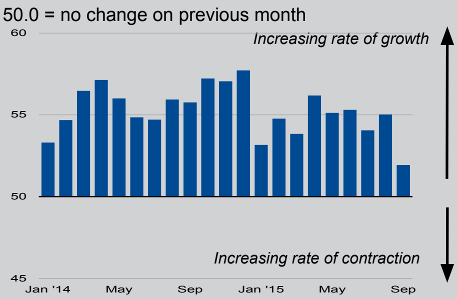
The slowdown of the Kenyan private sector as a whole was reinforced further by the weakest rise in employment in the series history. Payroll numbers increased only marginally in September, with the majority of respondents (83%) noting no change since August.

Similarly, input buying rose at the slowest pace since the survey began in January 2014. Anecdotal evidence generally linked changes in purchasing activity to the perceived strength of client demand. Subsequently, the rate of pre-production inventory building also eased, with reports of higher new work less frequent than in previous months.

A final by-product of slower new business growth was spare capacity at companies in Kenya. Backlogs of work fell solidly during the month.

On the price front, total input costs rose sharply in September. The latest increase was the most marked in a year-and-a-half, driven by a steep hike in purchase prices. Higher costs stemmed from the weakness of the shilling versus the dollar, and a number of firms were able to pass on these pressures by way of raising output charges.

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



Purchasing Managers' Index

		Unadj.	Seas. Adj.
2015	Jul	53.9	54.1
	Aug	55.8	55.0
	Sep	51.4	51.9

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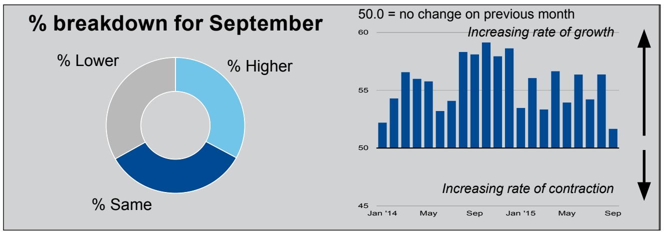
Output Index

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

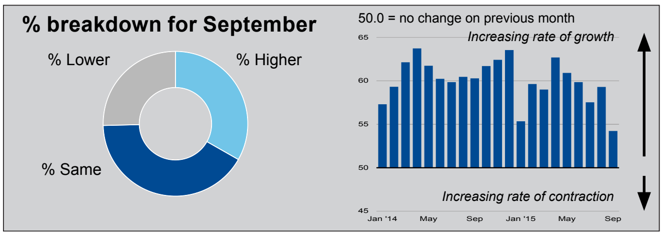
Growth of Kenyan private sector output eased to a survey-record low in September. The rate of expansion was only modest overall, and meant that the third quarter was the weakest on average since the survey began at the beginning of 2014. Some panellists raised production in response to stronger client demand, whereas others reported a lack of new work due to a number of factors including currency weakness and teachers' strikes.



New Orders Index

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

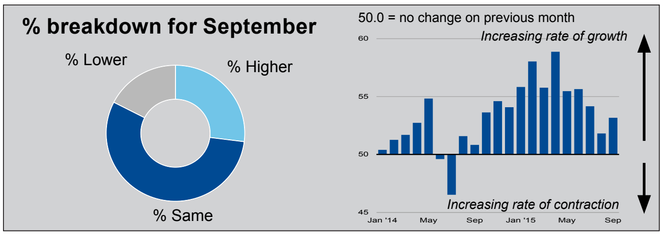
September data pointed to a slowdown in new order growth at Kenyan private sector firms, mirroring the trend observed for output. The respective index slipped to the lowest mark in the series history, but remained consistent with a solid rate of expansion. Roughly one-third of respondents noted higher new business, with enhanced marketing strategies cited as the main reason behind the rise.



New Export Orders Index

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

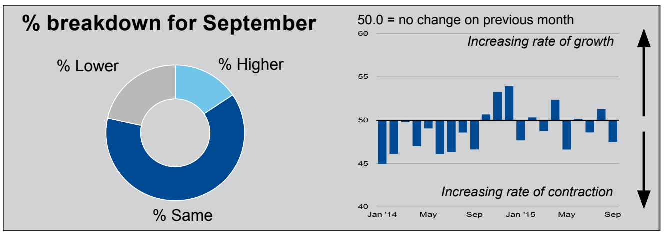
New export orders increased for the fourteenth consecutive month in September. The rate of growth accelerated since August, and was broadly in line with the average recorded over the survey's short history. Some firms suggested that they had expanded into new export markets, leading to a rise in new work from abroad.



Backlogs of Work Index

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

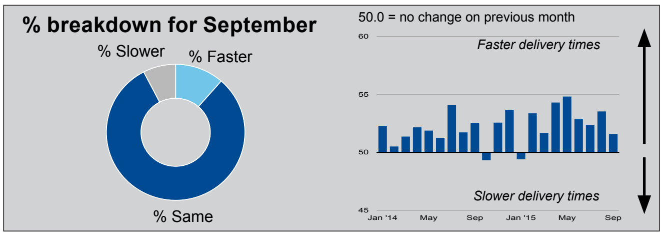
A weaker expansion in total new work contributed to a renewed fall in outstanding business during September. Moreover, the latest decline was the quickest in four months and strong in the context of historical data. Approximately 22% of survey participants registered a reduction in backlogs of work, versus 16% that saw an expansion.



Suppliers' Delivery Times Index

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

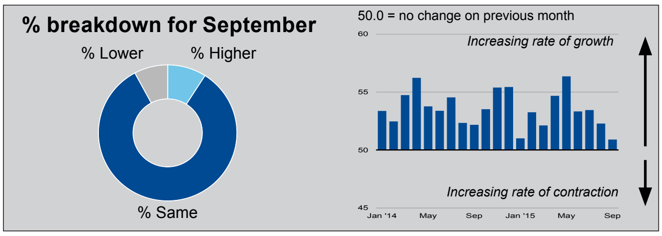
Vendor performance improved for the eighth month in a row during September, as signalled by the seasonally adjusted index posting above the neutral 50.0 threshold. Faster deliveries were generally attributed to greater competition among suppliers. That said, the extent to which lead times shortened was the weakest in the current sequence.



Employment Index

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

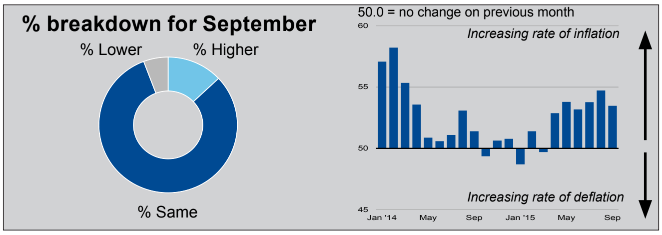
Private sector employment in Kenya rose further at the end of Q3, as has been the case in every month since the survey began in January 2014. However, the rate of job creation eased to a marginal pace that was the weakest in the series history. Data suggested that the slowdown in hiring was reflective of muted expansions in both output and new business.



Output Prices Index

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

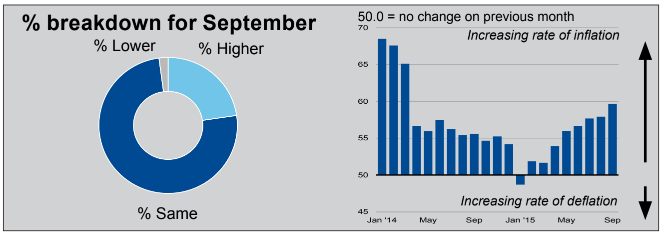
Prices charged by Kenyan private sector businesses increased for the sixth month running in September. The rate at which tariffs rose was solid overall, albeit the slowest in three months. There were reports that higher purchasing costs had again been passed through to output prices in the latest period.



Overall Input Prices Index

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

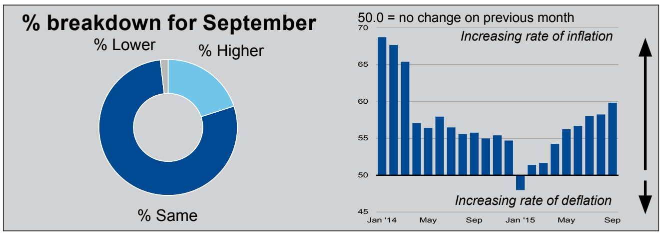
Total input costs rose sharply in September. The rate of increase accelerated for the sixth successive month to the most marked since March 2014, with nearly 23% of the survey panel noting a rise since August. Underlying data showed that a marked expansion in purchase prices was the key driver of overall cost pressures, as salaries rose only modestly 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.

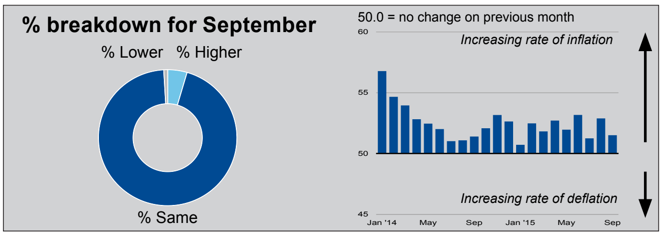
According to anecdotal evidence, the Kenyan shilling continued to depreciate against the US dollar in September, leading to another increase in purchasing costs faced by private sector firms. Furthermore, the latest rise was the sharpest in a year-and-a-half, mirroring the trend seen for overall input prices.



Input Costs: Staff Costs Index

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

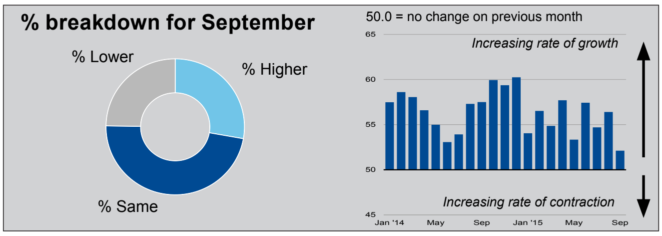
Average staff costs increased at the end of the third quarter, extending the current sequence of rising wages which has run throughout the survey's short history. The rate of salary growth was only modest, however, with the vast majority of panel members (95%) reporting no change since the prior month.



Quantity of Purchases Index

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

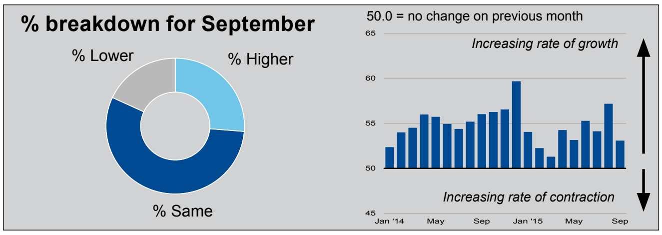
Growth of purchasing activity eased in line with that seen for output and new orders in September, as highlighted by the respective index posting closer to neutrality. The pace of expansion was the least marked in the series history, with panellists suggesting that input buying was largely dependent on the perceived strength of client demand.



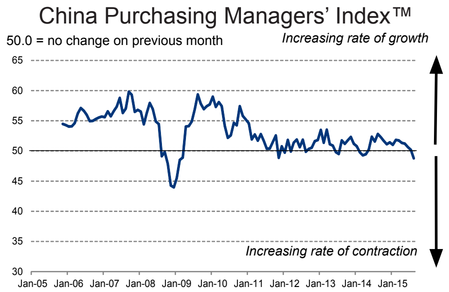
Stocks of Purchases Index

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

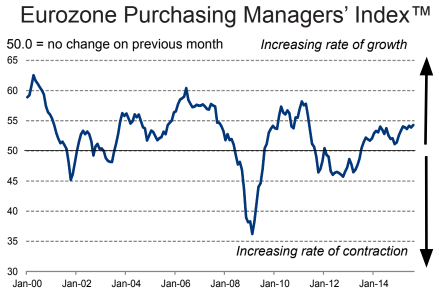
Likewise, stocks of purchases held by companies in Kenya rose more slowly during September. Although remaining solid, the rate of inventory building was the slowest in four months and muted relative to the series trend. Nonetheless, there were still reports of stronger order books leading to a rise in input stocks.



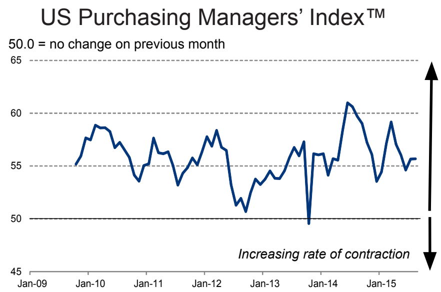
International PMI summary



Sources: Caixin, Markit



Source: Markit



Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a renewed fall in overall Chinese business activity in August. This was highlighted by the Caixin Composite Output Index posting below the neutral 50.0 value at 48.8, down from 50.2 in July. Though only modest, it was the fastest contraction of output seen since February 2009.

August saw the eurozone economy remain resilient in the face of ongoing headwinds, with business activity increasing at the fastest pace in over four years. The Markit Eurozone PMI Composite Output Index rose to 54.3 in August, up from 53.9 in July, as output growth accelerated moderately in both the manufacturing and service sectors.

At 55.7 in August, the seasonally adjusted Markit U.S. Composite PMI Output Index was unchanged since July, to signal a further robust pace of expansion. August data indicated that faster service sector output growth helped to offset a slower expansion of 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.

Warning