

CfC Stanbic Bank Kenya PMI™

compiled by markit

Business conditions improve at weakest pace in five months

Key findings:

- Growth rates for output and new orders ease substantially
- Slower, but still solid, rise in employment
- Charges fall for first time in a year

After starting 2016 in good health, Kenya's private sector expansion showed signs of waning in March. Business conditions improved at the weakest pace in five months, with growth rates for output and new work slipping back towards the respective lows seen in October and September last year. Nevertheless, the rises were sufficient to generate further solid expansions in employment and input buying. On the price front, lower charges was the key takeaway – the fall was the first recorded in a year.

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 five-month low of 52.6 in March, from 55.2 in February. Though still signalling growth, the latest reading pointed to a second successive loss of momentum since January (56.4). It was also the third-lowest in 27 months of data collection. That said, the improvement in business conditions across Q1 (54.7) was the strongest on average since Q2 2015.

In line with the overall trend, growth of output slowed sharply in March. The latest rise was among the weakest recorded by the survey to date, with some companies suggesting that they had lost clients.

Incoming new orders followed a similar pattern, with the latest increase the least marked in six months. However, the rate of expansion in total new work was robust, supported by improving client demand and another rise in new business from abroad.

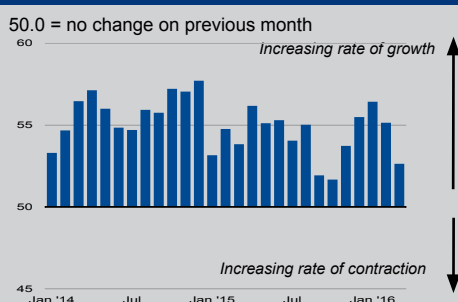
Jobs growth was maintained at Kenyan private sector firms in March. Though easing to a four-month low, the rate of hiring was still solid overall. Meanwhile, backlogs of work rose for the fifth straight month. Anecdotal evidence linked capacity pressures to new work inflows.

Reflective of relatively subdued expansions in activity and new orders, input buying rose more slowly in March. Similarly, stocks of pre-production items increased at the weakest pace so far in 2016. Those companies that raised their purchasing did so in response to new project start-ups.

Prices data pointed to a muted rise in total input costs at the end of the first quarter. Both salaries and purchase prices rose to the least extent in 14 months. According to panellists, a lack of production had resulted in fewer overtime payments, while lower fuel costs were again mentioned.

Looking at charges, competitive pressures and subdued demand were telling factors in March. Tariffs were cut for the first time in a year, albeit only slightly.

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



Purchasing Managers' Index

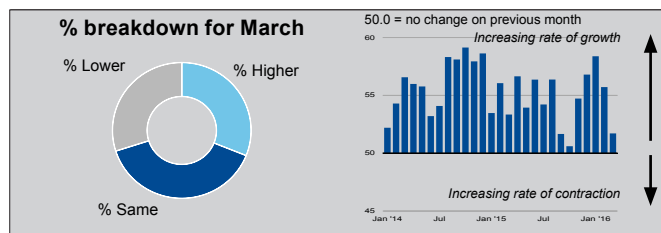
		Unadj.	Seas. Adj.
2016	Jan	51.0	56.4
	Feb	56.5	55.2
	Mar	52.5	52.6

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. Markit is a registered trade mark of Markit Group Limited.

Output Index

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

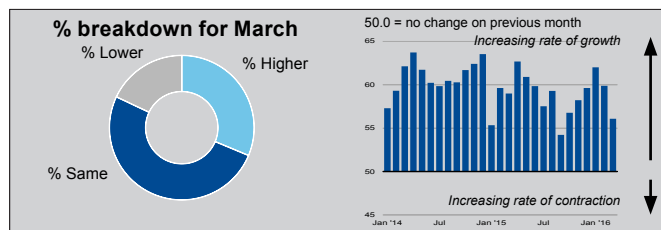
Growth of Kenyan private sector output eased for the second month running in March. The extent of the slowdown was substantial – the latest rise was one of the weakest on record, coming just two months after January’s recent high. Some companies raised output in line with incoming new orders, while others scaled back their activity amid client losses.



New Orders Index

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

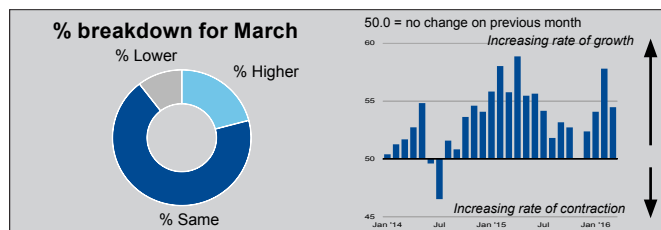
New business rose at the slowest pace since last September at the end of the first quarter. In fact, the seasonally adjusted index was at its third-lowest in 27 months of data collection. Nonetheless, the rate of expansion remained much faster than that seen for output, with 31% of respondents noting a rise in new work. There were multiple reports of improving client demand in the latest period.



New Export Orders Index

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

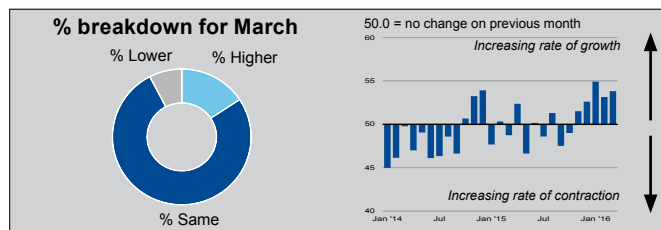
Rising new export work continued to support growth of total new orders in March. The latest increase was solid and the fourth in as many months, with more than twice as many panellists recording an expansion (21%) than a contraction (10%). Firms commented on exports to several key international markets, notably Sudan and Tanzania.



Backlogs of Work Index

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

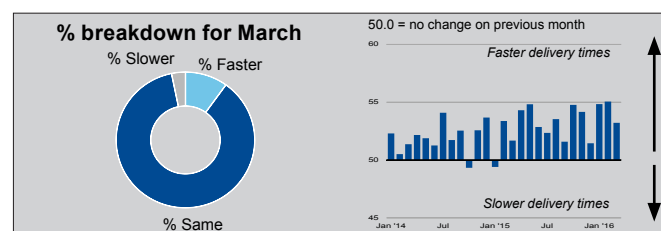
The level of unfinished work in Kenya’s private sector increased for the fifth month in a row during March. Anecdotal evidence indicated that the rise in new orders had been sufficient to increase pressure on operating capacity. In fact, the rate of accumulation was among the quickest ever recorded by the survey, with nearly one-in-six respondents seeing growth since February.



Suppliers’ Delivery Times Index

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

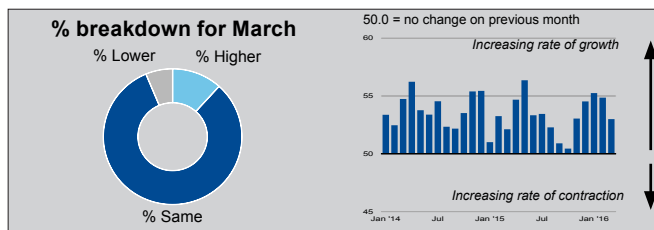
Kenyan private sector firms reported another improvement in vendor performance during March, the fourteenth in as many months. Though easing to the weakest since the turn of the year, the rate at which lead times shortened was stronger than the series trend. Faster deliveries were widely attributed to greater competition among suppliers.



Employment Index

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

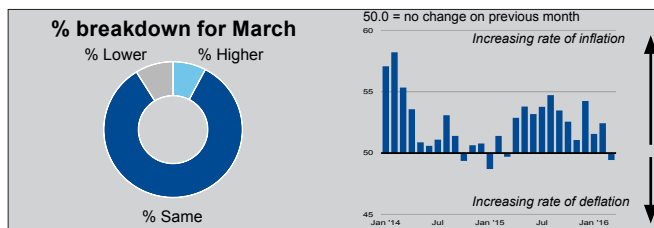
Reflective of slower expansions in output and new orders, the rate of job creation moderated in March. The latest rise in staff numbers was the weakest in four months and subdued relative to the survey average. That said, with some firms hiring on both a permanent and temporary basis, employment growth was still solid overall.



Output Prices Index

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

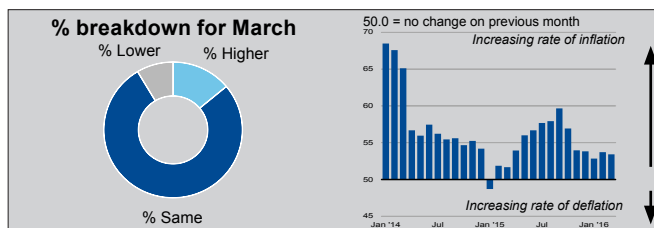
Output prices fell for the first time in a year during March, as signalled by the seasonally adjusted index posting below the crucial 50.0 threshold. According to panellists, a combination of rising competition and slowing client demand had led them to cut charges in an effort to secure new work. The rate of decline was only marginal, however.



Overall Input Prices Index

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

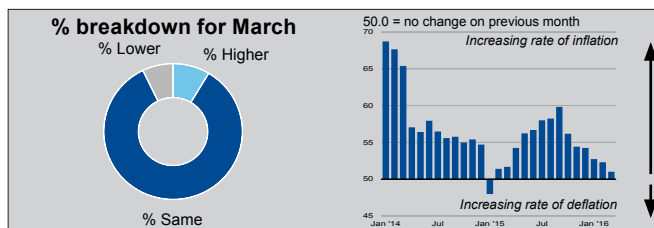
Total input costs faced by companies in Kenya rose for the fourteenth consecutive month during March. The rate of increase was broadly in line with the average so far in 2016, albeit muted compared with the historical trend. Underlying data showed that both salaries and purchasing costs rose more slowly 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.

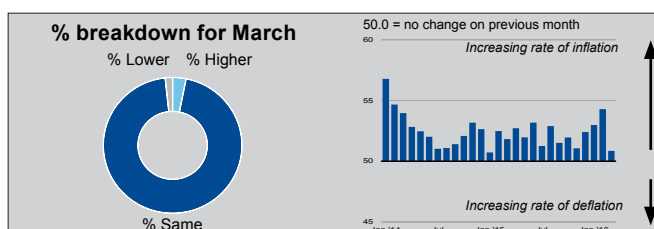
The rate at which purchase prices increased was the slowest in the current 14-month sequence of inflation during March. The majority of monitored businesses (84%) saw no change in comparison with February. Of the remaining 16%, panellists indicated that lower fuel costs were more than offset by higher prices paid for other 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.

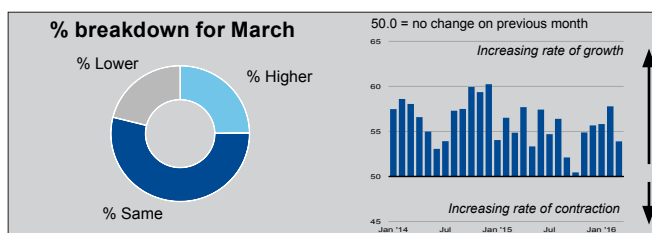
Average staff costs showed a similar trend to purchase prices in March, rising at the weakest pace in 14 months. In fact, the rate of salary growth was the second-slowest since the series began in January 2014. Some firms decided to raise wages in an effort to motivate workers, while others reported that the lack of production had resulted in fewer overtime payments.



Quantity of Purchases Index

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

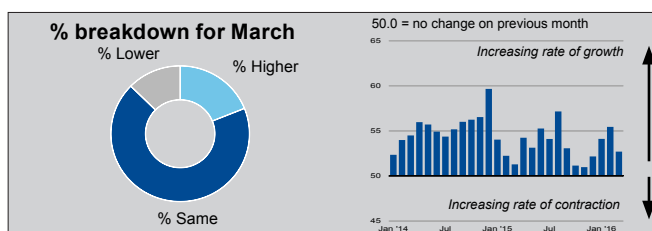
The slowdown in Kenyan private sector growth was reflected by firms' purchasing at the end of the first quarter. Input buying rose to the least extent since October last year, after having increased at the fastest rate in 14 months during February. Nonetheless, with reports of new business intakes still prevalent, the latest expansion was solid overall.



Stocks of Purchases Index

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

Stocks of raw materials and semi-finished goods increased in March, thereby maintaining the current upturn which has run throughout the survey's history. New project start-ups were behind the latest rise in stocks, according to panel members. That said, the rate of inventory building eased to a three-month low, in line with the weaker expansion in purchasing activity.



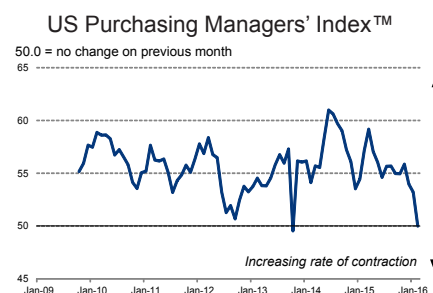
International PMI summary



Sources: Caixin, Markit



Source: Markit



Source: Markit

After broadly stabilising at the start of 2016, the Caixin China Composite PMI data (which covers both manufacturing and services) indicated a renewed fall in total Chinese business activity in February. At 49.4, the composite index was down from 50.1 in January and below the neutral 50.0 threshold to signal a marginal rate of contraction.

February saw a broad-based slowdown of the eurozone private sector economy. The Markit Eurozone PMI Composite Output Index fell to 53.0, its lowest reading since January of last year. Rates of output growth slowed in both the manufacturing (12-month low) and service (13-month low) sectors.

The seasonally adjusted Markit U.S. Composite PMI Output Index posted 50.0 in February, thereby signalling that private sector output was unchanged over the month. Moreover, the index was down from 53.2 in January and the weakest recorded since October 2013.

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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