

Stanbic Bank Kenya PMI™

compiled by markit

Private sector growth eases to four-month low in October

Key findings:

- PMI drops amid relatively subdued rises in output and total new work
- Exports increase at fastest pace in six months
- Charges remain broadly stable as some firms seek to stimulate demand

Following steady growth throughout the third quarter, latest data pointed to a slowdown in Kenya's private sector during October. Business conditions improved only modestly, with output and new orders rising at relatively subdued rates. That said, the pace of growth in new work remained robust overall, helping both employment and input stocks to rise solidly and suggesting confidence about the near-term outlook. Broadly stable charges reflected efforts at some firms to stimulate demand, although other companies raised their selling prices amid rising 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.

The seasonally adjusted PMI dropped to a four-month low of 52.0 in October, from 53.5 in September. The latest reading signalled a slowdown in private sector growth, and was close to the record low seen in June (51.5).

The rate of expansion in output was modest and in line with the overall improvement in business conditions. Activity had risen at the fastest pace since February during September, but the latest increase was the least marked in four months. Panellists indicated that their output was largely dependent on the perceived strength of client demand.

New business rose at a comparatively sharp pace in October.

However, the rate of growth was also the weakest in four months and below the series average. Rising exports contributed to the expansion of total new work. The respective index climbed to a six-month high.

The overall improvement in demand was sufficient to lead to another marked rise in purchasing activity during October. The pace of expansion eased only slightly from September's seven-month high. Input stocks showed a similar trend, rising at a slower but still robust rate.

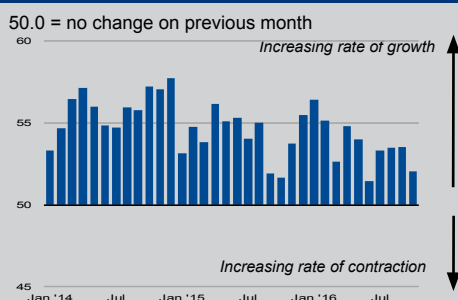
Likewise, the rate of job creation remained close to that seen in September. The latest increase was broadly in line with the average recorded over the survey's history.

With growth of new business outstripping that for output, backlogs of work continued to rise sharply. Strong capacity pressures have been evident throughout 2016 to date.

On the price front, input costs rose only modestly while charges remained broadly stable. Some companies' output prices reflected higher costs, whereas others offered discounts aimed at securing new clients.

Meanwhile, prompt payments and greater competition among suppliers helped lead times to shorten at the fastest pace in the series history.

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



Purchasing Managers' Index

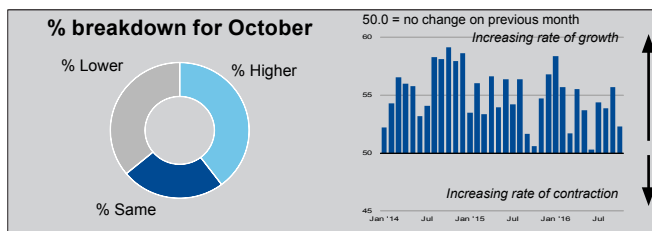
		Unadj.	Seas. Adj.
2016	Aug	54.5	53.5
	Sep	53.7	53.5
	Oct	52.2	52.0

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.

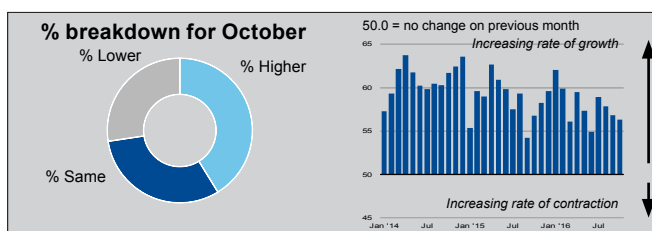
Kenya's private sector lost some growth momentum at the start of the fourth quarter, with output rising at the slowest pace since June. The rate of growth was subdued in the context of historical data and only modest overall. A number of panellists noted higher activity in line with improving sales, but there were also reports of reduced output due to fewer new orders.



New Orders Index

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

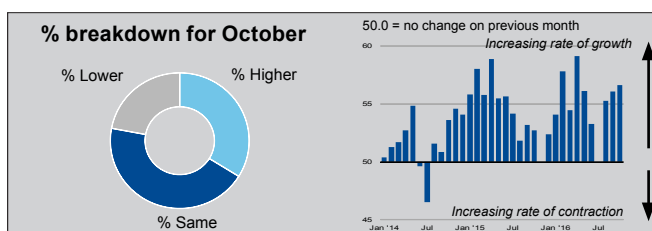
New business continued to rise more quickly than output in October. Anecdotal evidence pointed to a further improvement in underlying demand. That said, the rate of expansion eased to a four-month low and was weaker than the series average. Around 41% of surveyed firms saw growth of new work, versus 27% that recorded a decline.



New Export Orders Index

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

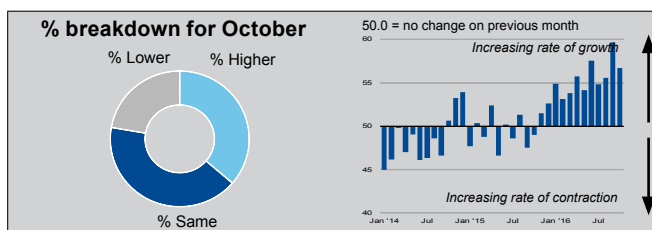
Growth of total new work was supported by another robust increase in new orders from abroad during October. In fact, the latest rise was the most marked in six months, with panellists commenting on strong demand in international markets. Europe was mentioned in particular as a source of new business in the latest period.



Backlogs of Work Index

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

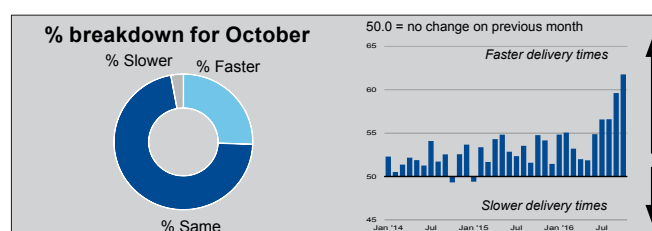
As has been the case in every month since November last year, outstanding business was accumulated in October. The pace of expansion was sharp, despite easing from September's record high. Data suggested that backlogs had built up further due to growth of new work outstripping that seen for output.



Suppliers' Delivery Times Index

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

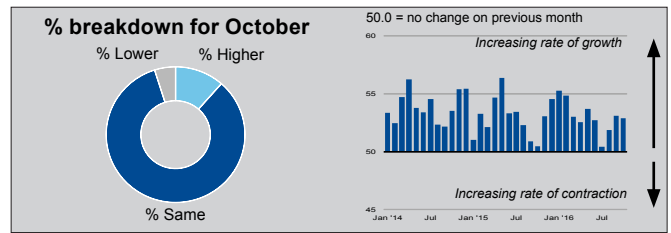
Average lead times shortened to the greatest extent in the survey's history during October. Roughly 26% of panel members noted an improvement in vendor performance, against just 3% that signalled a deterioration. Faster deliveries were attributed to prompt payments and strong competitive pressures among suppliers.



Employment Index

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

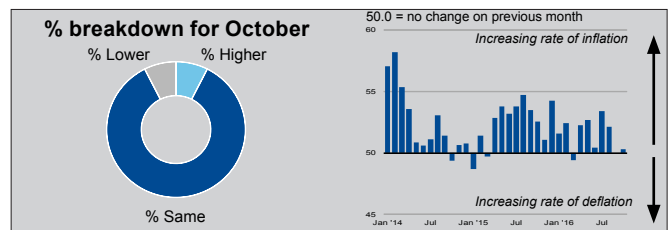
Staffing levels at Kenyan private sector companies continued to rise in October, thereby extending the current sequence of job creation which has run throughout the survey's 34-month history. Moreover, the rate of hiring was little-changed from September's solid pace. More than twice as many respondents noted a rise in employment (12%) than a fall (5%).



Output Prices Index

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

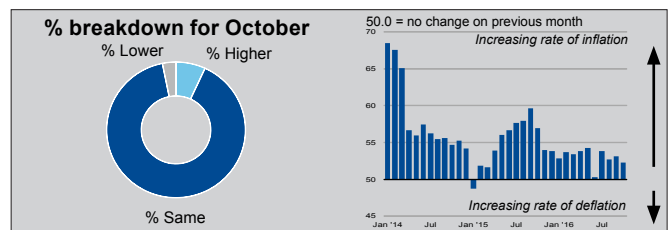
After having remained stable in September, output prices barely rose at the start of the fourth quarter. This was signalled by the seasonally adjusted index posting just fractionally above the crucial 50.0 threshold. Some firms raised their charges in order to pass on higher costs to clients, whereas 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.

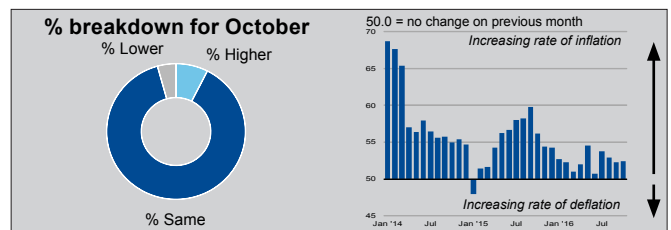
Total input costs increased for the twenty-first month in a row during October. Data highlighted rises in both salaries and purchase prices. That said, the rate at which overall costs rose eased since September and was much slower than the series average. The vast majority of monitored businesses saw no change (90%).



Input Costs: Purchase Prices Index

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

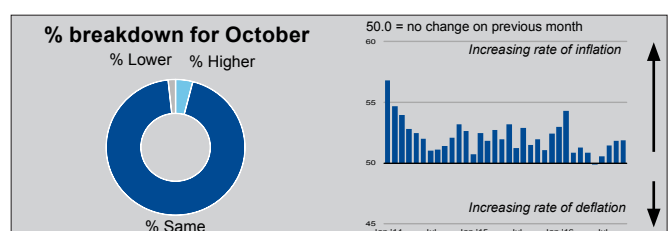
Purchasing costs rose at a modest pace in line with that seen for overall input prices during October. The rise was substantially weaker than the average over nearly three years of data collection. A small minority of surveyed firms (8%) noted higher purchase prices, which they generally linked to increased raw material 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.

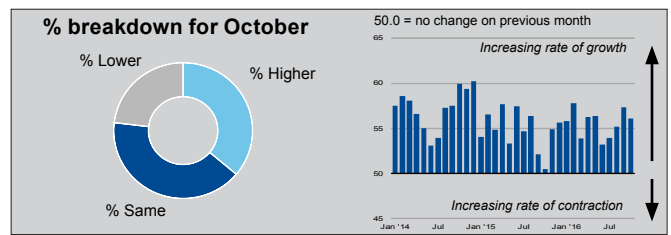
Kenyan private sector companies reported a fourth successive rise in staffing costs during October. The rate of salary growth edged up for the third month running and was the sharpest since February. However, with the overwhelming majority of respondents seeing no change in the latest period (94%), the latest increase remained only modest overall.



Quantity of Purchases Index

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

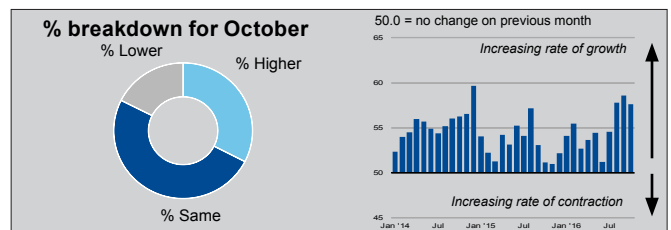
Purchasing activity in Kenya's private sector rose sharply in October, as shown by the seasonally adjusted index posting well above the neutral 50.0 mark. That said, the index ticked down slightly from September's seven-month high. There were multiple reports of higher input buying in response to stronger client demand.



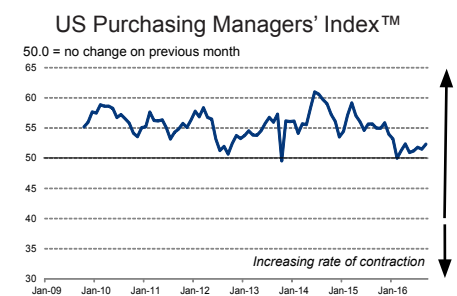
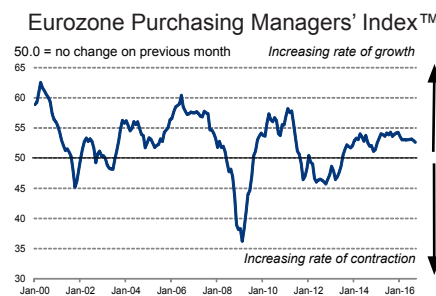
Stocks of Purchases Index

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

Stocks of purchases followed a similar trend to purchasing activity, with the rate of inventory building easing slightly since September but remaining marked overall. The proportion of respondents reporting a rise (33%) was nearly double that which saw a fall (18%). Higher input stocks were a reflection of improving sales, according to panellists.



International PMI summary



Caixin China Composite PMI data (which covers both manufacturing and services) signalled increased Chinese business activity for the seventh successive month in September. However, at 51.4, down from August's 51.8, the Composite Output Index indicated that the rate of expansion slowed to a three-month low.

The rate of economic expansion across the eurozone eased to a 20-month low in September. The Markit Eurozone PMI Composite Output Index posted 52.6, down from 52.9 in August. The average index reading during the third quarter as a whole (52.9) was the weakest since the final quarter of 2014.

At 52.3 in September, the Markit U.S. Composite PMI Output Index was up from 51.5 in August and signalled the fastest rise in private sector business activity since April. The latest increase in private sector output reflected moderate rises in both manufacturing production and service sector activity.

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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