

CfC Stanbic Bank Kenya PMI™

compiled by markit

Kenyan private sector slowdown continues in October

Key findings:

- PMI edges down to survey-record low
- Output and employment barely rise...
- ...but growth of new business accelerates

Kenyan private sector growth remained at a low ebb during October, similar to the trend seen at the end of Q3. Rates of expansion in output and employment were only marginal, leading to the weakest overall improvement in operating conditions in the survey's 22-month history. In contrast, data for new business offered a rare bright spot, signalling that growth accelerated to a robust pace overall. On the price front, currency weakness remained a key source of inflationary pressure, as both input costs and output charges increased.

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 for the second straight month in October, edging down from 51.9 in September to 51.7. The latest reading pointed to a further loss of momentum in the Kenyan private sector, and signalled only a modest improvement in business conditions.

Growth of the sector as a whole was undermined by a slower expansion in output at the start of Q4. Activity increased at a marginal rate that was by far the weakest in the short series history. Some companies raised output in line with extended product ranges and new contract wins, whereas others blamed falls in activity on low customer turnout.

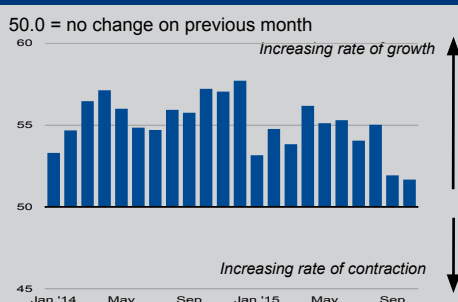
Similarly, the headline index was weighed down by an easing in the rate of job creation. Payroll numbers barely rose in October, reflective of the trend observed for output. Meanwhile, backlogs of work fell for the second month running, the first back-to-back contraction in more than a year.

Relatively low output requirements meant that companies were more cautious with regard to their purchasing in October. Input buying expanded at the weakest pace since the survey began in January 2014, as did stocks of purchases.

Overall private sector growth was supported by a sharp rise in new orders during October. The pace of expansion accelerated since the prior month, helped by another solid increase in new export work. New product launches and better marketing had reportedly helped to strengthen demand both domestically and abroad. That said, the rates of growth were still subdued in comparison with their respective series averages.

According to panellists, a further depreciation of the Kenyan shilling against the US dollar led to a marked rise in purchasing costs during October. As a result, the rate of total input price inflation remained sharp, despite easing to a four-month low. Charges rose for the seventh successive month, as firms were able to pass through their higher input costs to clients.

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



Purchasing Managers' Index

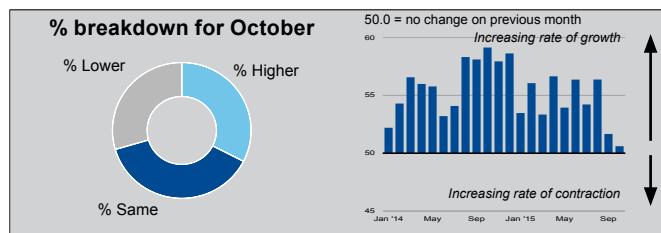
		Unadj.	Seas. Adj.
2015	Aug	55.8	55.0
	Sep	51.4	51.9
	Oct	52.3	51.7

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.

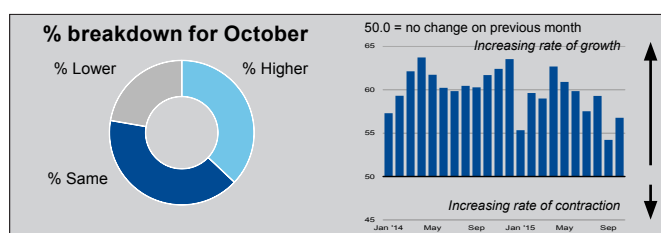
Kenya's private sector showed further signs of slowing in October, with output rising at the weakest pace in the short series history. The respective index posted at a record low for the second month running, and pointed to only a marginal expansion overall. New contract wins and the introduction of new product lines were mentioned as factors behind higher output, but some firms reported that low customer turnout had weighed on activity.



New Orders Index

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

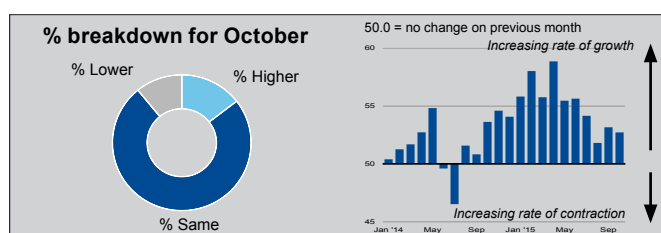
Contrasting with the weaker rise in output, growth of new business rebounded from September's low at the start of Q4. The rate of expansion was robust overall, with exactly 37% of respondents noting an improvement in the latest period. Panellists mainly attributed higher new work to enhanced marketing strategies. That said, the increase was still the third-weakest in 22 months of data collection.



New Export Orders Index

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

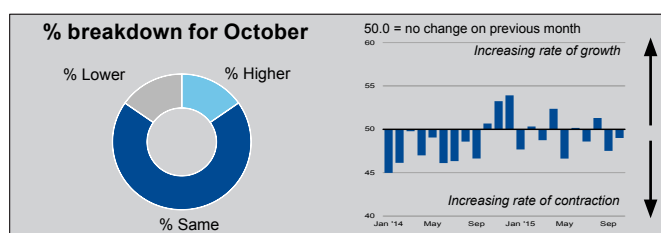
New export orders increased for the fifteenth month in a row in October. Although solid overall, the pace of growth was weaker than the average over the current sequence. A number of respondents suggested that new product launches had contributed to the rise in new work from abroad. On the other hand, some firms mentioned that they were unable to fulfil foreign orders due to a slowdown in production.



Backlogs of Work Index

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

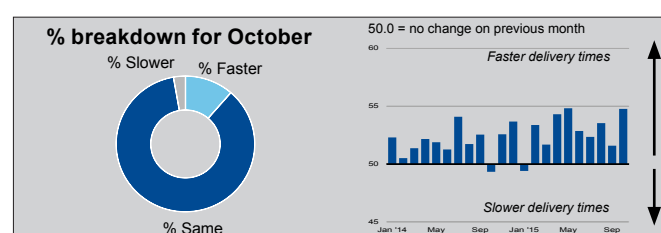
The level of unfinished work fell for the second straight month in October, the first back-to-back decline in over a year. Anecdotal evidence indicated that relatively slow growth of new orders had continued to alleviate pressure on operating capacity. However, the rate of backlog depletion was only slight overall.



Suppliers' Delivery Times Index

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

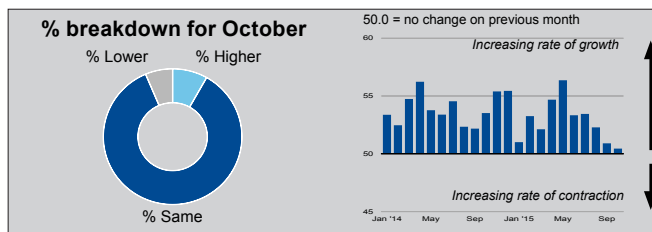
Kenyan private sector firms reported another improvement in vendor performance during October, the ninth in as many months. Furthermore, the extent to which lead times shortened was the joint-strongest since the survey began in January 2014. Roughly 11% of the panel noted faster deliveries, versus just 3% that recorded delays.



Employment Index

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

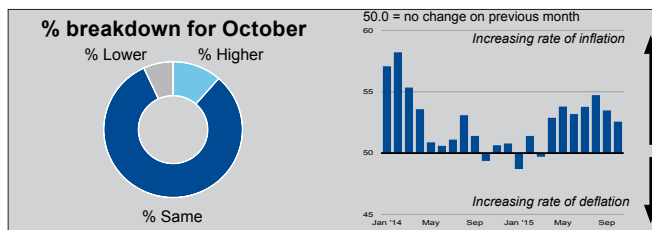
The rate of job creation eased to a survey-record low during October, mirroring the trend observed for output. With the vast majority of businesses (86%) reporting no change since September, the rise in employment was negligible. Where hiring was evident, this was associated with extended product ranges. That said, the general slowdown in market conditions led some firms to lay off staff in the latest period.



Output Prices Index

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

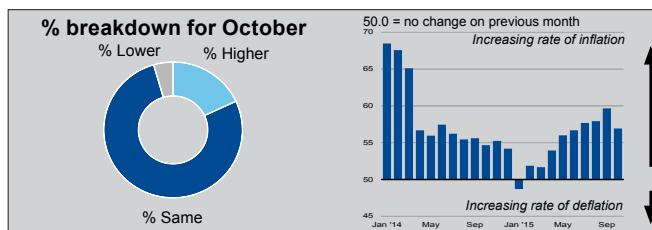
Companies in Kenya raised their tariffs during October, as has been the case in each of the past seven months. The rate of inflation moderated to the weakest in the current sequence, but remained in line with the historical average. There were reports that higher costs for raw materials and transportation had been passed through to charges.



Overall Input Prices Index

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

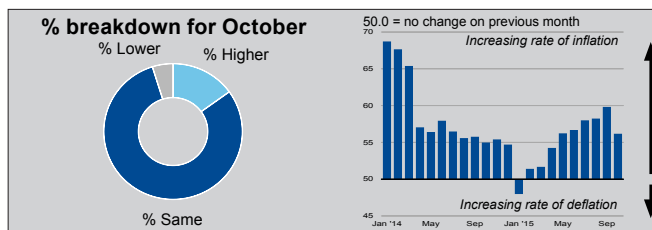
Cost pressures eased at the start of the fourth quarter, as shown by the Overall Input Prices Index dropping to a four-month low. Nonetheless, it was broadly similar to the series average and consistent with a solid rate of inflation. Both salaries and purchase prices increased during October, with the sharper rise seen in the latter.



Input Costs: Purchase Prices Index

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

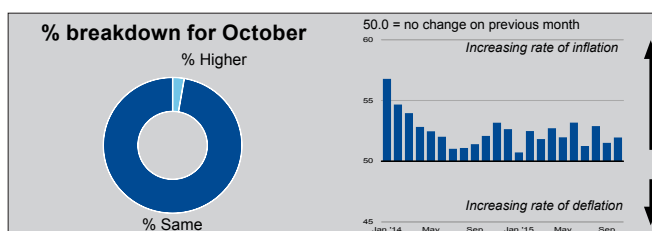
Reflective of the trend seen for total input costs, purchase prices rose more slowly in October. That said, the rate of inflation was robust overall, with three times as many panellists noting a rise (15%) as opposed to a fall (5%). A further depreciation of the Kenyan shilling against the US dollar was again cited as the main reason behind the increase.



Input Costs: Staff Costs Index

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

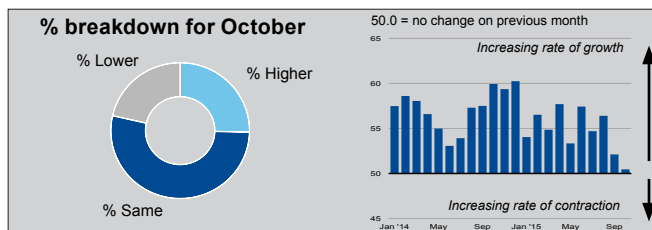
Average prices paid for wages and salaries in the Kenyan private sector rose further in October, continuing the trend observed throughout the survey's short history. The rate of growth was only moderate overall, despite accelerating since the end of Q3. Just 3% of monitored firms saw wages increase, while the vast majority (97%) registered no change.



Quantity of Purchases Index

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

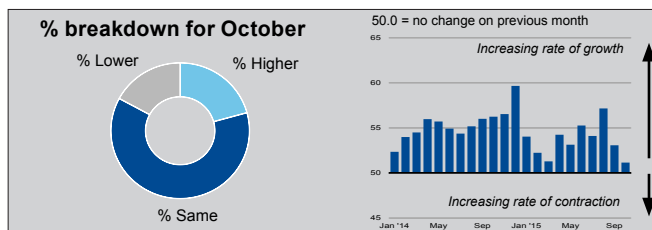
Input buying increased again in October, albeit at a weaker rate. In line with lower production requirements, growth slowed to a marginal pace that was the least marked since the survey began in 2014. Approximately 25% of panellists noted an expansion in purchasing activity, against 22% that posted a decline.



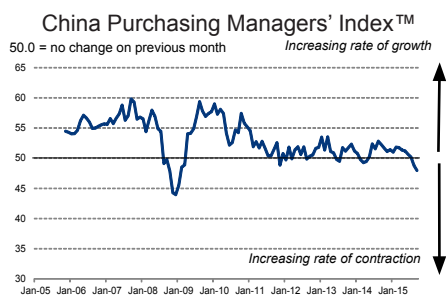
Stocks of Purchases Index

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

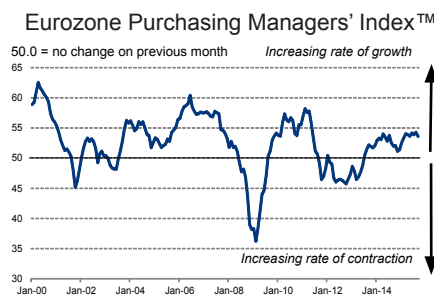
Similarly, the rate of pre-production inventory building eased to a survey-record low during October. The reduction in buying activity was widely reported as the main reason behind the slowdown. Nonetheless, the respective index was still in growth territory, with some firms commenting on the need to raise input stocks in preparation for future improvements in demand.



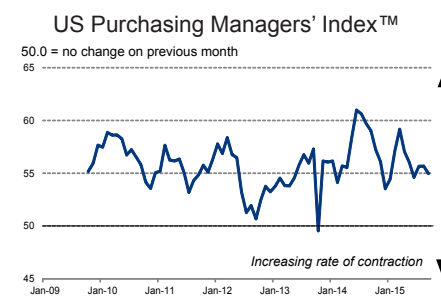
International PMI summary



Sources: Caixin, Markit



Source: Markit



Source: Markit

The latest Caixin China Composite PMI data (which covers both manufacturing and services) signalled a second successive monthly decline in total Chinese business activity during September. Furthermore, the Caixin Composite Output Index posted at 48.0, down from 48.8 in August, and signalled the fastest rate of contraction since January 2009.

The eurozone economy continued to make steady progress in September, despite growth easing to a four-month low. The Markit Eurozone PMI Composite Output Index posted 53.6, down from 54.3 in August. Following the dip in September, the average rate of expansion over the third quarter failed to accelerate and instead equalled the second quarter's four-year high.

The seasonally adjusted Markit U.S. Composite PMI Output Index posted 55.0 in September, down from 55.7 in August and the lowest reading for three months. Slower U.S. private sector output growth mainly reflected a weaker contribution from services, while manufacturing production growth picked up slightly.

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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