

# CfC Stanbic Bank Kenya PMI™

compiled by markit

## Kenyan private sector remains in solid growth territory

### Key findings:

- PMI slips to four-month low, but still signals strong expansion
- Growth rates for output and new business ease
- Currency weakness leads to sharp rise in purchase costs

Kenya's private sector lost some growth momentum in July, as business conditions improved at the weakest pace in four months. That said, the overall rate of expansion remained solid, driven by further rises in both output and new orders. Employment also contributed to growth of the sector as a whole, with the rate of hiring little-changed from June's solid pace. Meanwhile, cost pressures picked up to a 16-month high amid further currency depreciation.

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 slipped to a four-month low of 54.1 in July, down from 55.3 in the previous month. The rate of improvement in business conditions at the start of Q3 was solid overall, albeit weaker than the series average.

Relatively subdued expansions in output and new orders were partly to blame for the overall slowdown in July. Output growth eased since June, while new business rose at the slowest pace since January. Nonetheless, the respective rates of increase remained robust overall. Commercial initiatives and high customer turnout were reported to have boosted demand, leading to a further rise in activity.

New export work at Kenyan private sector firms also rose more

slowly in July, with the latest expansion the weakest recorded so far in 2015. That said, it remained strong in the context of historical data.

Higher new orders continued to drive growth of purchasing activity in July. The rate of increase slowed in line with new work, but remained solid overall and led to another rise in stocks of raw materials and semi-manufactured goods.

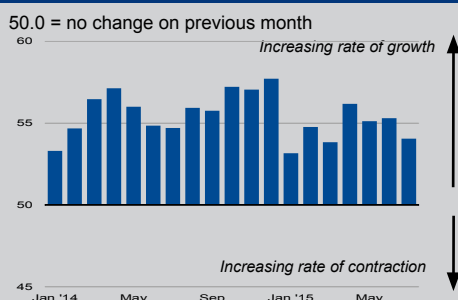
Employment continued to increase in July, with the pace of job creation little-changed since June and solid overall. There were reports that new business gains had led companies to hire additional staff in the latest period.

Meanwhile, firms were able to reduce their backlogs of work. Some panellists commented on investment in machinery which improved their efficiency in production.

On the price front, total input costs increased at the sharpest rate since March 2014 during July. The overall rise was mainly driven by a marked expansion in purchase prices, while salaries rose only modestly. According to anecdotal evidence, the strength of the US dollar versus the Kenyan shilling continued to place upward pressure on purchasing costs.

Subsequently, companies in Kenya raised their output charges for the fourth straight month in July.

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



### Purchasing Managers' Index

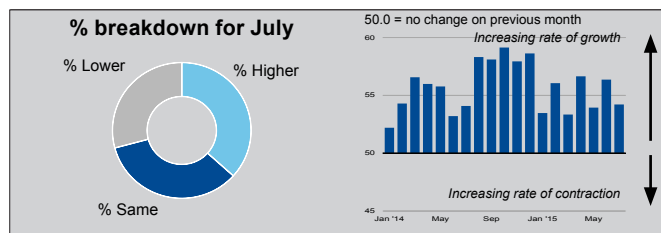
		Unadj.	Seas. Adj.
<b>2015</b>	May	54.7	55.1
	Jun	54.8	55.3
	Jul	53.9	54.1

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.*

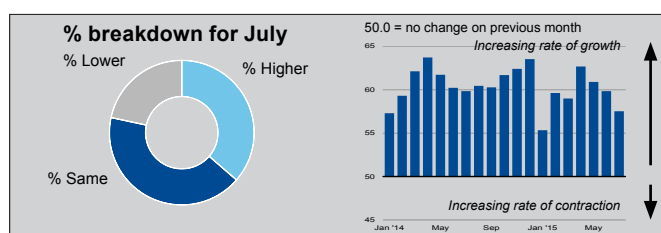
Kenyan private sector output increased further in July. That said, the rate of growth eased since June, and was below the trend pace recorded over more than one-and-a-half years of data collection. Nonetheless, roughly 37% of survey participants noted higher activity compared with the prior month, with marketing initiatives and strong client turnout both cited as contributing factors.



## New Orders Index

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

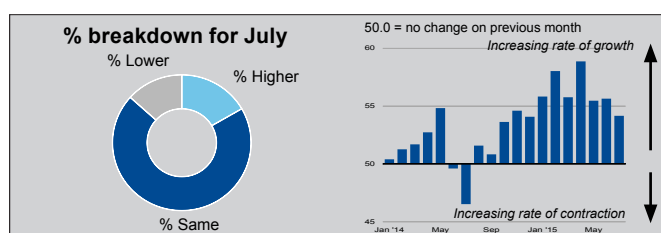
July data pointed to the slowest growth of new business in the Kenyan private sector since the start of 2015. The rate of expansion remained robust overall, albeit below the series average. Those companies that saw a rise in new orders generally referred to new client wins and the start-up of new projects.



## New Export Orders Index

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

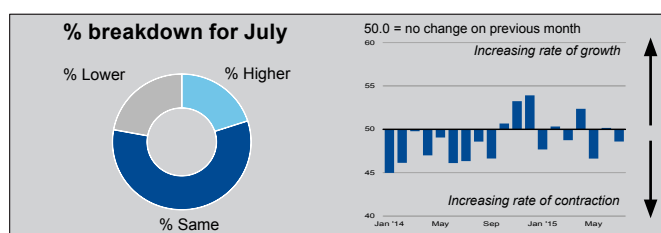
The seasonally adjusted New Export Orders Index slipped to a seven-month low in July, mirroring the trend observed for total new work. That said, it remained consistent with a solid expansion in new business from abroad, and stretched the current sequence of growth to one year. Anecdotal evidence linked higher exports to improved demand conditions in key international markets, particularly those based in East Africa.



## Backlogs of Work Index

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

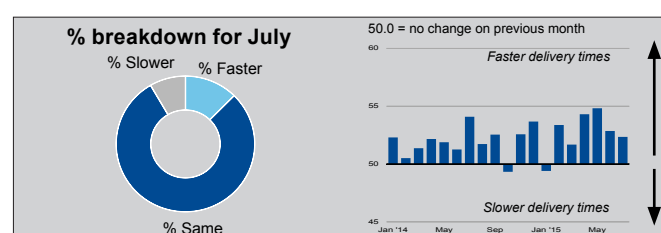
The level of outstanding business in the Kenyan private sector fell for the fourth time in seven months during July. Although moderate, the rate of backlog depletion was broadly in line with the historical average. Some firms reported having invested in machinery, which enabled them to run down their backlogs of work.



## Suppliers' Delivery Times Index

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

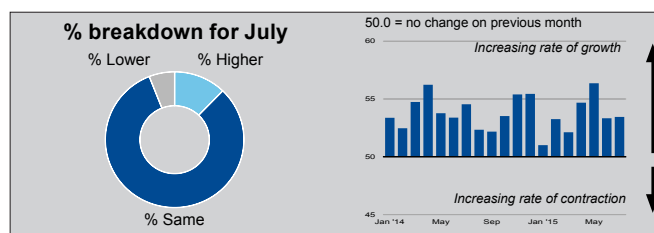
Latest data signalled another improvement in vendor performance during July, the sixth in as many months. Faster deliveries were mainly attributed by panellists to greater competition among suppliers. The degree to which lead times shortened was at a four-month low, however, with the majority of monitored companies (79%) noting no change in the latest period.



### Employment Index

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

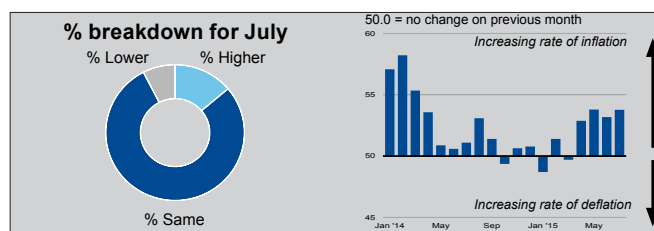
Private sector employment in Kenya rose further in July, continuing the trend observed throughout the survey's short history to date. The rate of job creation was little-changed from June's solid pace with around 12% of survey respondents noting an increase in payroll numbers, twice the proportion that signalled a decline. New business was widely reported as the main reason behind higher employment.



### Output Prices Index

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

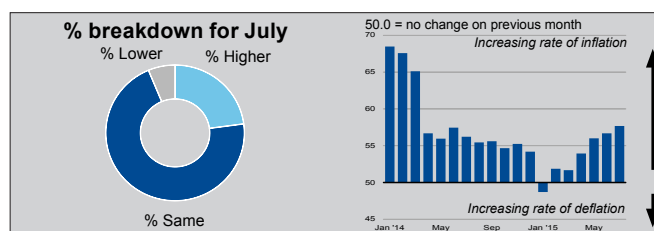
Average tariffs increased for the fourth consecutive month in July. The rate of charge inflation accelerated to the joint-quickest since March 2014, and remained strong relative to the historical trend. There were reports that companies had raised their selling prices in response to higher purchasing costs.



### Overall Input Prices Index

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

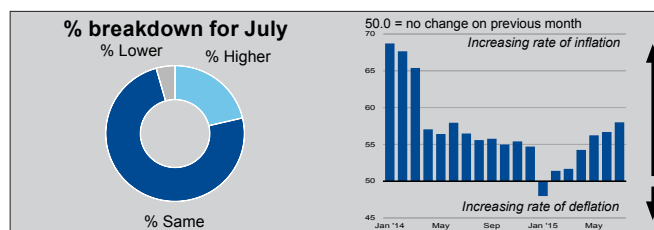
Total input costs faced by companies in Kenya rose at the sharpest pace in 16 months during July, as highlighted by the seasonally adjusted index posting comfortably above the crucial 50.0 threshold. Underlying data indicated that the overall increase was mainly driven by a marked rise in purchase prices, while salaries rose only modestly.



### Input Costs: Purchase Prices Index

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

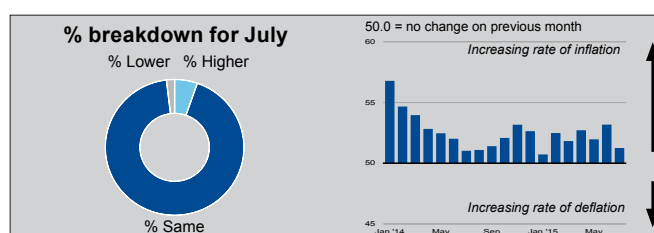
Firms operating in Kenya's private sector continued to register higher purchasing costs in July, with the rate of increase picking up to the most marked since March 2014. More than one-in-five panel members noted an expansion, versus just 4% that saw a reduction. The weakness of the Kenyan shilling against the US dollar was again cited as the key factor behind the rise.



### Input Costs: Staff Costs Index

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

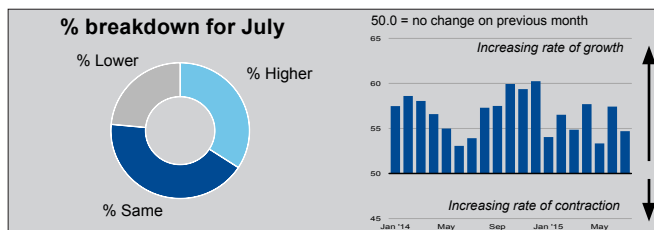
Salary growth eased to a six-month low in July, contrasting with faster rises in purchasing costs and overall input prices. The latest increase was muted in the context of historic data and modest overall. According to anecdotal evidence, higher wages were offered to workers as an incentive to improve performance.



**Quantity of Purchases Index**

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

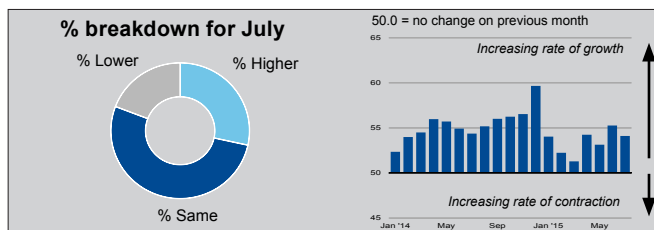
Growth of purchasing activity eased in line with output and new work inflows during July, as signalled by the respective index posting closer to the 50.0 no-change mark. That said, the pace of expansion remained robust overall, with more than one-in-three surveyed businesses recording an increase in input buying.



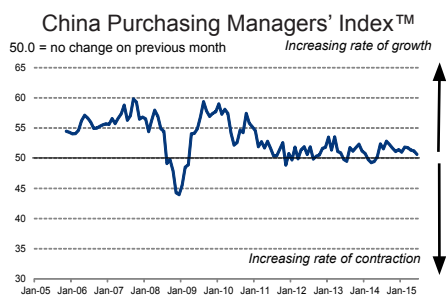
**Stocks of Purchases Index**

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

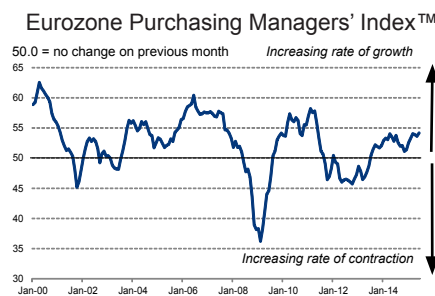
Pre-production inventories at Kenyan private sector companies rose again in July, as has been the case in every month since the survey began in January 2014. The rate of growth was slower than in the prior month, but remained solid overall. There were reports that input stocks were raised in anticipation of further improvements in demand.



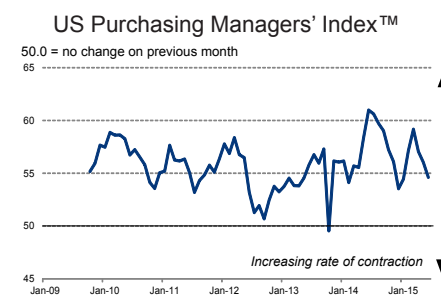
**International PMI summary**



Sources: Caixin, Markit



Source: Markit



Source: Markit

Caixin China Composite PMI data pointed to a further rise in total business activity in China during June. However, the rate of expansion eased to a marginal pace that was the slowest recorded since May 2014. This was signalled by the Caixin Composite Index posting only slightly above the neutral 50.0 mark at 50.6 in June, down from 51.2 in May.

Eurozone economic growth accelerated in June, as levels of new business and employment continued to expand at solid rates. The Markit Eurozone PMI Composite Output Index posted 54.2 in June, up from 53.6 in May. The upturn in June also took the average index reading for the second quarter as a whole to a four-year high.

The seasonally adjusted Markit U.S. Composite PMI Output Index (covering manufacturing and services) posted 54.6 in June, down from 56.0 in May and the lowest reading since January. A softer overall increase in U.S. private sector business activity reflected weaker growth contributions from both services activity and manufacturing output.

**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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