CfC Stanbic Bank Kenya PMI™

compiled by markit

PMI signals robust improvement in business conditions

Key findings:
- **Private sector output rises at faster pace**
- **Marked growth of new business**
- **Cost pressures intensify amid currency depreciation**

Latest data remained consistent with robust growth of the Kenyan private sector in June, characterised by strong expansions in both output and new orders. Job creation was also evident, although the rate of hiring eased to a three-month low. Meanwhile, the weakness of the Kenyan shilling against the US dollar led to further rises in both input costs and output charges, according to panellists.

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.

At 55.3 in June, the seasonally adjusted PMI was little-changed from May's reading of 55.1 and consistent with another robust improvement in business conditions. The latest figure was broadly in line with the series trend, and meant that the rate of growth across the Kenyan private sector as a whole was faster on average in Q2 (55.5) than in the opening quarter of 2015 (53.9).

Underpinning the overall expansion were marked rises in both output and new business during June. New project opportunities and high customer turnout were reported to have bolstered activity growth in the latest period, while companies mentioned improved marketing strategies as the driving factor behind stronger order books. Data showed that higher new export work also supported growth of new business in June, with the rate of increase marked and above the historical average.

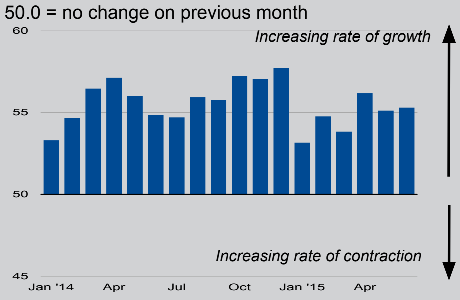
Incoming new work led Kenyan private sector firms to raise their input buying further in June. The latest expansion was robust overall, mirroring the trends seen for output and new orders. Subsequently, pre-production inventories rose at the sharpest pace so far this year.

In contrast, the rate of job creation moderated from May's survey-record high in June. Moreover, the latest increase in employment was weaker than the average recorded over the survey's short history, albeit solid overall. Meanwhile, backlogs of work barely rose in the latest period.

On the price front, cost pressures intensified for the third straight month in June, with the rate of increase the most marked in a year. Underlying data suggested that the rise in overall input prices was mainly driven by higher purchasing costs, amid reports of another depreciation of the Kenyan shilling versus the US dollar.

As a result, companies in Kenya raised their selling prices during June, with the latest increase faster than the series average. Anecdotal evidence linked higher charges to a general rise in input prices, particularly food and oil-related items.

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



Purchasing Managers' Index

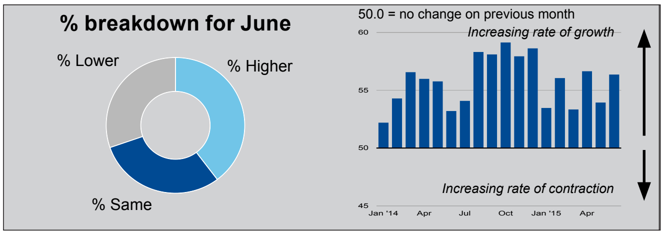
		Unadj.	Seas. Adj.
2015	Apr	58.0	56.2
	May	54.7	55.1
	Jun	54.8	55.3

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.

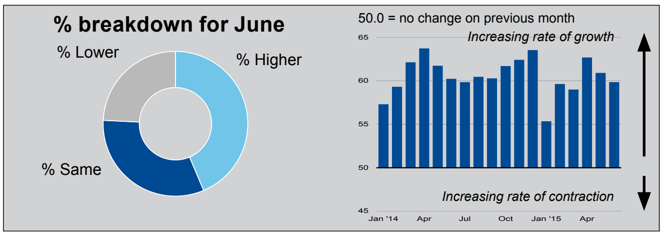
Growth of Kenyan private sector output accelerated in June, as signalled by the seasonally adjusted index moving further above the crucial 50.0 threshold. Moreover, the rate of expansion picked up to a marked pace that was stronger than the average recorded over one-and-a-half years of data collection. The start-up of new projects and a high client turnout were reported to have boosted activity levels in the latest period.



New Orders Index

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

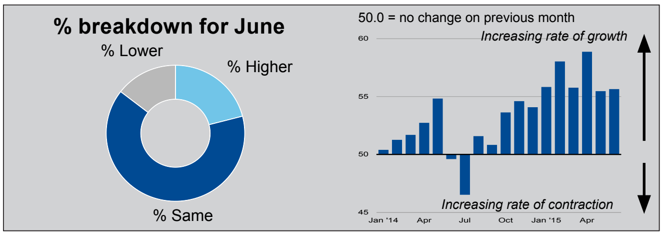
New business remained comfortably in growth territory during June, mirroring the trend observed for output. Furthermore, with nearly 44% of survey respondents noting higher new work inflows, the latest increase was sharp overall. According to anecdotal evidence, improved marketing strategies had helped firms to secure new clients, leading to a further rise in new work.



New Export Orders Index

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

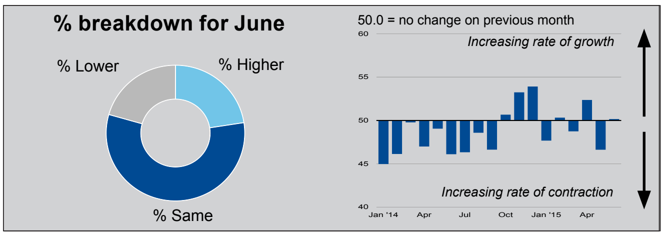
June data highlighted another increase in new export work at Kenyan private sector companies, with the rate of expansion little-changed since May and robust overall. Exactly 21% of panellists registered export growth, versus 15% that noted a contraction. A number of survey participants commented on solid demand conditions in neighbouring African economies.



Backlogs of Work Index

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

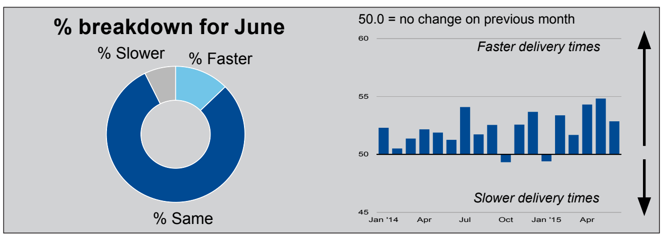
The level of unfinished work in the Kenyan private economy rose in June, having fallen at the fastest rate in eight months during May. That said, with the respective index posting fractionally above the 50.0 no-change mark, the pace of growth was only slight overall. Where backlogs were reported to have risen, this was associated with stronger order book volumes.



Suppliers' Delivery Times Index

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

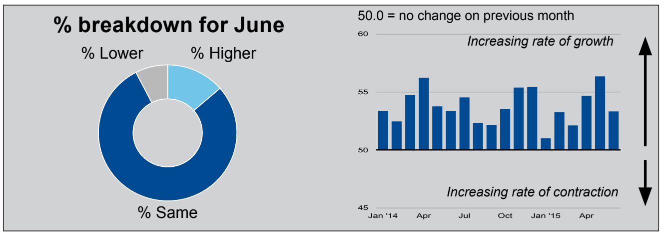
Average lead times faced by companies in Kenya shortened for the fifth month running in June. The rate of improvement in vendor performance eased to a three-month low, but remained stronger than the series average. Faster deliveries were mainly attributed by panellists to greater competition among suppliers.



Employment Index

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

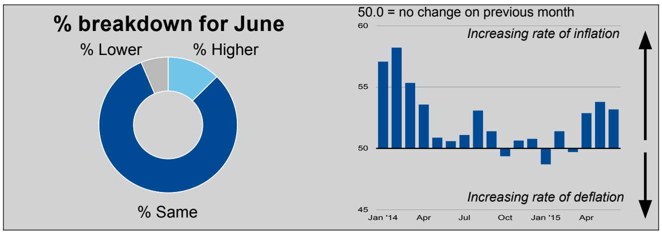
Payroll numbers increased in June, continuing the trend observed throughout the survey's short history. The rate of job creation was solid overall, albeit weaker than the record high seen in May and slightly below the historical average. Those companies that hired additional staff mentioned higher new orders and the opening of new branches as key contributing factors.



Output Prices Index

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

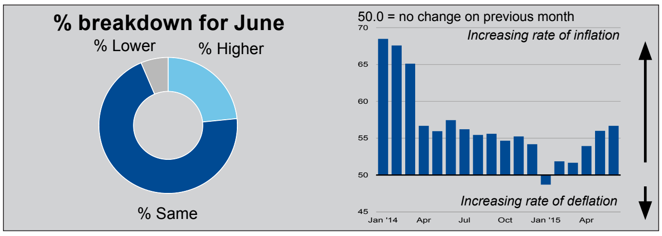
Prices charged by Kenyan private sector businesses rose solidly for the third consecutive month in June. Roughly 12% of survey participants raised tariffs in the latest period, twice the proportion that noted a reduction. There were reports that higher input costs had passed through to output charges, with particular mention made to food and oil-related products.



Overall Input Prices Index

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

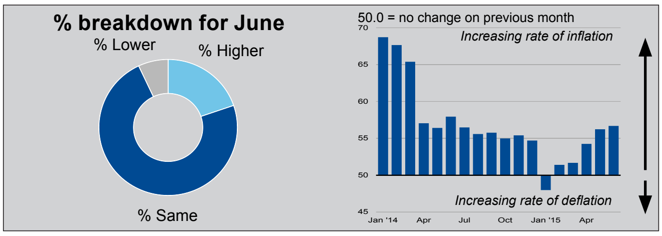
Cost pressures intensified to the most marked in a year during June, as signalled by the seasonally adjusted Overall Input Prices Index posting comfortably above the neutral 50.0 mark. Around 23% of monitored firms noted higher input costs, versus 6% that registered a decline. Both purchase prices and staff costs rose more quickly in the latest period, with the sharper expansion recorded in the former.



Input Costs: Purchase Prices Index

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

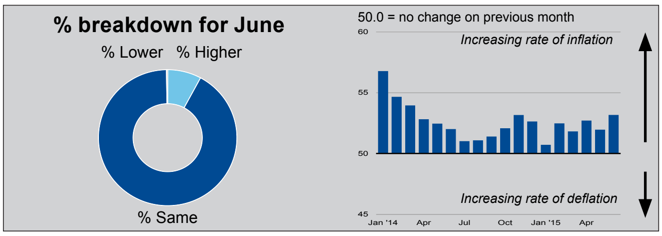
June data highlighted another rise in purchasing costs, the fifth in as many months. The rate of increase accelerated to the quickest in a year, and was broadly in line with the trend pace seen over 18 months of data collection. An appreciation of the US dollar against the Kenyan shilling was again reported to have driven purchase prices higher.



Input Costs: Staff Costs Index

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

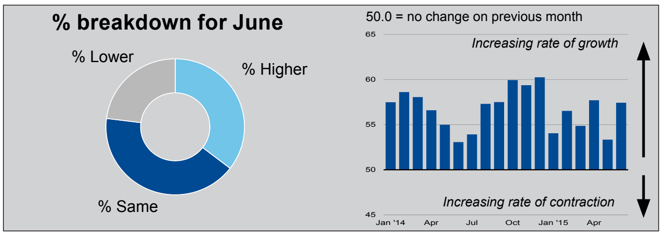
Kenyan private sector firms registered a further increase in wages during June, extending the current sequence of wage growth which has run throughout the series history. The rate of salary growth picked up to the fastest since last November, in line with the sharper increase in overall input costs. There were reports that higher salaries were paid as an incentive for employees to improve their productivity.



Quantity of Purchases Index

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

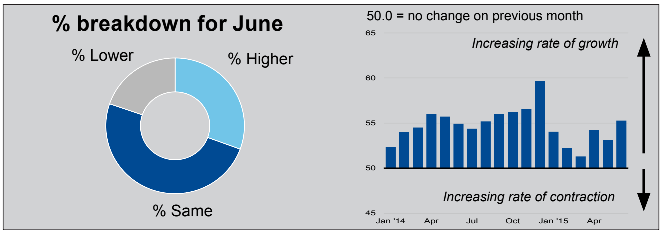
Reflective of ongoing growth in output and new work intakes, input buying rose again in June. Furthermore, the pace of expansion was marked and faster than seen in the previous month. Approximately 36% of panel members noted an increase in purchasing activity, versus 23% that saw a contraction.



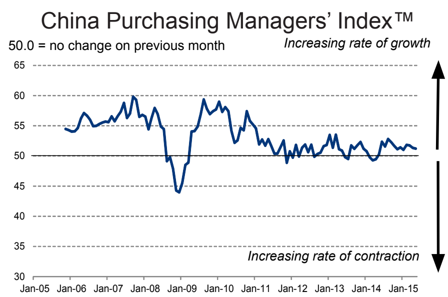
Stocks of Purchases Index

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

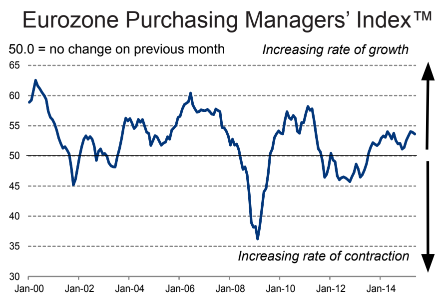
Stocks of raw materials and semi-manufactured goods held by companies in Kenya also rose more quickly in June. The rate of inventory building was strong in the context of historical data, having picked up to the sharpest so far this year. A number of panellists cited the opening of new branches as the main reason behind higher input stocks.



International PMI summary



Sources: Markit, HSBC



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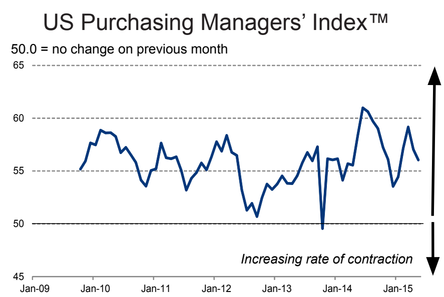

Source: Markit

HSBC China Composite PMI data (which covers both manufacturing and services) signalled the thirteenth successive monthly expansion of Chinese business activity in May. That said, the rate of activity growth weakened for the second month in a row, with the HSBC Composite Index posting at 51.2, down fractionally from 51.3 in April.

The eurozone private sector economy lost growth momentum in May, with the rate of expansion in output and new business slowing to a three-month low. This was signalled by the Markit Eurozone PMI Composite Output Index posting 53.6 in May, down from 53.9 in April.

The seasonally adjusted Markit U.S. Composite PMI Output Index (covering manufacturing and services) registered 56.0 in May, down from 57.0 in April but above the neutral 50.0 threshold for the nineteenth consecutive month. The latest reading indicated the slowest pace of output expansion since January.

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