

# CfC Stanbic Bank Kenya PMI™

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Business conditions improve strongly, despite slowdown in output growth

### Key findings:

- Activity rises at relatively weak pace
- Marked expansion in new work inflows
- Jobs growth accelerates to survey-record high

Kenyan private sector growth was sustained in May, with business conditions improving at a robust pace. Underpinning the overall expansion was a strong increase in new orders alongside a survey-record rise in payroll numbers. Data also provided some cautionary notes, however, with growth rates for output and input buying slowing sharply since April. Moreover, both input costs and output charges rose more quickly in May.

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.

After adjusting for seasonality, the PMI signalled a solid improvement in Kenyan private sector operating conditions during May. The latest reading of 55.1 was down from 56.2 in April, but still the second-highest recorded so far in 2015.

May data suggested that the overall improvement was partly driven by marked growth of new business. The latest rise was stronger than the series average, and supported by another increase in new export orders during the month. Panel members referred to marketing strategies, company expansions and the introduction of new products as the main reasons behind higher new work inflows.

Kenyan private sector output increased again in May, as has

been the case in each month since the survey began in January 2014. However, the latest expansion was slower than seen in April and below the series average.

Purchasing activity also rose more slowly in May, with the latest increase the least marked since June of last year. Nonetheless, there were reports that robust demand conditions and the opening of new branches had boosted input buying. As a result, stocks of purchases continued to rise solidly.

Company expansions and the start-up of new projects were cited by panellists as the key drivers of a survey-record increase in employment during May. The rate of job creation accelerated for the second straight month, contrasting with slowdowns in growth of output and new orders. Meanwhile, backlogs of work fell for the second time in the past three months.

On the price front, cost pressures intensified for the second month in succession, with May's increase in input prices the sharpest recorded since last July. With salaries rising only modestly, a strong rise in purchase prices was the principal contributor to the overall expansion. Monitored firms commented on higher raw material costs, in particular food and energy, while a depreciation of the shilling against the US dollar was also mentioned. Subsequently, output charges rose at the quickest rate in 14 months.

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



### Purchasing Managers' Index

		Unadj.	Seas. Adj.
<b>2015</b>	Mar	54.4	53.8
	Apr	58.0	56.2
	May	54.7	55.1

### Index Summary

(seasonally adjusted, 50 = no change on previous month)

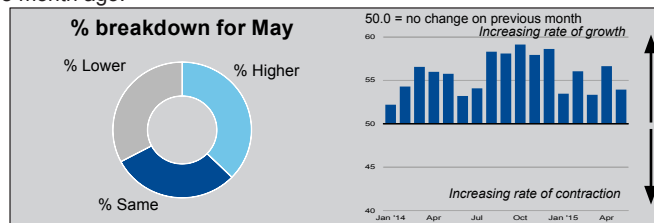
	PMI	Output	New Orders	Export Orders	Backlogs of Work	Employment	Output Prices	Overall Input Costs	Purchase Costs	Staff Costs	Delivery Times	Quantity of Purchases	Stocks of Purchases
Mar'15	53.8	53.3	59.0	55.8	48.8	52.1	49.7	51.7	51.7	51.8	51.7	54.9	51.3
Apr	56.2	56.6	62.7	58.9	52.4	54.7	52.9	53.9	54.2	52.7	54.3	57.7	54.2
May	55.1	53.9	60.9	55.5	46.6	56.4	53.8	56.0	56.2	52.0	54.8	53.3	53.1

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	45.0	32.6	22.4	+22.7	<b>61.3</b>	<b>58.6</b>
<b>2015</b>	Jan	24.6	17.6	57.8	-33.2	<b>33.4</b>	<b>53.5</b>
	Feb	43.8	24.2	32.0	+11.8	<b>55.9</b>	<b>56.1</b>
	Mar	38.6	28.0	33.4	+5.2	<b>52.6</b>	<b>53.3</b>
	Apr	45.0	28.7	26.3	+18.7	<b>59.4</b>	<b>56.6</b>
	May	37.3	30.0	32.7	+4.5	<b>52.3</b>	<b>53.9</b>

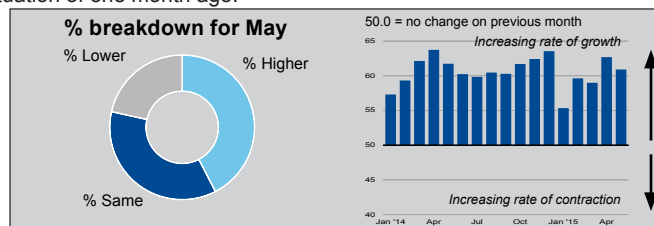


Companies in Kenya reported further output growth in May, continuing the trend observed throughout the survey's short history to date. There were reports that the start-up of new projects and a high customer turnout had led to the latest expansion in activity. Although solid, the rate of increase was weaker than seen in April and subdued in the context of historical data.

**New Orders Index**

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	44.1	45.7	10.2	+33.9	<b>66.9</b>	<b>63.5</b>
<b>2015</b>	Jan	30.9	30.3	38.7	-7.8	<b>46.1</b>	<b>55.3</b>
	Feb	50.3	31.7	18.0	+32.3	<b>66.1</b>	<b>59.6</b>
	Mar	43.3	36.6	20.1	+23.2	<b>61.6</b>	<b>59.0</b>
	Apr	48.0	33.8	18.1	+29.9	<b>65.0</b>	<b>62.7</b>
	May	42.4	36.1	21.5	+20.9	<b>60.5</b>	<b>60.9</b>

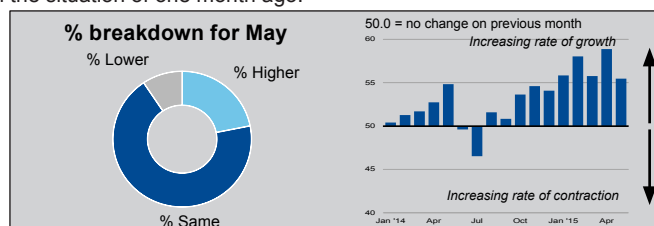


New orders placed with Kenyan private sector firms increased again in May, as signalled by the seasonally adjusted index posting comfortably above the 50.0 no-change mark. Moreover, the rate of growth was marked and broadly in line with the series trend. According to panellists, marketing initiatives, new product launches and company expansions had all helped to boost order book volumes 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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	21.4	67.1	11.4	+10.0	<b>55.0</b>	<b>54.1</b>
<b>2015</b>	Jan	25.0	61.7	13.3	+11.7	<b>55.8</b>	<b>55.8</b>
	Feb	25.0	71.4	3.6	+21.4	<b>60.7</b>	<b>58.0</b>
	Mar	19.2	67.9	12.8	+6.4	<b>53.2</b>	<b>55.8</b>
	Apr	25.8	67.7	6.5	+19.4	<b>59.7</b>	<b>58.9</b>
	May	21.9	68.8	9.4	+12.5	<b>56.3</b>	<b>55.5</b>

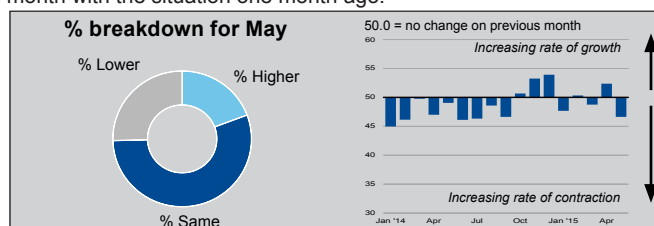


Latest data pointed to the tenth consecutive monthly expansion in new export orders during May. Despite signalling a robust increase, the respective index slipped to a five-month low, having ticked up to a survey-record high in the previous month. Survey participants generally cited new business gains in neighbouring African countries as the key sources of export growth.

**Backlogs of Work Index**

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	25.3	56.8	17.9	+7.5	<b>53.7</b>	<b>53.9</b>
<b>2015</b>	Jan	17.9	37.1	45.0	-27.1	<b>36.5</b>	<b>47.7</b>
	Feb	23.9	52.3	23.9	0.0	<b>50.0</b>	<b>50.3</b>
	Mar	22.8	51.3	25.9	-3.1	<b>48.4</b>	<b>48.8</b>
	Apr	23.0	59.3	17.7	+5.4	<b>52.7</b>	<b>52.4</b>
	May	19.3	55.3	25.4	-6.1	<b>46.9</b>	<b>46.6</b>

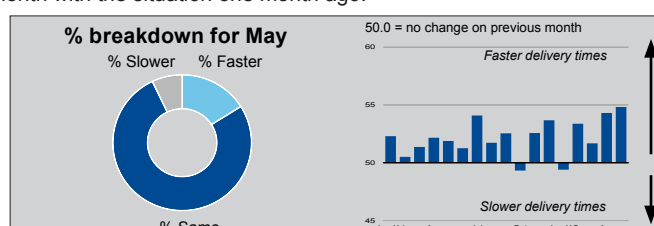


Backlogs of work in the Kenyan private sector economy decreased in May, reversing the upward trend seen in the previous month. Furthermore, the rate of depletion was solid and the quickest in eight months. Outstanding business fell at roughly one-quarter of monitored firms, while around 19% noted an expansion in the latest period.

**Suppliers' Delivery Times Index**

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

		Faster %	Same %	Slower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	16.9	77.0	6.1	+10.9	<b>55.4</b>	<b>53.7</b>
<b>2015</b>	Jan	14.9	67.8	17.3	-2.4	<b>48.8</b>	<b>49.4</b>
	Feb	19.6	70.1	10.3	+9.3	<b>54.7</b>	<b>53.4</b>
	Mar	14.4	74.9	10.7	+3.7	<b>51.8</b>	<b>51.7</b>
	Apr	17.2	75.1	7.7	+9.5	<b>54.8</b>	<b>54.3</b>
	May	16.1	76.8	7.1	+9.0	<b>54.5</b>	<b>54.8</b>

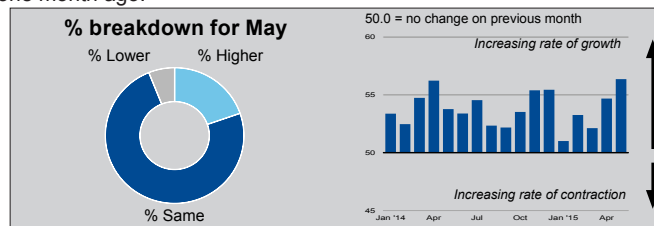


Suppliers' delivery times quickened for the fourth month running in May. Moreover, the extent to which vendor performance improved was the most marked since the survey began in January 2014, with more than 16% of panel members recording shorter lead times during the month. Anecdotal evidence linked faster deliveries to greater demand for inputs.

## Employment Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	13.1	82.5	4.4	+8.8	<b>54.4</b>	<b>55.4</b>
<b>2015</b>	Jan	9.0	83.8	7.2	+1.7	<b>50.9</b>	<b>51.0</b>
	Feb	13.7	80.7	5.6	+8.1	<b>54.0</b>	<b>53.3</b>
	Mar	14.0	75.7	10.3	+3.6	<b>51.8</b>	<b>52.1</b>
	Apr	17.2	76.4	6.3	+10.9	<b>55.4</b>	<b>54.7</b>
	May	19.7	74.2	6.1	+13.6	<b>56.8</b>	<b>56.4</b>

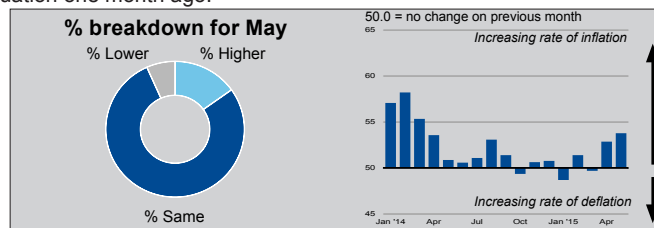


Kenyan private sector firms continued to hire additional staff in May, as has been the case in each of the first 17 months of data collection. The rate of job creation accelerated for the second straight month to a survey-record high, contrasting with slowdowns in growth of output and new business. A number of respondents raised employment in response to company expansions and the start-up of new projects.

## Output Prices Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	10.2	83.5	6.2	+4.0	<b>52.0</b>	<b>50.8</b>
<b>2015</b>	Jan	7.0	81.4	11.6	-4.6	<b>47.7</b>	<b>48.7</b>
	Feb	14.0	76.4	9.6	+4.3	<b>52.2</b>	<b>51.4</b>
	Mar	12.2	76.0	11.9	+0.3	<b>50.2</b>	<b>49.7</b>
	Apr	10.9	83.7	5.4	+5.4	<b>52.7</b>	<b>52.9</b>
	May	15.2	78.2	6.7	+8.5	<b>54.2</b>	<b>53.8</b>

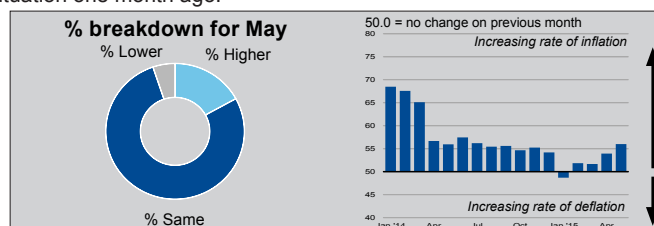


Average selling prices increased at a sharper rate in May, as shown by the seasonally adjusted Output Prices Index moving further above the crucial 50.0 threshold. The latest rise was the quickest since March of last year, with companies pointing to higher purchasing costs and a depreciation of the Kenyan shilling against both the US dollar and the euro as contributing factors.

## Overall Input Prices Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	18.0	75.2	6.8	+11.2	<b>55.6</b>	<b>54.2</b>
<b>2015</b>	Jan	11.6	74.3	14.2	-2.6	<b>48.7</b>	<b>48.7</b>
	Feb	19.3	68.6	12.1	+7.1	<b>53.6</b>	<b>51.9</b>
	Mar	12.8	77.5	9.7	+3.0	<b>51.5</b>	<b>51.7</b>
	Apr	17.6	76.7	5.8	+11.8	<b>55.9</b>	<b>53.9</b>
	May	17.0	77.8	5.2	+11.9	<b>55.9</b>	<b>56.0</b>

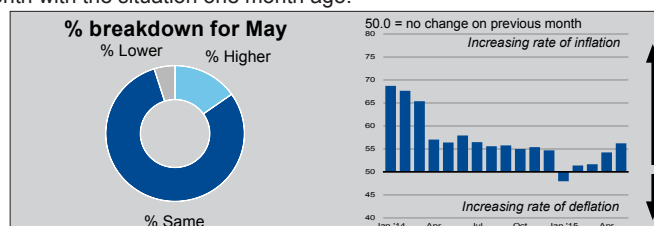


Total input prices rose for the fourth month in a row during May. The rate of increase picked up to the steepest since last July, although remained weaker than those seen in early-2014. Underlying data suggested that overall cost pressures were mainly driven by higher purchase prices, while staff costs continued to rise at a moderate pace.

## Input Costs: Purchase Prices Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	15.5	77.0	7.5	+8.1	<b>54.0</b>	<b>54.7</b>
<b>2015</b>	Jan	10.4	75.7	13.9	-3.5	<b>48.3</b>	<b>48.0</b>
	Feb	16.8	70.8	12.4	+4.3	<b>52.2</b>	<b>51.4</b>
	Mar	12.5	77.5	10.0	+2.4	<b>51.2</b>	<b>51.7</b>
	Apr	14.2	79.7	6.1	+8.2	<b>54.1</b>	<b>54.2</b>
	May	15.2	79.9	4.9	+10.3	<b>55.2</b>	<b>56.2</b>

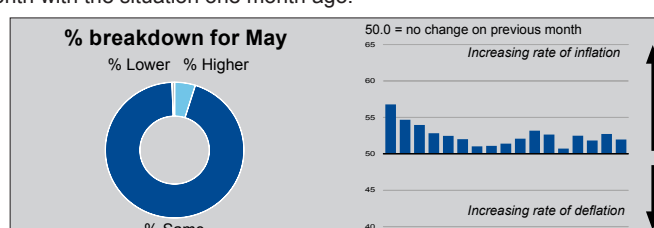


Purchasing costs faced by Kenyan private sector businesses increased at the fastest rate in ten months during May. Approximately 15% of surveyed companies reported a rise in purchase prices, three times the proportion that noted a reduction. Some panel members commented on the weakness of the shilling against the dollar, while others mentioned higher prices paid for raw materials, particularly food and energy.

## Input Costs: Staff Costs Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	4.3	95.0	0.6	+3.7	<b>51.9</b>	<b>52.6</b>
<b>2015</b>	Jan	7.2	90.8	2.0	+5.2	<b>52.6</b>	<b>50.7</b>
	Feb	6.5	92.9	0.6	+5.9	<b>53.0</b>	<b>52.5</b>
	Mar	4.6	93.9	1.5	+3.0	<b>51.5</b>	<b>51.8</b>
	Apr	5.4	93.4	1.2	+4.2	<b>52.1</b>	<b>52.7</b>
	May	4.8	94.5	0.6	+4.2	<b>52.1</b>	<b>52.0</b>

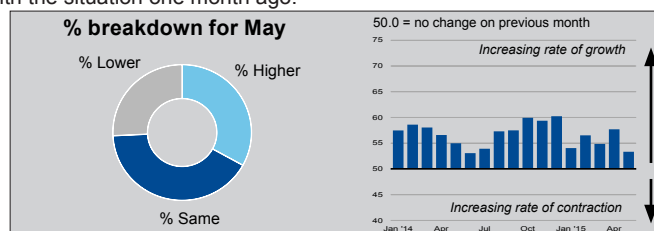


Average staff costs rose again in May. That said, the rate of salary growth was only moderate overall, and slower than the average registered over nearly one-and-a-half years of data collection. Those companies that raised wages attributed this to a variety of factors including stronger employee performance, higher living costs and overtime payments.

## Quantity of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	38.8	45.0	16.1	+22.7	<b>61.3</b>	<b>60.2</b>
<b>2015</b>	Jan	26.0	24.6	49.4	-23.4	<b>38.3</b>	<b>54.0</b>
	Feb	42.9	32.0	25.2	+17.7	<b>58.9</b>	<b>56.5</b>
	Mar	34.3	40.4	25.2	+9.1	<b>54.6</b>	<b>54.9</b>
	Apr	40.8	40.5	18.7	+22.1	<b>61.0</b>	<b>57.7</b>
	May	33.0	41.2	25.8	+7.3	<b>53.6</b>	<b>53.3</b>

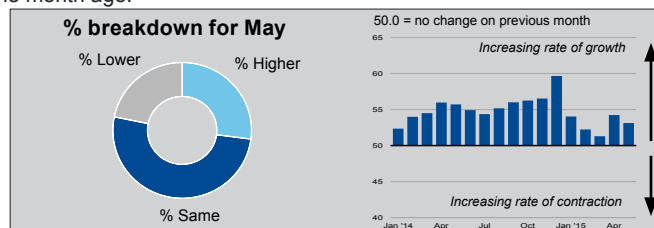


Growth of purchasing activity eased to an 11-month low in May, reflective of slower expansions in output and new work intakes. Nonetheless, the latest increase was solid overall, with approximately one-in-three survey participants having raised their quantity of purchases during the month. Where input buying rose, this was associated with strong demand conditions and the opening of new branches.

## Stocks of Purchases Index

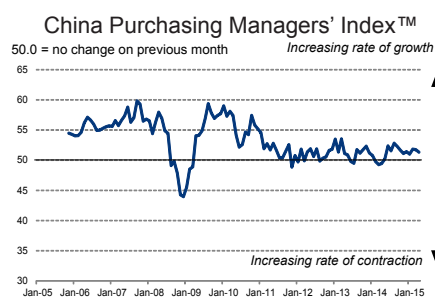
Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2014</b>	Dec	34.8	52.4	12.8	+22.0	<b>61.0</b>	<b>59.7</b>
<b>2015</b>	Jan	19.9	41.0	39.1	-19.3	<b>40.4</b>	<b>54.0</b>
	Feb	27.9	49.3	22.8	+5.2	<b>52.6</b>	<b>52.2</b>
	Mar	25.6	52.4	22.0	+3.6	<b>51.8</b>	<b>51.3</b>
	Apr	32.4	50.3	17.3	+15.0	<b>57.5</b>	<b>54.2</b>
	May	27.1	51.2	21.8	+5.3	<b>52.6</b>	<b>53.1</b>

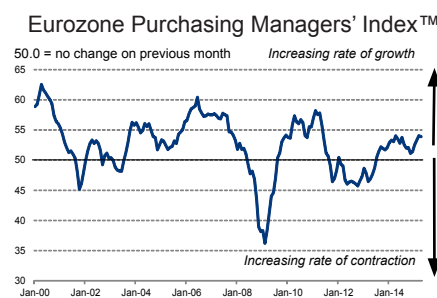


Stocks of raw materials and semi-manufactured goods also rose more slowly in May, mirroring the trend observed for buying activity. Although solid, the rate of inventory building was subdued relative to the series trend. Around 27% of panellists indicated that input stocks had risen, in comparison with 22% that noted a contraction.

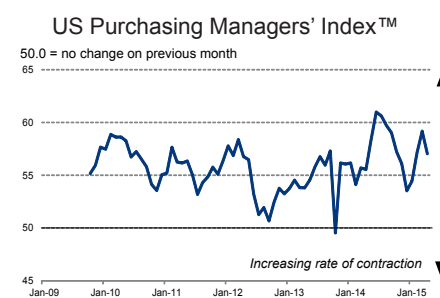
## International PMI summary



Sources: Markit, HSBC



Source: Markit



Source: Markit

HSBC China Composite PMI data (which covers both manufacturing and services) indicated an expansion of Chinese business activity in April, as has been the case in each month throughout the past year. However, the pace of activity growth weakened slightly to a three-month low, with the HSBC Composite Output Index posting at 51.3, down from 51.8 in March.

April saw the rate of expansion in eurozone economic output hold broadly steady at March's 11-month high. This was highlighted by the Markit Eurozone PMI Composite Output Index posting 53.9, little-changed from 54.0 in March.

The seasonally adjusted Markit U.S. Composite PMI Output Index (covering manufacturing and services) posted 57.0 in April, down from 59.2 in March and the lowest reading for three months. Slower growth of U.S. private sector output reflected weaker increases in both manufacturing production and service 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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