

# Stanbic Bank Kenya PMI™

compiled by markit

## Steady private sector growth continues in September

### Key findings:

- PMI little-changed throughout third quarter; signals another solid improvement in business conditions
- Sharp rise in purchasing activity helps fuel output growth
- Expansion of new work eases but remains marked

Kenya's private sector remained in good health at the end of the third quarter, with business conditions improving at a solid pace. Expansions of output, new orders, employment and purchasing all supported growth of the sector as a whole. In particular, activity rose at the fastest pace in seven months. This led in turn to substantial inventory building aimed at catering for current and future output requirements. Cost pressures were meanwhile historically muted, allowing some firms to lower their charges in an effort to attract new clients. Selling prices were unchanged overall.

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.

September's PMI saw a continuation of the recovery in growth shown in the preceding two months following June's slowdown. The seasonally adjusted index posted 53.5, barely changed from July (53.3) and August (53.5) but higher than the record low seen at the end of the second quarter (51.5). The latest figure pointed to a solid improvement in business conditions.

Output growth picked up to a seven-month high in September. That extended the strong growth trend seen over the third quarter, and contrasted with a near-stagnation recorded in June. Higher activity was widely linked to new client wins.

Reports of improving demand were evidenced in latest survey numbers, as new business rose markedly again. However, the rate of expansion eased to a three-month low, and was muted in the context of historical data.

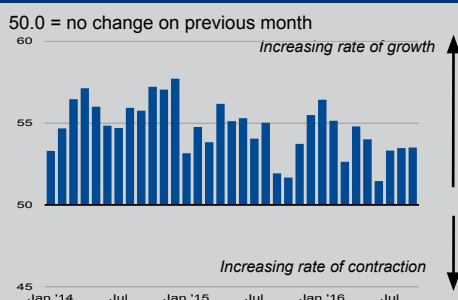
The amount of new export work meanwhile rose for the second successive month in September. Anecdotal evidence highlighted expansion into new markets such as Namibia, Sudan and Ethiopia.

On the jobs front, Kenyan private sector firms took on extra staff in September. Moreover, the rate of hiring was at a four-month high. The rise in employment was insufficient to lift capacity pressures, however, as backlogs rose to the greatest extent in the series history. Some companies mentioned a lack of funding for ongoing projects.

Greater output requirements had the knock-on effect of increased purchasing, latest data showed. Buying activity increased sharply, as did stocks of purchases. In fact, the rate of inventory building was the second-sharpest on record.

Finally, input costs rose at a relatively subdued rate in September. This enabled some businesses to reduce their charges in an effort to secure new business. Output prices were unchanged overall, ending a run of five consecutive rises.

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



### Purchasing Managers' Index

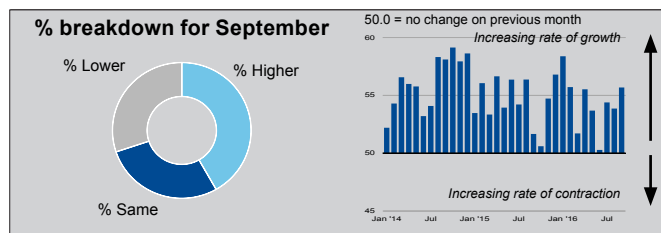
		Unadj.	Seas. Adj.
<b>2016</b>	Jul	53.1	53.3
	Aug	54.5	53.5
	Sep	53.7	53.5

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.*

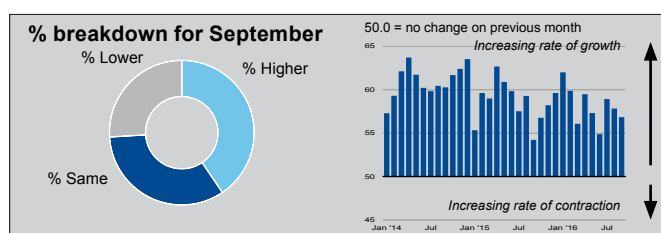
Growth of Kenyan private sector growth accelerated to a seven-month high in September. The latest rise continued the sequence of solid expansions in activity seen over the third quarter, following a near-stagnation recorded in June. Nearly 42% of survey participants reported an increase since the prior month, with a number commenting on new client wins.



## New Orders Index

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

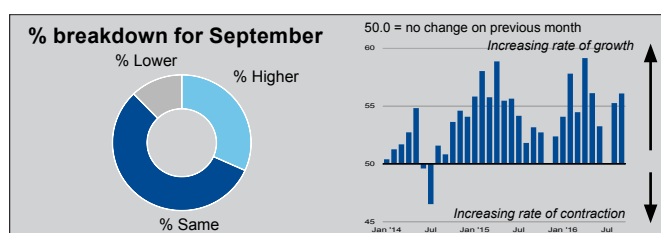
New business continued to rise sharply in September, as has been the case in every month of data collection so far. Around 41% of respondents noted an increase in new work, versus 26% that registered a decline. That said, the rate of growth eased for the second successive month, and was below the series average.



## New Export Orders Index

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

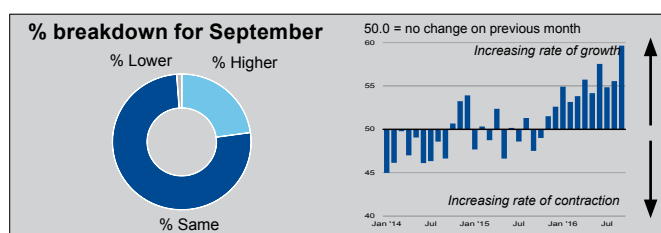
After having stagnated in July, new export orders rose solidly for the second successive month in September. This was signalled by the seasonally adjusted index posting comfortably above the crucial 50.0 mark. Some firms indicated that they had expanded into new African export markets. Namibia, Sudan and Ethiopia were all mentioned.



## Backlogs of Work Index

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

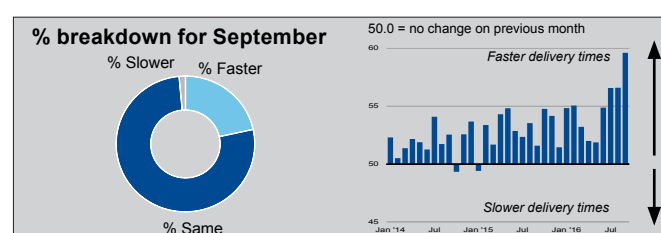
September data pointed to the sharpest increase in outstanding business since the survey started in January 2014. Roughly 23% of panellists reported greater levels of work-in-hand, against just 1% that posted a decline. Capacity pressures were mainly attributed to new order inflows, though some companies also blamed a lack of funding for ongoing projects.



## Suppliers' Delivery Times Index

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

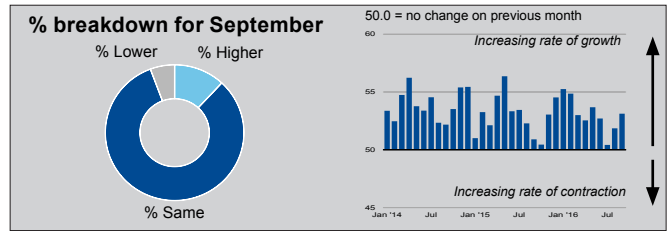
Average lead times faced by Kenyan private sector businesses shortened further in September. The latest improvement in vendor performance was substantial, as shown by the seasonally adjusted index climbing to a survey-record high. A number of panellists praised suppliers for speeding up deliveries in response to greater demand for inputs.



**Employment Index**

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

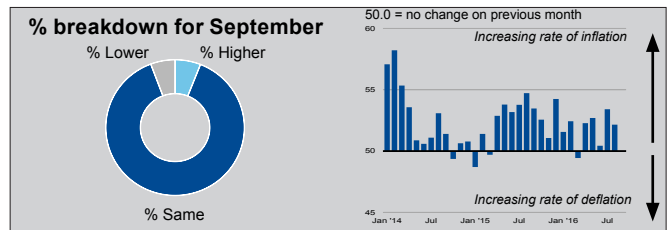
Continuing the trend observed throughout the survey's history to date, Kenyan private sector employment increased in September. The rate of job creation picked up to a four-month high and was broadly in line with the series average. Approximately twice as many respondents noted a rise (12%) than a fall (6%).



**Output Prices Index**

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

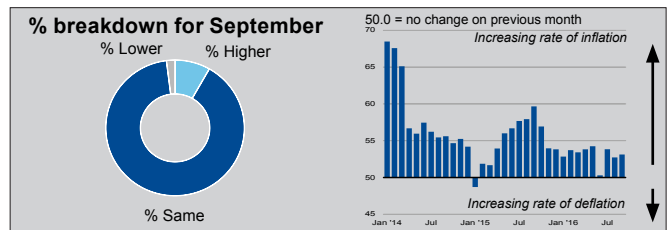
Output prices were unchanged in September, thereby ending a five-month sequence of rises. Stable charges also contrasted with the upward trend observed over the survey's history. There were still reports of selling prices being raised in line with higher input costs, but these were offset by discounting in an effort to attract new clients.



**Overall Input Prices Index**

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

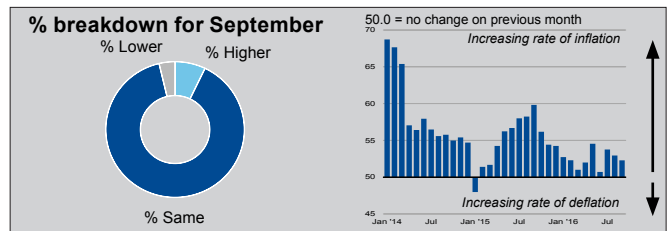
Overall input prices in Kenya's private sector rose for the twentieth month in a row at the end of the third quarter. The increase was solid overall, having quickened slightly since August. That said, it remained slower than those seen throughout 2014 and much of 2015. Underlying data pointed to modest rises in both salaries and purchasing costs.



**Input Costs: Purchase Prices Index**

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

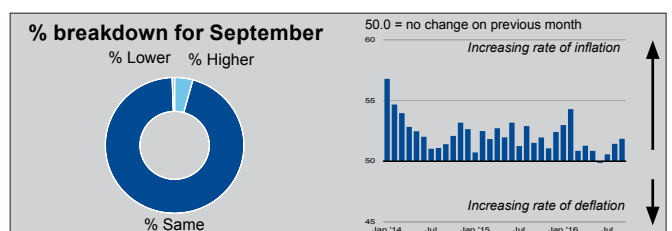
Purchase prices increased at the weakest rate in three months during September. The latest rise was muted relative to the series average, with most of the panel (89%) signalling no change since August. Where an increase was reported, it was generally linked to higher prices for some raw materials.



**Input Costs: Staff Costs Index**

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

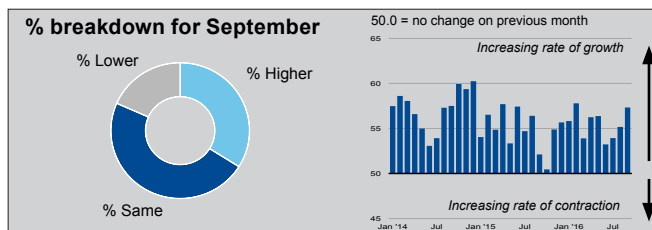
Average salaries paid by Kenyan private sector firms rose for the third consecutive month in September. Though still modest, the rate of salary growth was the fastest since February. A small minority of panel members (4%) recorded an increase in wages, while the overwhelming majority (95%) saw no change.



### Quantity of Purchases Index

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

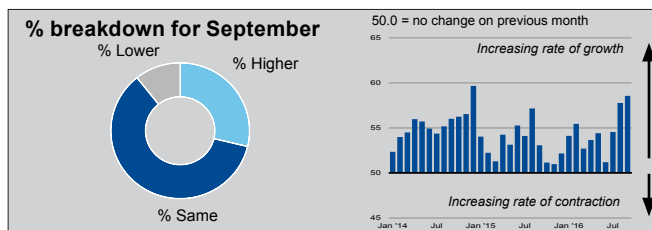
Kenyan private sector companies raised their input buying further in September, with the rate of expansion picking up to the most marked in seven months. The proportion of respondents noting growth (34%) was almost double that which saw a contraction (18%). Panellists commented on new projects and hence greater output requirements.



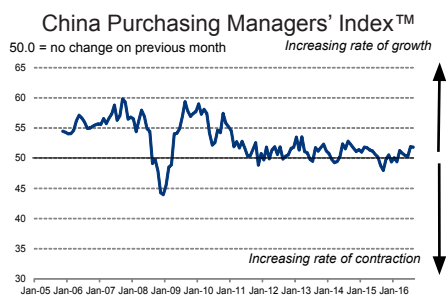
### Stocks of Purchases Index

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

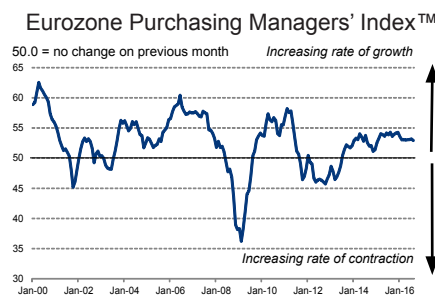
The rate of pre-production inventory building accelerated for the third straight month in September. The latest rise was the second-quickest since the survey began more than two-and-a-half years ago, behind only that seen in December 2014. According to anecdotal evidence, higher input stocks were needed to cope with rising output requirements.



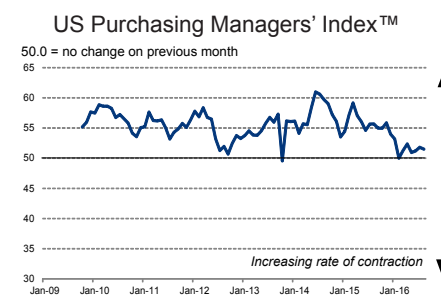
### International PMI summary



Sources: Caixin, IHS Markit



Source: IHS Markit



Source: IHS Markit

The latest set of Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a further rise in Chinese business activity during August, with the rate of expansion little changed from that seen in July. This was shown by the Composite Output Index falling only fractionally from July's 22-month high of 51.9 to 51.8 in August.

The eurozone economy continued to expand at a broadly steady pace in August. The rate of increase edged down to a 19-month low, however. The Markit Eurozone PMI Composite Output Index posted 52.9 in August, down from 53.2 in July.

The Markit U.S. Composite PMI Output Index registered 51.5 in August, down slightly from 51.8 in July. The latest reading signalled a marginal expansion of private sector activity and was in line with the average recorded in 2016 so far. Manufacturing production growth was unchanged from July's eight-month high, and continued to outperform services 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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