

# Stanbic Bank Kenya PMI™

## Business conditions deteriorate at survey-record pace

### Key findings:

- PMI falls to new low of 42.0
- Record contraction in output
- Employment and new orders fall for first time since the inception of the survey in January 2014

Latest survey data indicated the worst deterioration in the health of the Kenyan private sector in the short survey history during August. This was driven by sharp falls in output, new orders and stocks of purchases. In response to lower output requirements, firms reduced their payroll numbers. On the price front, divergent trends were observed as overall input costs rose, while firms continued to reduce output charges.

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 fell to a survey-record low of 42.0 in August from 48.1 in July. This was consistent with a sharp deterioration in business conditions across Kenya's private sector. The headline PMI index has now recorded below the 50.0 no-change mark for five of the past six months.

The overall downturn was driven by a fall in business activity. Output fell for the fourth month in succession. Moreover, the rate of contraction was the sharpest recorded since the inception of the survey in January 2014. Low money circulation and weak demand conditions were the key reasons cited by panellists behind a fall in output.

New orders fell for the first time in the survey's history. Also, the

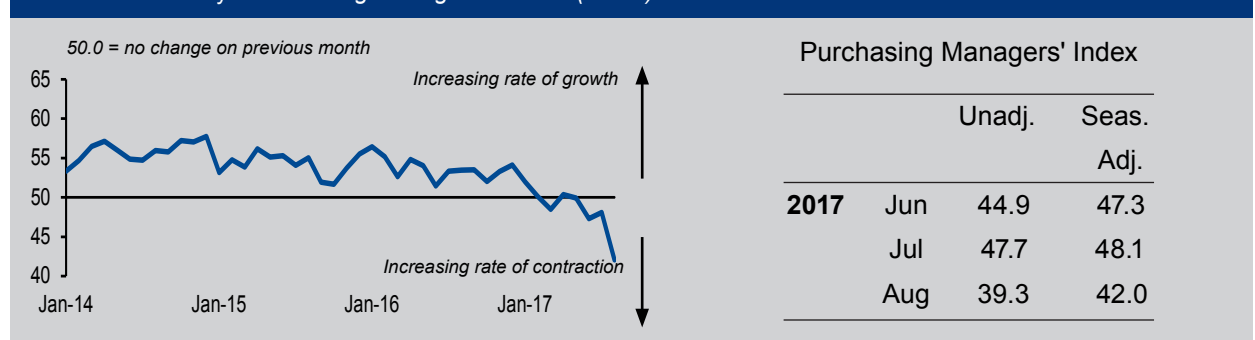
rate of contraction was sharp overall. Firms attributed a decline in domestic demand to a lower customer turnout due to the political climate and weaker purchasing power among clients. New export orders fell for the first time in over three years as international demand for Kenyan goods and services was reduced.

Employment in the Kenyan private sector fell during August, the first decline in the survey history. The rate of job shedding was marginal, however. A number of monitored companies commented on weak demand and staff voluntarily leaving for better job opportunities.

Purchasing activity in the Kenyan private sector decreased for the second month in succession during August. The rate of contraction was the fastest recorded in the survey's history. Subsequently, inventories held by private sector firms contracted during August.

On the price front, divergent trends were observed across the Kenyan private sector. Firms continued to offer discounts despite greater cost pressures. The rate of decline in output charges was modest, but the fastest observed in the survey's history. The rise in overall input costs reflected higher purchasing and staff costs. The rate of inflation eased to the slowest since June 2016 and was weaker than the long-run average, however.

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

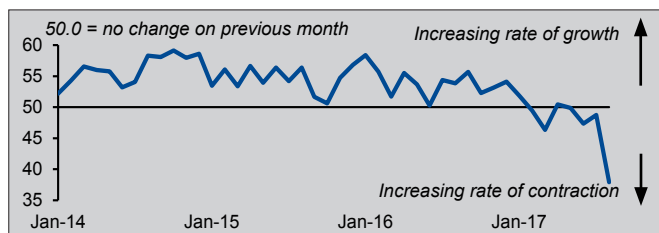


The Stanbic Bank Kenya Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the Kenyan economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks 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.*

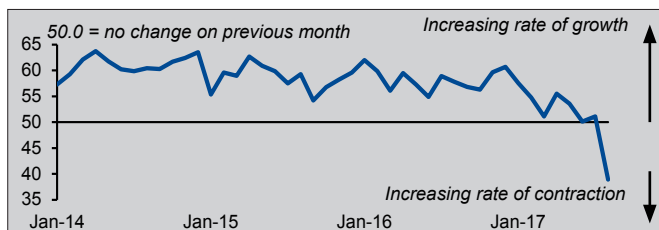
Output fell for the fourth consecutive month during August. The rate of contraction quickened to the fastest since the inception of the survey in January 2014. Where lower output was reported, monitored companies widely linked this to weaker demand conditions and low money circulation.



### New Orders Index

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

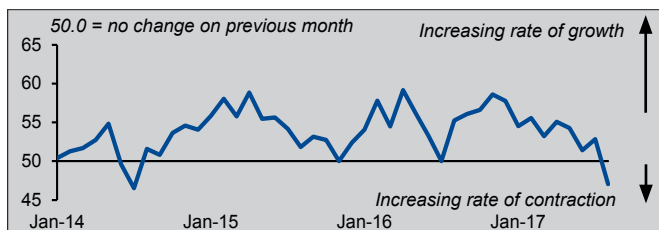
Following an unbroken sequence of expansion, new orders fell for the first time in the survey's history during August. Moreover, the rate of contraction was sharp overall. More than twice as many panellists registered a decrease in new orders (47%) as a rise (17%). Firms attributed reductions in new orders to lower customer turnout due to the political climate and weaker purchasing power among clients.



### New Export Orders Index

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

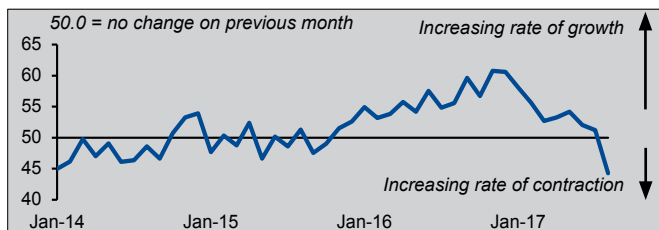
Ending a 20-month period of expansion, new export orders fell during August. Overall, the rate of decline was solid. Almost 21% of survey participants reported lower demand from overseas markets, while roughly 15% of firms saw growth of international trade. Where a decline was registered, firms commented on weaker foreign demand for Kenyan goods and services.



### Backlogs of Work Index

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

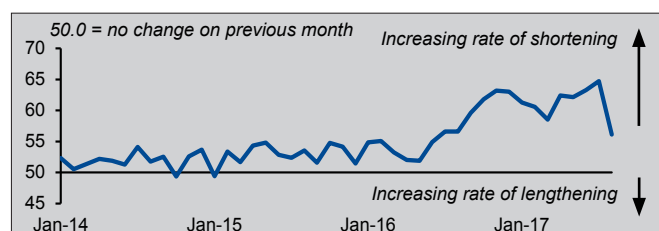
The seasonally adjusted Backlogs of Work Index fell below the neutral 50.0 threshold for the first time in 22 months, signalling a sharp rate of contraction in backlogs. More than twice as many panellists reported a reduction (18%) in backlogs as an increase (7%). The ongoing downturn in activity was cited as the key reason behind spare capacity in the private sector.



### Suppliers' Delivery Times Index

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

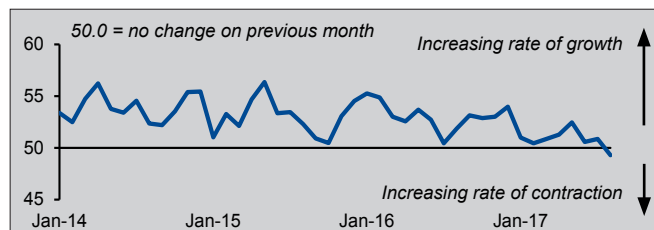
Continuing the historic series trend, average lead times shortened during August. Faster delivery times were attributed to timely payments and high competition among suppliers, according to anecdotal evidence. The degree of vendor improvement was the weakest since June 2016, however.



### Employment Index

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

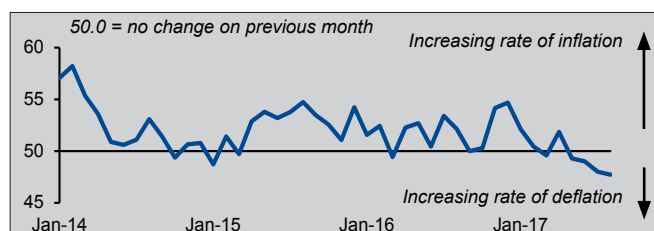
Reversing the upward trend previously seen throughout the survey to date, employment fell during August. According to those panellists that reported lower payroll numbers, this occurred due to reduced new orders and staff leaving voluntarily for better job opportunities. However, the rate of job shedding was marginal as the vast majority of panellists (92%) registered no change in employment.



### Output Prices Index

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

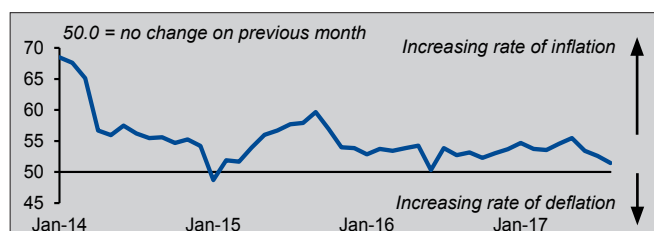
Amid reports of efforts to stimulate demand, firms reduced their average selling prices for the fourth month in succession in August. The rate of decline was the fastest observed since the inception of the survey. Around 5% of firms indicated lower output charges, while 4% posted higher output prices.



### Overall Input Prices Index

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

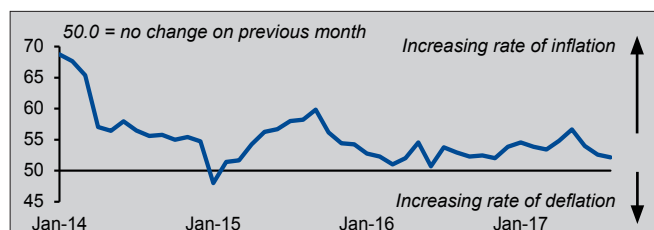
Overall input prices rose during August. Underlying data signalled that the increase in overall input prices was driven by higher purchasing and staff costs, with the stronger increase registered for the former. That said, the rate of inflation eased to the slowest since June 2016 and was below the long-run series average.



### Input Costs: Purchase Prices Index

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

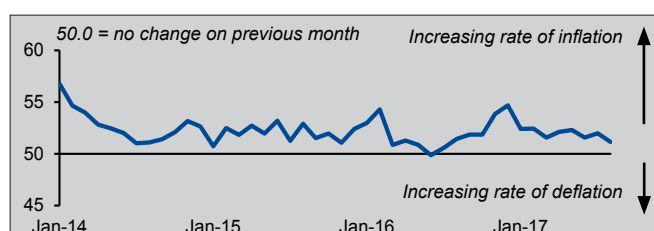
With food prices, taxation and fuel prices reportedly up since July, average purchasing costs rose during August. Mirroring the trend seen for overall input prices, the rate of inflation eased to the weakest since June 2016 and was modest overall, as the vast majority of panellists registered no change in purchasing costs.



### Input Costs: Staff Costs Index

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

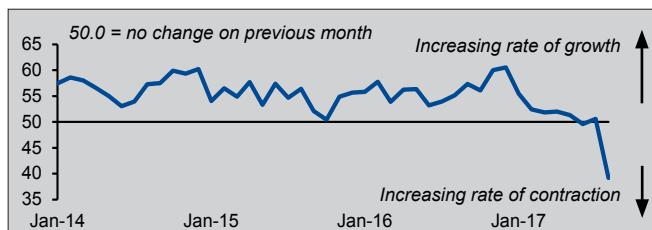
Average staff costs rose for the fourteenth consecutive month during August. Where an increase was reported, firms commented on providing compensation to casual employees for working overtime. The rate of inflation was marginal, however, and weaker than the long-run series average. The vast majority of panellists (99%) posted no change in salaries.



### Quantity of Purchases Index

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

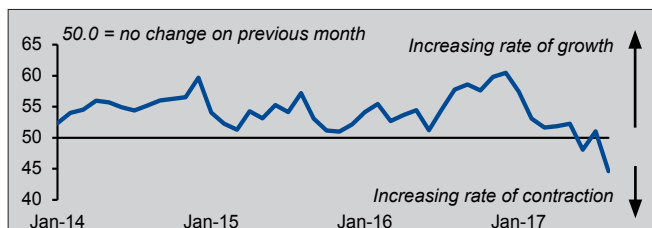
Purchasing activity fell for the second time in the past three months in August. Moreover, the rate of decline was the fastest seen since the inception of the series in January 2014. Almost 39% of firms reported lower purchasing activity, compared to 17% indicating higher input buying. Reduced purchasing reflected lower output requirements, according to anecdotal evidence.



### Stocks of Purchases Index

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

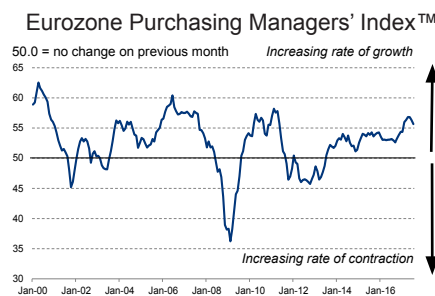
Mirroring the trend for input buying, inventories held by Kenyan private sector firms fell during August. The rate of contraction was sharp overall, as one-in-five panellists registered lower stock holdings. Where a decline was registered, survey respondents commented on weaker market demand conditions.



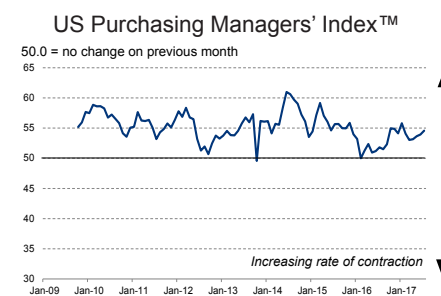
### International PMI summary



Sources: Caixin, IHS Markit



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI data (which covers both manufacturing and services) signalled an improvement in the rate of Chinese business activity growth at the start of the third quarter. This was shown by the Composite Output Index rising from June's recent low of 51.1 to a four-month high of 51.9 in July.

The IHS Markit Eurozone PMI Composite Output Index posted a six-month low of 55.7 in July, down from 56.3 in June. The headline index has signalled expansion throughout the past 49 months.

The seasonally adjusted IHS Markit U.S. Composite PMI Output Index rose to 54.6 in July, up from 53.9 in the previous month. The latest composite figure signalled a pick up in momentum supported by stronger output growth in both the manufacturing and service sectors.

### 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. IHS 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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