

Stanbic Bank Kenya PMI™

compiled by markit

Business conditions improve at slower rate

Key findings:

- Business activity grows at weakest rate in seven months
- New orders increases at slower, but still sharp rate
- Purchase price inflation climbs to eight-month high

The Kenyan private sector improved further during January, although to the least extent in three months. Underpinning the latest improvement was a sharp expansion in new work which was supported by a steep increase in new export orders. Firms raised their payroll numbers slightly, while there were signs of ongoing pressure on operating capacity. Output increased at a modest pace that was the weakest since mid-2016. On the price front, charges rose for the fourth successive month amid a further increase in input costs.

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 52.0, the seasonally adjusted PMI was consistent with a modest improvement in the health of the Kenyan private sector at the start of 2017. The respective index slipped back from the eight-month high of 54.1 in December and was below the series average (54.5).

Having accelerated in the previous two months, output growth softened to a moderate pace in January. Anecdotal evidence linked the increase to improved market demand. However, growth was reportedly restricted by cash shortages.

January saw a sharp albeit softer rise in new business. A

number of firms mentioned that promotional activities had boosted demand. Another factor supporting growth of total new orders was a robust expansion in new business from abroad.

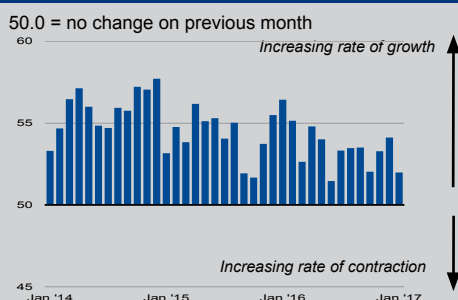
Reflective of increased output, firms raised their staffing levels in January, but at the weakest rate in six months. Concurrently, capacity pressures continued to build, with backlogs accumulating for the fifteenth successive month. A number of companies indicated that greater workloads was the primary factor behind the latest increase in outstanding business. Also, some firms mentioned financial constraints.

On the price front, higher raw material costs were reported to be the primary factor behind another steep increase in overall input costs, with wage inflation softening in January. Average prices charged rose for the fourth month running, but the rate of inflation was at a three-month low. Firms were reportedly restricted in their ability to fully pass on increased cost burdens to clients as they faced intense market competition.

In response to increased production requirements, purchasing activity rose at a steep pace in January. As a result, pre-production inventories rose at the start of the year.

Finally, average vendor performance improved at the start of the year despite pressure on suppliers' capacity. The degree to which delivery times shortened was sharp.

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



Purchasing Managers' Index

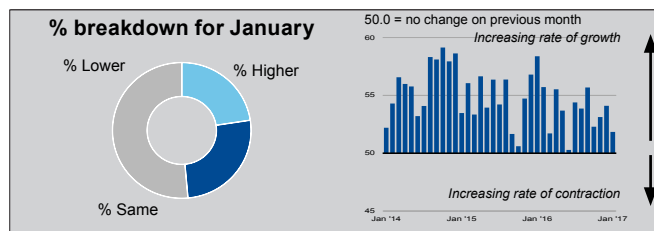
		Unadj.	Seas. Adj.
2016	Nov	55.5	53.3
	Dec	57.6	54.1
2017	Jan	45.1	52.0

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.

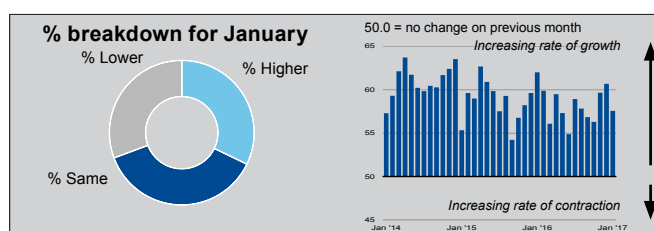
Private sector business activity in Kenya rose in January, as has been the case since the survey started in January 2014. That said, the rate of growth eased to a modest pace that was the slowest in seven months. Companies that reported higher output attributed the increase to stronger underlying demand.



New Orders Index

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

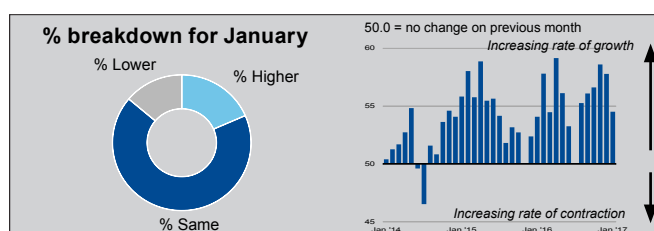
Volumes of incoming new business increased again during January, a trend that has been observed in each month since the inception of the survey. Though sharp, the rate of expansion softened since December and was below the series average. Companies that reported higher new order intakes generally commented on greater marketing efforts.



New Export Orders Index

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

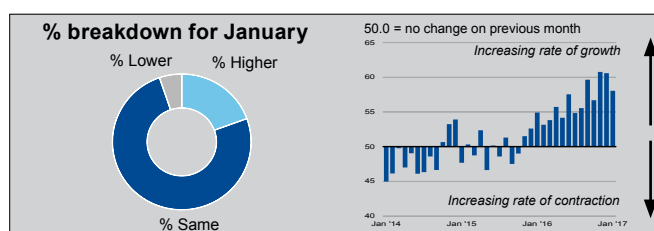
The increase in new business from abroad was the weakest in six months, but marked overall. January's index reading was also above the series average (54.0). Roughly 19% of firms reported a rise in new export sales, with a number of companies mentioning improved foreign demand. By comparison, new export orders decreased at 14% of firms.



Backlogs of Work Index

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

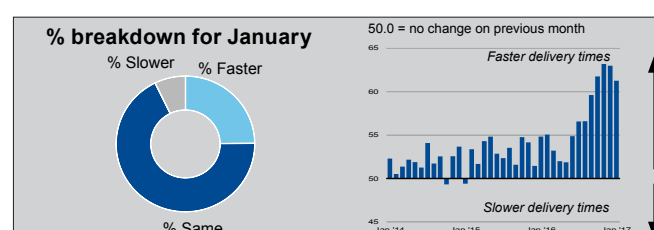
Backlogs of work at Kenyan private sector firms increased for the fifteenth month running at the start of the year. The rate of accumulation softened since December, but remained sharp overall. Companies frequently cited improved customer demand as the primary factor behind the increase in work-in-hand, while some panellists also mentioned financial constraints.



Suppliers' Delivery Times Index

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

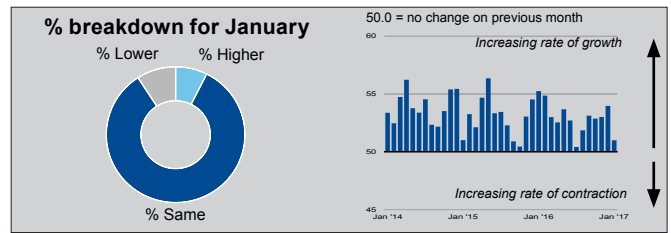
Average lead times faced by Kenyan private sector companies shortened again in January. Overall, the latest improvement in vendor performance was sharp. Approximately 25% of respondents reported faster delivery times, compared with 7% that noted slowdown. Panel data pointed to pressure on suppliers' capacity.



Employment Index

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

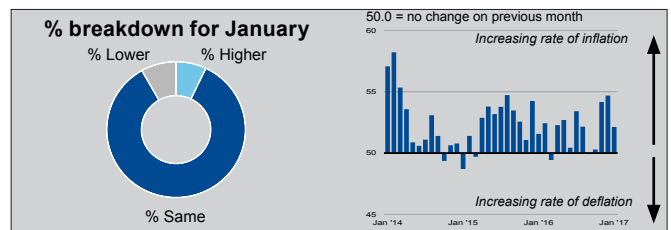
Kenyan private sector firms expanded their workforce numbers at the start of the year. That said, the seasonally adjusted Employment Index was indicative of a slight rate of growth that was the weakest in six months. Where additional employees were hired, firms commonly attributed this to greater production requirements.



Output Prices Index

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

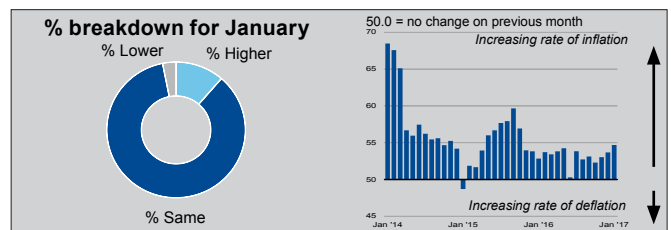
Output charges set by Kenyan private sector companies increased in January for the fourth month in succession. Having eased to the slowest since October, the rate of charge inflation was moderate and below the series average. Firms that raised their selling prices frequently linked this to passing on of higher input costs to clients.



Overall Input Prices Index

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

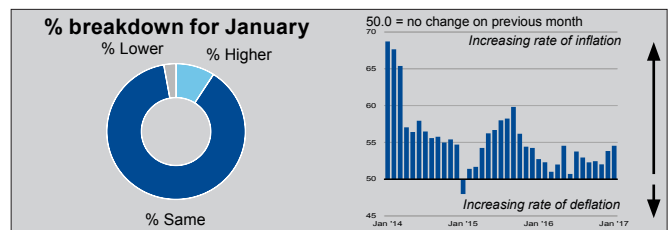
Input costs facing Kenyan private sector companies rose sharply in January, with the rate of inflation accelerating to a 15-month high. According to latest data, upward pressures to overall costs were driven by a stronger increase in purchasing prices as wage inflation eased in the opening month of 2017.



Input Costs: Purchase Prices Index

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

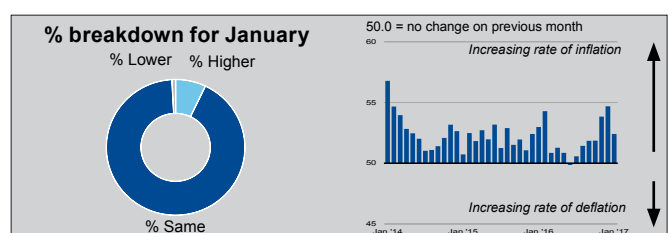
The seasonally adjusted Purchases Price Index climbed to an eight-month high in January to signal a marked rate of inflation. That said, the rate of increase was slightly weaker than the long-run series average. According to panellists, higher raw material costs were the key reason behind the latest upturn in purchasing prices.



Input Costs: Staff Costs Index

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

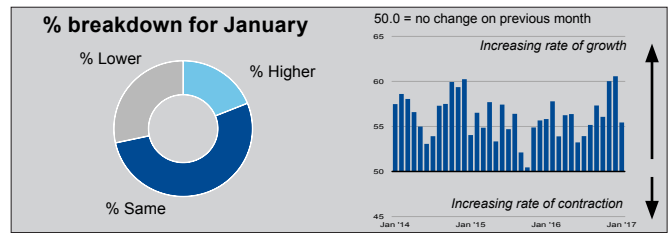
Average salaries awarded to Kenyan private sector employees rose for the seventh consecutive month in January. More than seven times as many respondents recorded a rise in staff costs (7%) as posted a fall (1%). Where an increase in wages was signalled, panellists linked this to ongoing efforts to motivate staff. Overall, the latest rise was modest and the lowest since last October.



Quantity of Purchases Index

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

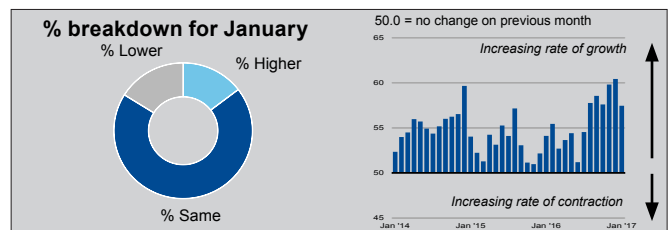
Growth of input buying across the Kenyan private sector slowed to the weakest in five months at the start of 2017. Nonetheless, the quantity of purchases still increased at a sharp rate overall. According to anecdotal evidence, higher new order intakes had prompted surveyed firms to scale up buying levels.



Stocks of Purchases Index

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

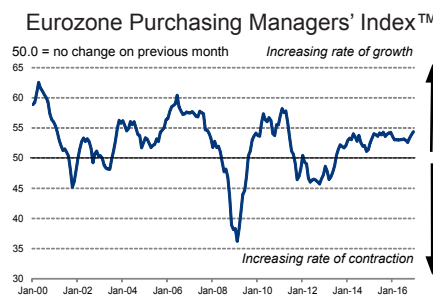
The seasonally adjusted Stocks of Purchases Index signalled a increase in pre-production inventories, as has been the case in each month since the series began in January 2014. The pace of expansion softened compared to the previous month, but remained steep overall. Those panellists that raised input stocks did so in anticipation of further improvements in client demand.



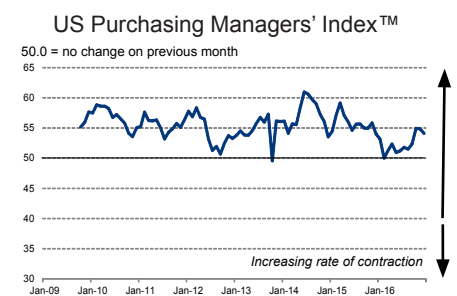
International PMI summary



Sources: Caixin, IHS Markit



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a further marked rise in business activity across China in December, with the rate of expansion picking up since the previous month. Moreover, the Composite Output Index was up from 52.9 in November to a 45-month high of 53.5 at the end of 2016.

At 54.4 in December, up from November's 53.9, the Markit Eurozone PMI Composite Output Index signalled a solid and quicker rate of expansion. Manufacturing led the growth acceleration, with production increasing at the quickest pace since April 2014. Service sector activity also rose solidly, with the rate of increase staying close to November's 11-month high.

The seasonally adjusted Markit U.S. Composite PMI Output Index registered 54.1 in December, down slightly from 54.9 in November but above the 50.0 no-change mark for the tenth consecutive month. Moreover, the average reading for the final quarter of 2016 (54.6) was the strongest since Q4 2015.

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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