

Stanbic Bank Kenya PMI™

Business conditions continue to deteriorate

Key findings:

- Output falls further, but at a slower pace
- Marginal increase in new orders
- Renewed rises in purchasing activity and inventories

July's survey of Kenyan private sector firms indicated a further deterioration in business conditions, although at a slower and modest pace. The overall contraction of the private sector was driven by declining output, albeit a slower fall than in June. New orders and employment rose, but only marginally. Purchasing activity and inventories observed renewed gains. Despite facing higher cost burdens, firms offered discounts amid reports of intense competitive conditions.

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 rose from a survey-record low of 47.3 to 48.1 in July. This was indicative of a modest contraction of the private sector in July, but was still the second-lowest in the series to date. The PMI has now been registered below the neutral 50.0 threshold for the third consecutive month, the longest sequence of decline recorded since the inception of the series in January 2014.

Output fell for the third consecutive month, contributing to the overall downturn in the private sector. That said, the rate of decline slowed, and was only marginal. Where a decrease was registered, firms widely linked this to the upcoming election, customers facing money shortages, high inflationary pressures

and weak demand.

Having stagnated at the end of the second quarter, new orders rose in July. The rate of increase was only marginal, however. A number of surveyed firms attributed new client wins to promotional activities.

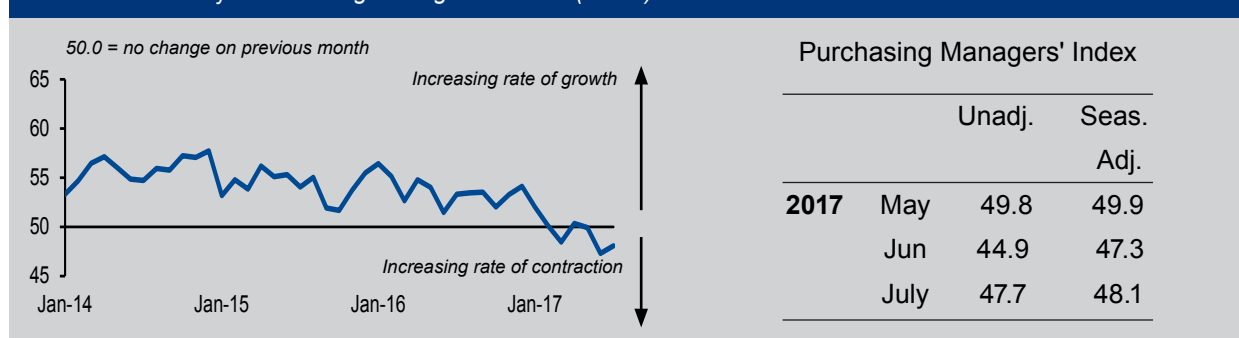
In contrast, new export orders expanded at a solid pace, but one that remained weaker than the average of the current 12-month period of growth. Panellists commented on greater demand from key international export markets.

Backlogs rose in the Kenyan private sector during July. The rate of increase eased to the weakest in the current 21-month sequence of growth, however. New customers and cash flow constraints were reported to be the key reasons behind greater capacity pressures. As a result, employment continued to rise in July, albeit only marginally.

The falls in purchasing activity and inventories registered in June proved short-lived, as the survey signalled renewed rises in both in the latest period. Panellists linked expansions in purchasing and stocks to expectations of future improvements in demand.

On the price front, underlying data indicated further pressure on companies' margins, as firms faced higher cost burdens but continued to offer discounts amid intense competitive

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

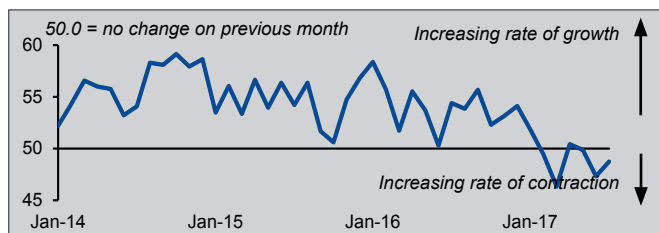


The Stanbic Bank Kenya Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the Kenyan economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks 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 trademarks of Markit Economics Limited or licensed to Markit Economics Limited. Stanbic Bank use the above marks under licence. IHS Markit is a registered trademark of IHS Markit Group Limited.

Output Index

Q. Please compare your production/output this month with the situation one month ago.

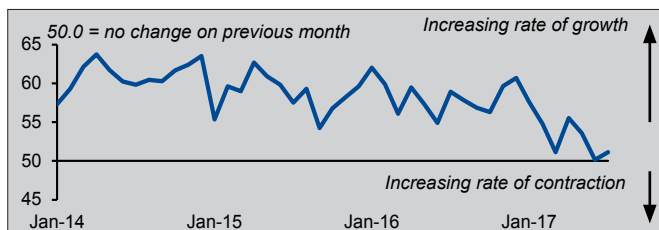
Output fell for the fifth time in the past six months during July. More than one-in-three panellists reported a decline in business activity, with firms widely linking this to the upcoming general election, customers facing money shortages, high inflationary pressures and a lower customer turnout. The rate of contraction eased from the preceding month to a marginal pace, however.



New Orders Index

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

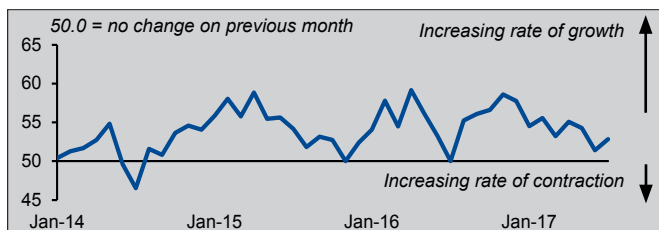
Having stagnated at the end of the second quarter, new business rose in July. The rate of expansion was only marginal and the second-weakest in the survey history, however. Near one-in-three panellists registered an increase in new business, which firms commonly associated with promotional activities. There was evidence to suggest that the general election and low money circulation led to subdued demand conditions.



New Export Orders Index

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

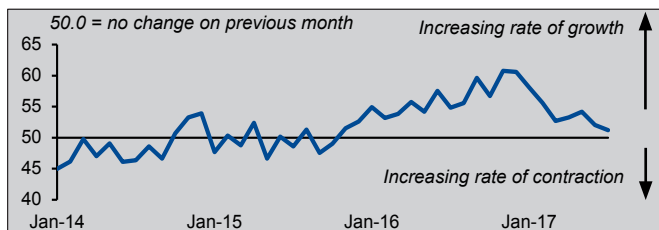
New export orders increased at the start of the third quarter. The rate of increase accelerated and was solid overall, but remained weaker than the average of the current 12-month period of expansion. Greater demand from key international export markets for Kenyan goods and services was cited as the main reason behind the latest increase in new export orders.



Backlogs of Work Index

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

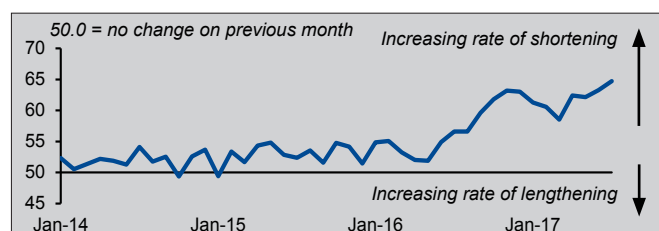
Backlogs rose for the twenty-first successive month during July. A combination of increased new orders alongside cash flow shortages contributed to greater levels of unfinished business. That said, the degree of pressure placed on operating capacity slowed to the weakest in the current sequence of growth. The majority of panellists (79%) of panellists reported no change in backlogs.



Suppliers' Delivery Times Index

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

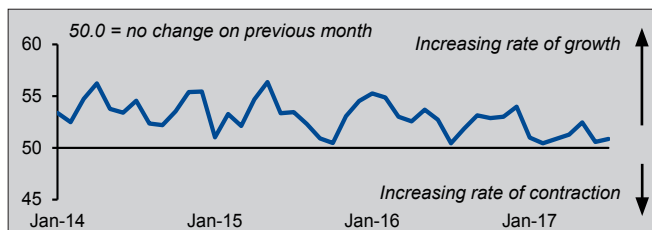
Suppliers' delivery times shortened for the thirtieth consecutive month during July. Moreover, average vendor performance improved to the greatest degree since the inception of the survey in January 2014. In response to strong competition among suppliers, surveyed firms reduced their average lead times to retain their client base.



Employment Index

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

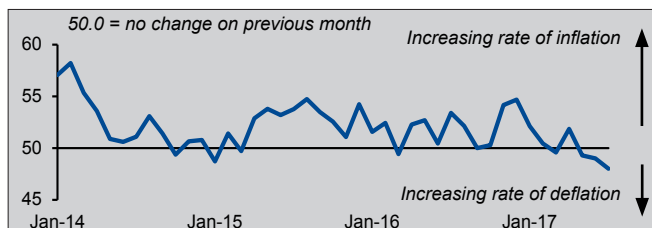
The seasonally adjusted Employment Index remained slightly above the 50.0 no-change mark during July, indicative of marginal jobs growth that was weaker than the long-run series average. The vast majority of respondents noted no change in employment (88%). Staffing levels were generally raised to help support increased workloads, according to anecdotal evidence.



Output Prices Index

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

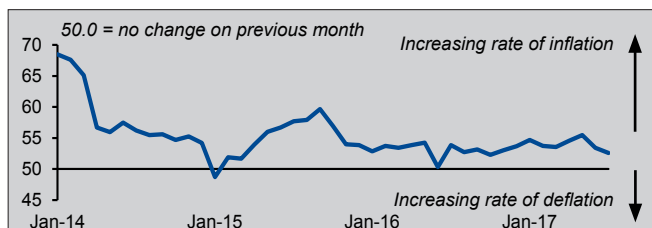
Average output prices were reduced for the fourth month in the past five months during July. Moreover, the rate of decline quickened to the fastest seen since the inception of the survey in January 2014. Discounts were reportedly offered by firms to stimulate demand amid intense competitive conditions.



Overall Input Prices Index

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

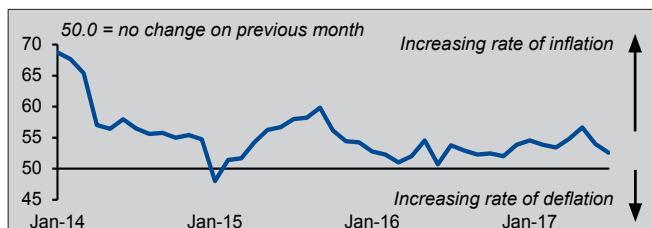
Average input prices continued to increase during July. Although the rate of inflation was solid, it eased to the weakest since October 2016 and was below the long-run series average. Underlying data indicated that prices were driven by both higher purchasing costs and staff costs, with the stronger increase 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.

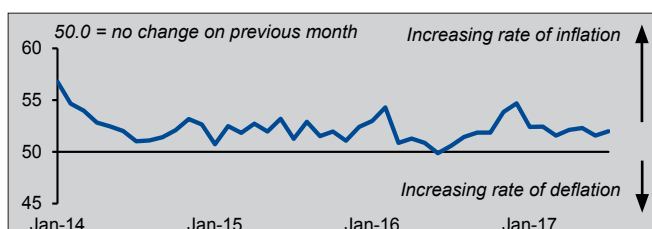
Mirroring the trend seen for overall input prices, input costs rose for the thirtieth consecutive month. Taxation and supply shortages of materials led to a general increase in market prices for inputs, according to the latest data. The rate of inflation eased to the slowest in eight-months and was weaker than the long-run survey average.



Input Costs: Staff Costs Index

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

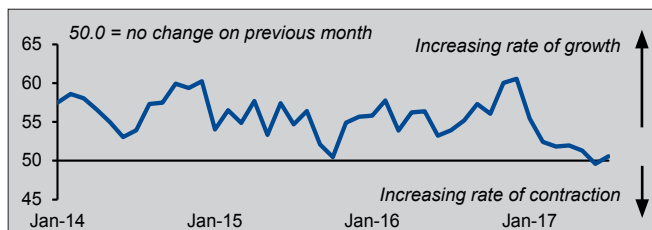
Average salaries rose for the thirteenth consecutive month in July. The rate of inflation was modest overall, as the vast majority of panellists (96%) registered no change in staff costs. Higher salaries were awarded to employees as a motivational tool and as compensation for high living costs, according to anecdotal evidence.



Quantity of Purchases Index

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

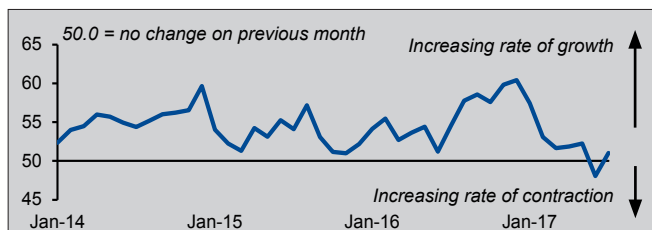
Offsetting the decline seen in June, input buying rose at the start of the third quarter. Where an increase was reported, firms reported that greater inflows of new business encouraged them to engage in purchasing activity. The rate of increase was only marginal, however, and weak in the context of historical data.



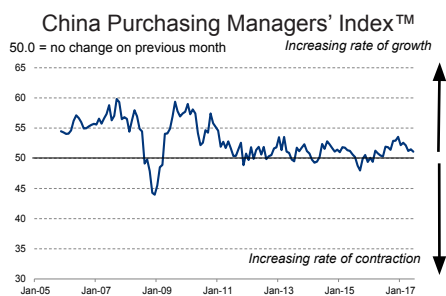
Stocks of Purchases Index

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

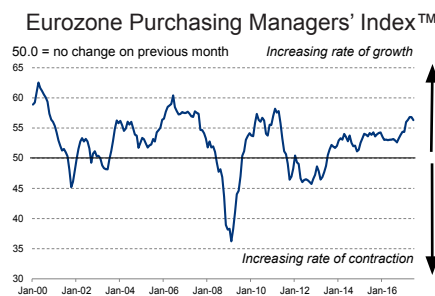
The private sector observed a renewed rise in inventories during July. Panellists commented on expectations of further improvements in market demand. The rate of growth was only marginal, however, as indicated by the seasonally adjusted Stocks of Purchases Index registering its joint second-lowest level on record.



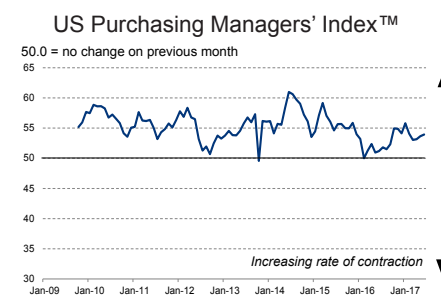
International PMI summary



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 marginal increase in total Chinese business activity at the end of the second quarter. At 51.1 in June, the Composite Output Index fell from 51.5 in May to signal the slowest rate of expansion in a year.

The IHS Markit Eurozone PMI Composite Output Index fell to a four-month low of 56.3 in June, but was only slightly below April and May's six-year record highs of 56.8. The average reading over the second quarter as a whole (56.6) was also the best outcome since Q1 2011.

The seasonally adjusted IHS Markit U.S. Composite PMI Output Index rose to 53.9 in June, up from 53.6 in the previous month. Although the composite figure picked up in June, the rate of growth remained historically muted.

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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