

# Stanbic Bank Kenya PMI™

## PMI declines to record low in June

### Key findings:

- Output contracts at solid pace
- New orders growth slows to survey-record low
- Purchasing activity and stocks fall for first time in survey history

PMI™ data signalled a solid deterioration of the Kenyan private sector economy in June, the third contraction in the past four months and the fastest recorded since the inception of the series in January 2014. The overall downturn in business conditions was led by a fall in output, while new orders were broadly unchanged. Meanwhile, employment rose only marginally, which contributed to a rise in backlogs despite flat new business. The weakness in demand led to reductions in purchasing activity and input stocks for the first time in the survey history. Firms continued to face higher input prices, but continued to offer discounts amid reports of intense competition.

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.

Down from 49.9 in May to 47.3 in June, the seasonally adjusted PMI fell to a survey-record low. Overall, the second quarter was the worst-performing quarter in the series history.

Kenyan firms reported a contraction in output for the second successive month during June. The rate of contraction was the second-strongest in the survey history. Firms frequently linked lower business activity to a lower customer turnout due to the political climate and weaker purchasing power among clients.

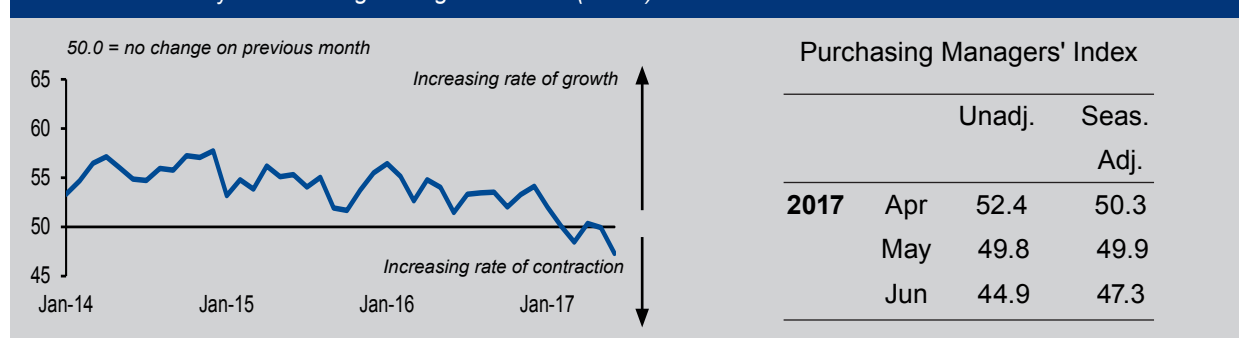
New business stagnated during June, signalled by the respective index registering close to the crucial 50.0 threshold and falling to a survey-record low. Firms that noted higher new work commented on more sales, while those that reported lower new orders linked this to weak demand and money shortages faced by customers. New export order growth was marginal and the weakest in the current 11-month sequence of expansion.

At the same time, employment rose at the weakest pace in four months and one that was only marginal overall. Subsequently, outstanding business continued to rise, but at the slowest pace in 19 months.

In response to lower output requirements, firms were discouraged to engage in purchasing activity in June. Subsequently, inventories held by firms fell, though only modestly. In both cases, the respective indexes fell below 50.0 for the first time in the series history. Panellists commented on lower output requirements.

Although the rate of input cost inflation was solid overall, June saw an easing of inflationary pressures to a seven-month low. Data showed input inflationary pressures were mainly driven by a general increase in raw material costs and staff costs, with the sharper rise in the former. Despite greater cost burdens, firms continued to offer discounts to stimulate demand.

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

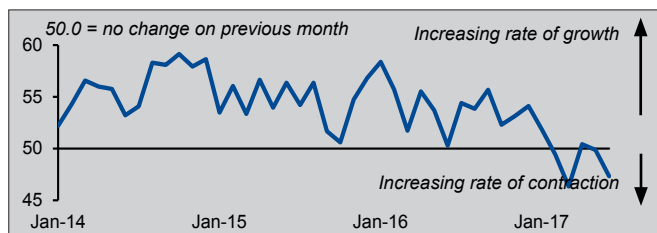


The Stanbic Bank Kenya Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the Kenyan economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks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

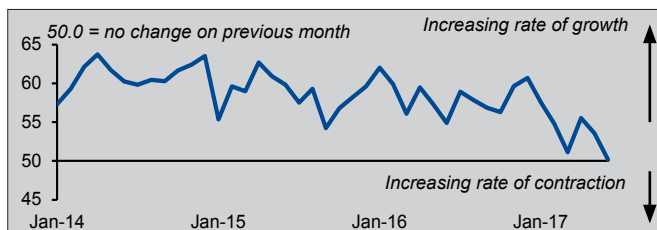
The seasonally adjusted Output Index posted below the crucial 50.0 threshold for the fourth time in the past five months, recording the second-lowest reading in the survey history which was indicative of a solid rate of contraction. Firms widely linked reduced output to a lower customer turnout reportedly due to the political climate and weaker purchasing power among clients.



### New Orders Index

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

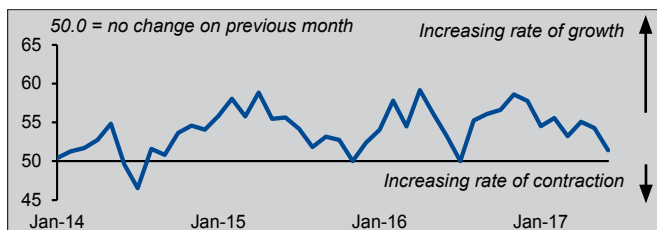
New business stagnated in June, signalled by the seasonally adjusted New Orders Index registering close to the crucial 50.0 threshold and falling to a survey-record low. Where an increase was reported firms commented on more sales, while those that recorded lower new orders linked this to weak market demand as customers faced money shortages.



### New Export Orders Index

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

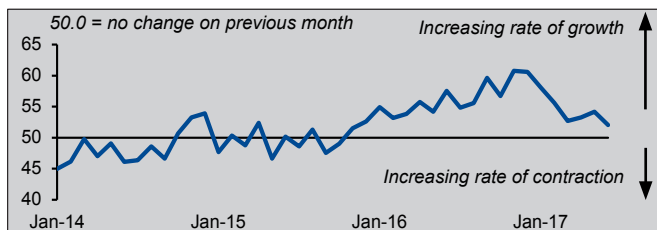
New export orders increased for the eleventh successive month during June. Greater demand for Kenyan goods and services from international export markets was cited as the main reason behind the latest increase in new export orders. The rate of growth eased to the weakest in the current period of expansion, however, and was only modest.



### Backlogs of Work Index

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

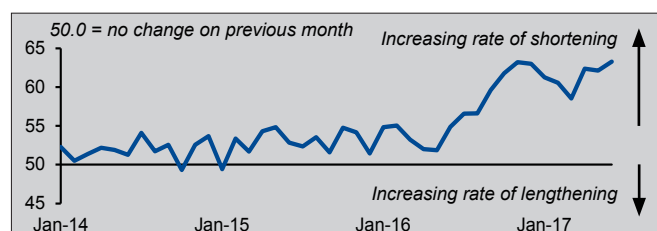
Ongoing pressure on operating capacity continued for the twentieth successive month during June. Backlog growth was the least pronounced in 19 months, however, modest overall and in line with the long-run series average.



### Suppliers' Delivery Times Index

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

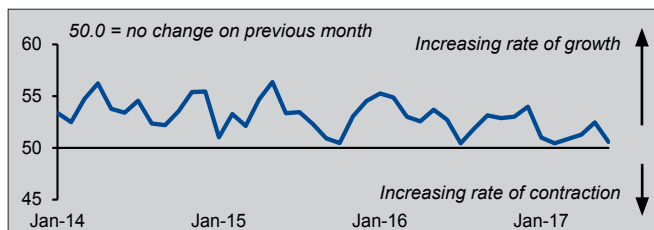
As has been in the case for nearly two-and-a-half years, average lead times shortened during June. Moreover, the degree of improvement in vendor performance was the greatest since the inception of the survey in January 2014. Better delivery times were frequently attributed to competition among suppliers. Some panellists mentioned less capacity pressures faced by suppliers.



### Employment Index

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

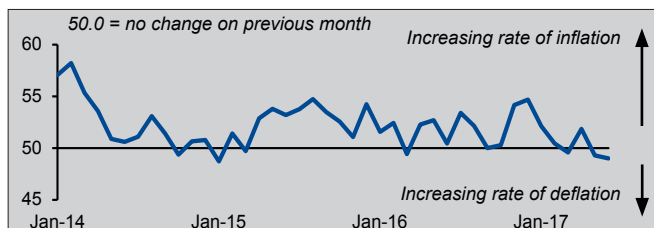
Employment rose during June, thereby continuing the trend defined by the series so far. The pace of job creation eased to a four-month low and was marginal overall, as the vast majority of respondents noted no change in employment. Furthermore, the latest increase was much weaker than the long-run series average.



### Output Prices Index

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

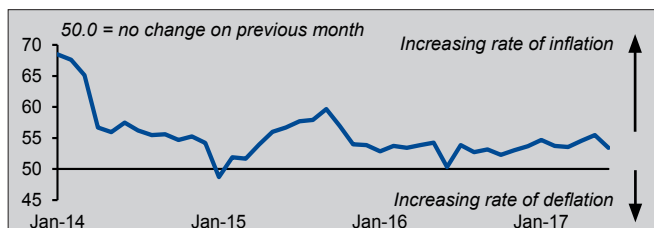
As was the case in May, Kenyan firms reduced their average selling prices during June. Little-changed since the prior month, the rate of reduction was marginal and below the long-run series average. Surveyed companies that raised output prices attributed this to the passing on of higher cost burdens to clients, while those that cut output charges reported on efforts to stimulate demand.



### Overall Input Prices Index

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

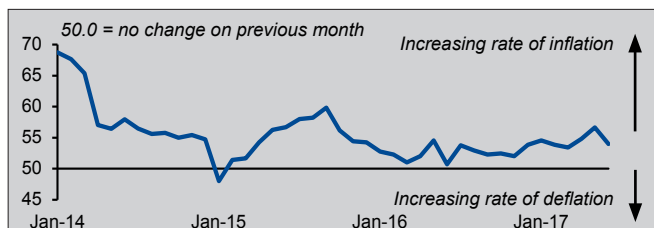
Although the rate of input cost inflation was solid overall, June saw an easing of inflationary pressures. This was signalled by the rate of inflation slowing to the weakest in seven months. Data showed input inflationary pressures were driven by higher purchasing prices and staff costs, with the sharper rise 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.

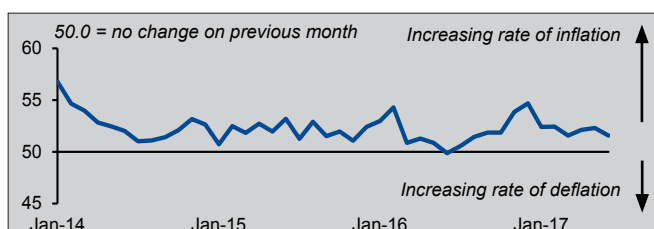
Input prices at Kenyan firms increased for the twentieth-ninth month in succession during the end of the second quarter, matching the trend seen for overall input prices. Higher cost burdens were associated by panellists to a general increase in raw material costs. The rate of inflation eased to the weakest in six months, however.



### Input Costs: Staff Costs Index

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

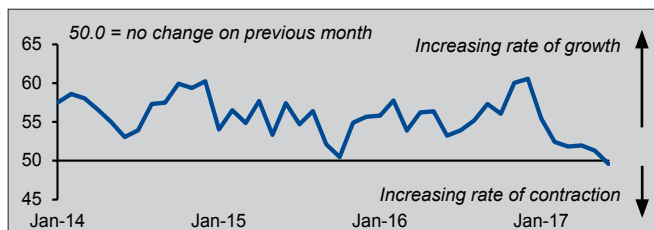
Average wages rose for the twelfth consecutive month in June. There was some evidence that suggested firms raised wages to motivate employees. The rate of inflation was slight overall and weaker than the long-run series average. Notably, the vast majority of respondents (96%) noted no change in staff costs.



### Quantity of Purchases Index

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

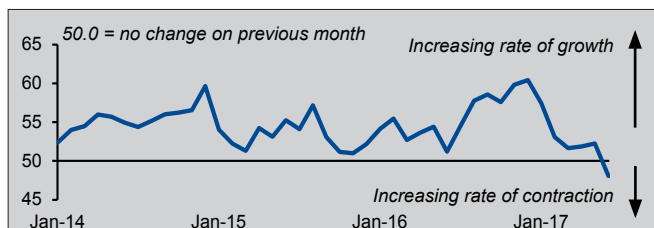
June data highlighted a reversal in the recent trend seen for purchasing activity, as buying levels fell for the first time since the inception of the series in January 2014. The rate of decline was fractional, however. Where purchasing fell, firms widely reported lower output requirements and weak customer demand.



### Stocks of Purchases Index

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

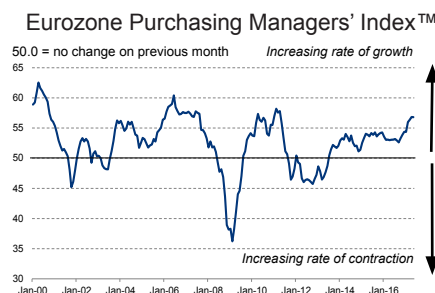
Stocks of purchases were depleted during June, thereby ending the upward trend seen previously throughout the survey history. Data suggested that a decrease in output requirements alongside a decline in purchasing activity contributed to the reduction in inventories. That said, the rate of reduction was only modest, as the majority of respondents (70%) registered no change in inventories.



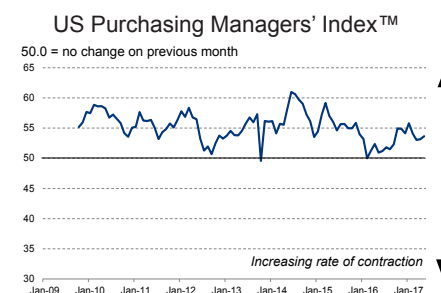
### International PMI summary



Sources: Caixin, IHS Markit



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI Output Index indicated only a modest expansion of overall output during May. At 51.5, the Composite Output Index rose slightly from April's ten-month low of 51.2, but nonetheless posted the second-lowest reading seen since September 2016. Service providers noted an acceleration in business activity growth while manufacturers saw only a marginal rise in production.

The rate of eurozone economic growth continued to run at the quickest pace in six years during May. This was confirmed by the IHS Markit Eurozone PMI Composite Output Index posting 56.8, unchanged from April. The latest expansion of output was supported by strong growth of incoming new business. New orders increased at an identical pace to April, one of the steepest gains in six years.

The IHS Markit U.S. Composite PMI Output Index rose to 53.6 in May, up from the previous month's reading of 53.2. Although the rate of growth in both sectors was relatively subdued, the trend for the first five months of 2017 is stronger than the same period in 2016. Similar rates of expansion were seen in the manufacturing and service sectors. However, growth rates remained relatively 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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