

# Stanbic Bank Kenya PMI™

## Kenyan private sector stagnates during May

### Key findings:

- **Headline PMI index registers at 49.9 in May**
- **Business activity declines at marginal pace**
- **Firms cut output charges despite greater cost pressures**

The performance of the Kenyan private sector was stagnant in May as the PMI posted just below the neutral 50.0 threshold. A fall in output, albeit marginal, contributed to the weakness of overall business conditions. Meanwhile, new order growth softened from the preceding month, but was solid overall. In response to greater inflows of new business, employment growth quickened to a five-month high. Despite upward inflationary pressures on input costs faced by the private sector, output charges fell so that companies could stimulate demand 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.

At 49.9 in May, down from April's 50.3, the seasonally adjusted PMI signalled broadly stagnant business conditions. Notably, the index reading was the second-lowest (behind March) observed since the inception of the series.

The fall in the PMI index was mainly driven by reduced output, which declined for the third time in four months, albeit fractionally. Those firms that recorded a decrease in activity blamed the upcoming elections, weaker purchasing power among clients and a lower customer turnout.

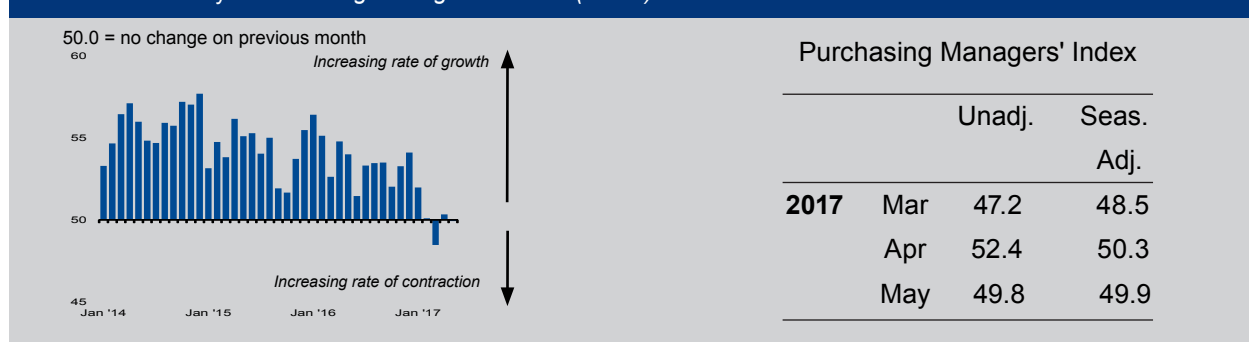
Meanwhile, total new orders increased in May. The rate of expansion was solid overall but slowed to the second-weakest (behind March) since the inception of the series in January 2014. According to anecdotal evidence, a rise in new client wins was supplemented by promotional activities. New export orders expanded for the tenth consecutive month, although, the rate of growth was modest overall.

The ongoing growth in new orders (and subsequent capacity pressures) encouraged firms to increase their payroll numbers. The rate of job creation quickened to a five-month high, but was modest overall. Subsequently, the rate of backlog accumulation quickened to a three-month high and was marked. Financial constraints faced by firms, and rising new order levels were reported to have placed pressure on operating capacity, according to panellists.

Buying activity increased during May, but the rate of growth was the weakest observed in 19 months. At the same time, firms raised their input stocks at the fastest pace in three months.

Firms faced upward inflationary pressures due to higher fuel costs and a general increase in raw material prices, according to panellists. Despite higher costs, firms reportedly offered discounts to attract customers amid intensive competitive conditions.

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

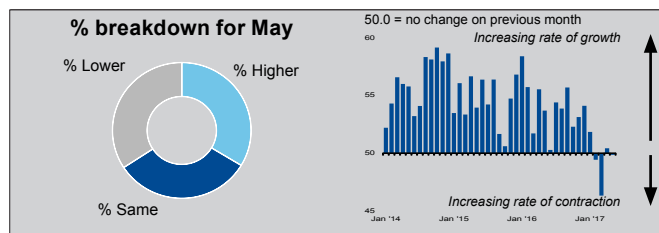


The Stanbic Bank Kenya Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the Kenyan economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks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

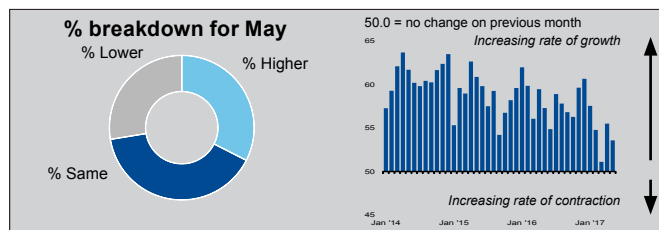
Kenya's private sector output contracted for the third time in four months in May. The rate of contraction was only marginal overall. Monitored firms which registered an increase in output commented on strong underlying demand conditions, while those that recorded a decrease in activity blamed the upcoming elections, weaker purchasing power among clients and a lower customer turnout.



## New Orders Index

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

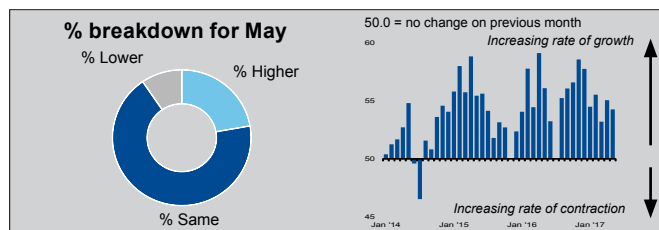
Continuing the trend shown throughout the survey history, the level of new orders increased during May. The rate of expansion was marked overall, but slowed to the second-weakest (behind March) since the inception of the series in January 2014. Nearly one-third of panellists reported a rise in new business, with firms commenting on a rise in new client wins supplemented by promotional activities.



## New Export Orders Index

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

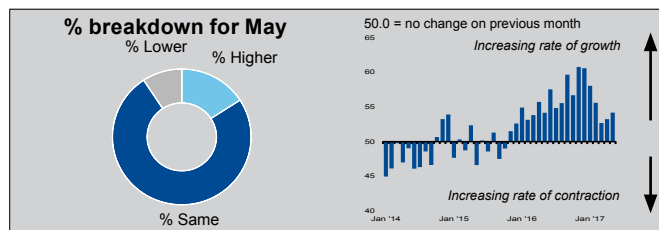
The seasonally adjusted New Export Orders Index indicated an increase in new export business for the tenth month in succession during May. The rate of growth eased since the previous month, but was marked overall and slightly stronger than the long-run series average. There was some evidence to suggest that demand for Kenyan goods and services rose across international export markets.



## Backlogs of Work Index

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

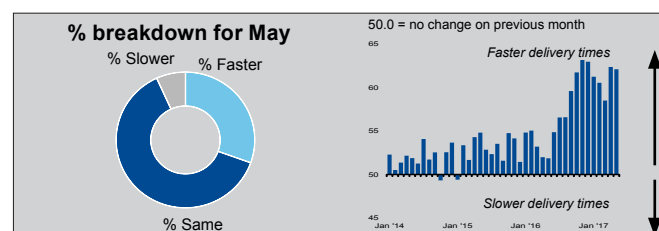
The level of work-in-hand at Kenyan private sector firms increased for the nineteenth month running in May. The rate of backlog accumulation accelerated to the fastest since February and was marked overall. Financial constraints faced by firms, alongside rising new order levels, were reported to have placed pressure on operating capacity according to panellists.



## Suppliers' Delivery Times Index

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

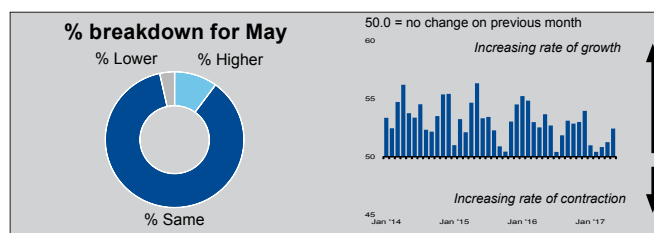
May survey data indicated a further improvement in vendor performance, extending the current trend to 28 months. In line with recent months, the degree to which times shortened was sharp as more than four times as many respondents noted faster lead times than slower. A combination of timely payments and high competition among suppliers resulted in shorter delivery times.



### Employment Index

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

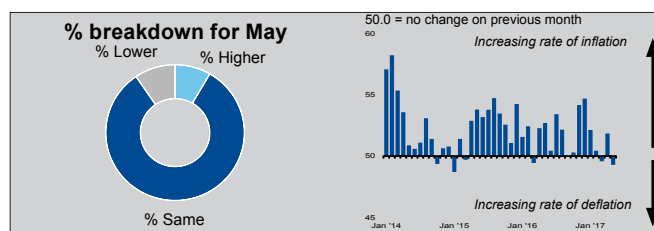
Kenyan private sector firms increased employment again in May. The rate of job creation was modest overall and below the long-run series average, but the strongest in 2017 so far. Companies reported that higher levels of incoming new work (and subsequent capacity pressures) encouraged recruitment.



### Output Prices Index

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

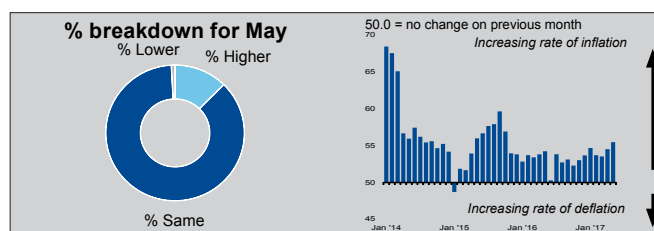
May saw a renewed fall in output charges in the Kenyan private sector. However, the rate of discounting was only marginal, as signalled by the seasonally adjusted Output Prices Index posting fractionally below the neutral 50.0 threshold. Some respondents reportedly raised output prices to pass on higher cost burdens to clients, but this was outweighed by others offering discounts to stimulate demand.



### Overall Input Prices Index

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

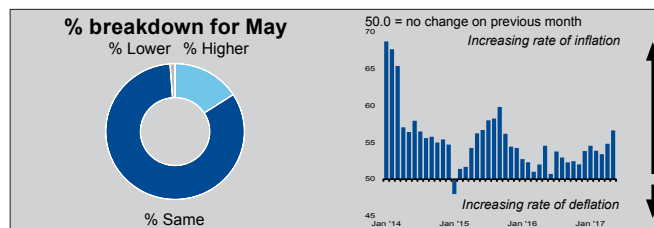
There was a further marked increase in input costs faced by the Kenyan private sector. The rate of inflation accelerated to the strongest in over one-and-a-half years. Underlying data signalled that upward pressures were driven by greater purchasing prices as well as higher staff costs, with the sharper expansion 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.*

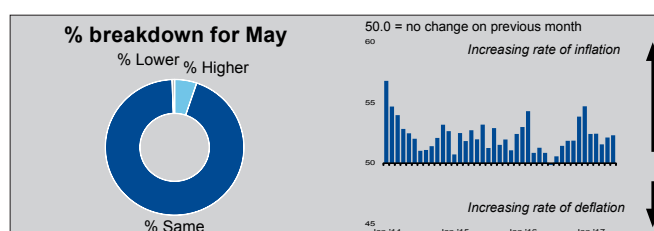
Higher fuel costs and a general increase in market prices for raw materials led to another substantial increase in purchasing costs during May. The rate of inflation was the most pronounced in 20-months. Panellists mentioned that higher fuel costs and a general increase in raw material prices contributed to increased input 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.*

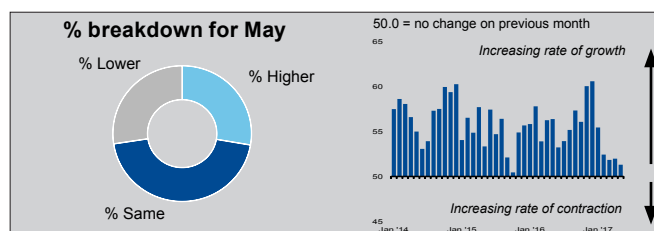
Average salaries continued to rise in May, thereby stretching the current upward trend to 11 months. The rate of wage inflation quickened to the strongest since February, but was modest overall. A number of monitored firms suggested raising wages to motivate employees as well as provide compensation for working overtime.



## Quantity of Purchases Index

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

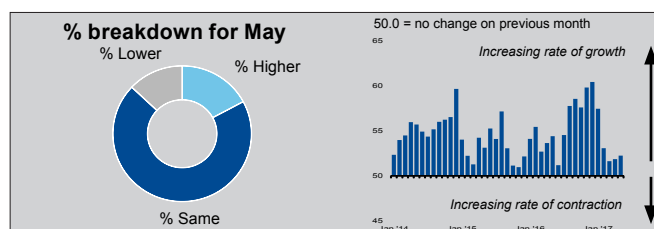
The seasonally adjusted Quantity of Purchases Index posted slightly above the 50.0 threshold in May, which was indicative of a slight increase in purchasing activity. The rate of growth was slight overall, and eased to the weakest in 19 months. Those panellists that registered growth in purchasing activity frequently attributed this to greater inflows of new order intakes.



## Stocks of Purchases Index

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

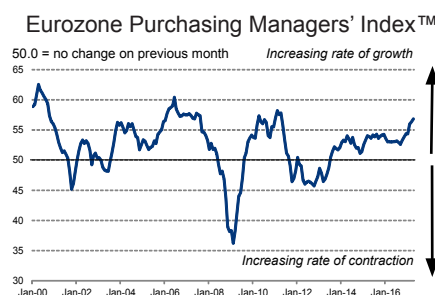
The level of input inventories held by Kenyan firms rose during May, as has been the case since the inception of the survey in January 2014. Expectations of further improvements in demand was cited as the key factor underlying greater input stocks. The rate of accumulation quickened to the fastest since February, but was modest overall as the majority of respondents noted no change in input stocks.



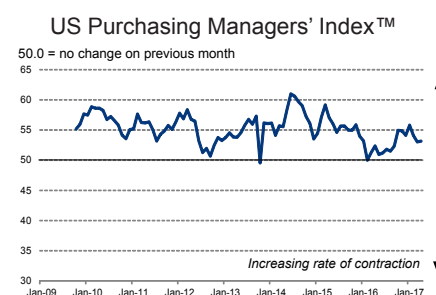
## International PMI summary



Sources: Caixin, IHS Markit



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI data (which covers both manufacturing and services) signalled a further slowdown in growth momentum at the start of the second quarter. This was highlighted by the Composite Output Index posting 51.2 in April, down from 52.1 in March, and the lowest reading for ten months.

Euro area economic growth accelerated to a six-year high at the start of the second quarter. This was signalled by the Eurozone PMI Composite Output Index rising to 56.8 in April, up from 56.4 in March. Activity has expanded for 46 months in a row.

The seasonally adjusted U.S. Composite PMI Output Index rose to a level of 53.2 in April, up from 53.0 in the previous month. While a slight improvement, and indicative of a solid increase in private sector output, the rate of growth remained down on those seen on average over the past six months.

## 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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