

CfC Stanbic Bank Kenya PMI™

compiled by markit

Private sector growth continues at steady pace in August

Key findings:

- PMI edges higher, but remains below series average
- Improving demand leads to sharp rise in input stocks
- Total new work bolstered by renewed export growth

As has been the case in all 32 months of data collection so far, growth was signalled in Kenya's private sector during August. The overall rate of expansion picked up slightly, supported by stronger job creation and a sharp rise in input stocks. With output and new orders also growing solidly, business conditions continued to improve. That said, the degree of improvement remained historically subdued. On the price front, muted cost pressures led to a weaker increase in 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 inched higher in August, posting 53.5 compared to 53.3 in July. The latest reading pointed to sustained steady growth of the private sector, following a marked slowdown at the end of the second quarter. However, while above June's record low (51.5), the index remained weaker than the series average (54.8).

After having eased to a series low in June, output growth was maintained close to July's solid pace in August. A number of panellists commented on higher levels of new business, while some also mentioned having invested in machinery.

Reports of improving demand were reinforced by survey data in August. New orders rose markedly, albeit at a slightly reduced

rate compared to July. Helping to support growth of total new work was a renewed expansion of new business from abroad. Exports increased at the steepest pace since May, following a stagnation one month previously.

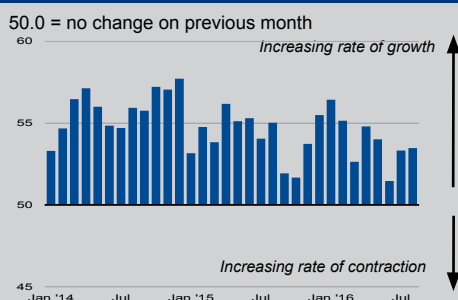
While higher output and new orders both contributed to the above-50.0 PMI reading, a key driver of overall growth was a sharp rise in input stocks. The rate of inventory building accelerated to the second-quickest since data collection started in January 2014. Improving demand was cited as the main reason for higher stocks. Purchasing activity also rose solidly in the latest period.

The rate of job creation rebounded in August, having slowed to near-stagnation at the start of the third quarter. That said, hiring remained only modest overall. Subsequently, backlogs of work continued to accumulate in line with stronger order books.

Price pressures in Kenya's private sector meanwhile eased in August. Total input costs rose at a slower pace than in July, with the latest increase also muted in the context of historical data.

Charges showed a similar trend. Firms raised selling prices for the fifth month in a row, but the latest rise was only modest. Higher input costs were passed through in some cases, but this was partially offset by efforts to attract new clients elsewhere.

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



Purchasing Managers' Index

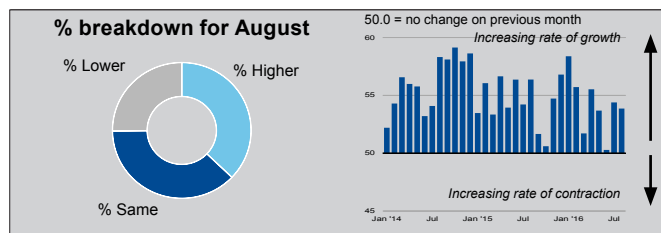
		Unadj.	Seas. Adj.
2016	Jun	50.1	51.5
	Jul	53.1	53.3
	Aug	54.5	53.5

The CfC 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. CfC 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.

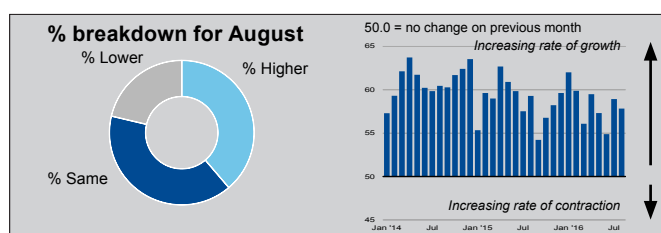
After having slipped to a record low in June, the seasonally adjusted Output Index was consistent with solid growth for the second straight month in August. The latest expansion was similar to the average so far this year, but below the trend over the survey's 32-month history. Higher output was mainly linked to new business gains. Some firms were also able to raise activity following investment in machinery.



New Orders Index

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

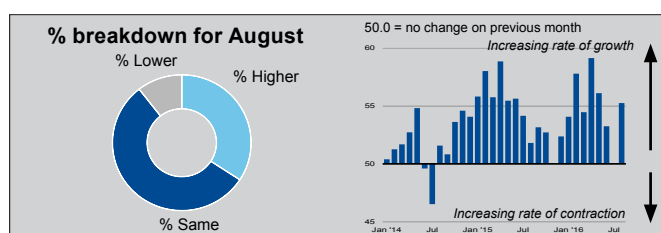
New orders in Kenya's private sector rose sharply in August. Around 39% of respondents saw an increase since July, versus 21% that noted a decline. A number of panellists commented on new client wins in the latest period. That said, the rate of growth eased from the prior month, and was slower than the series average.



New Export Orders Index

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

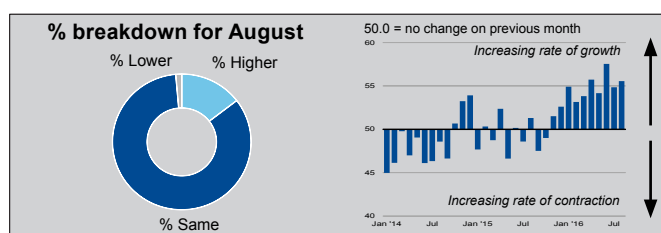
The total amount of new work received by Kenyan private sector companies was boosted by solid export growth in August. New business from abroad rose at the fastest pace in three months, following a stagnation in July. Anecdotal evidence highlighted improving demand across international markets.



Backlogs of Work Index

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

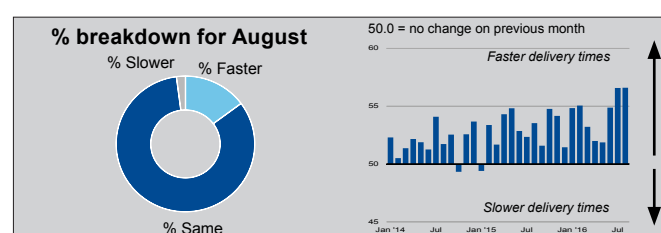
Marked growth of new business contributed to ongoing capacity pressures in August. Backlogs of work increased for the tenth month in a row, and at a solid pace. In fact, the seasonally adjusted index posted one of its highest readings since data collection began in January 2014. Close to 15% of respondents noted a rise, against just 1% that posted a fall.



Suppliers' Delivery Times Index

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

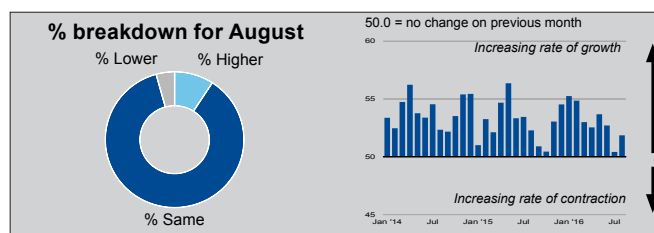
Latest data signalled that the rate of improvement in vendor performance was unchanged from July's survey record in August. The proportion of survey participants noting faster deliveries (15%) far outweighed that which saw longer lead times (2%). There were reports that greater competition had helped suppliers to become more efficient, thus shortening delivery times.



Employment Index

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

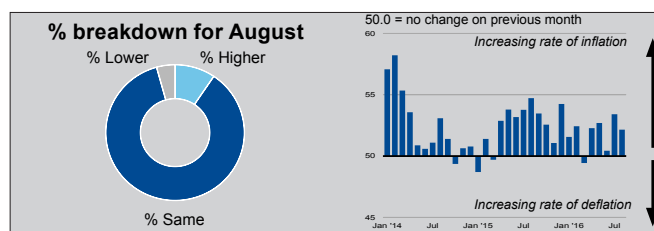
With workloads continuing to mount, the rate of job creation picked up in August. That said, the latest rise in employment was not substantially faster than July, when hiring slipped to near-stagnation. In fact, the vast majority of the panel (87%) saw no change in payroll numbers, and the pace of expansion was therefore only modest overall.



Output Prices Index

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

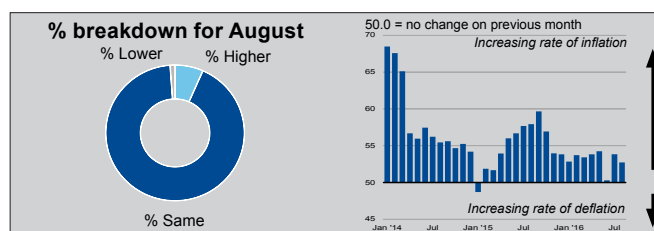
Prices charged by Kenyan private sector businesses rose for the fifth straight month in August. The rate of increase was broadly in line with the series average and moderate overall. Some panellists passed higher input costs through to output prices, but others felt obliged to reduce charges in an effort to attract new clients.



Overall Input Prices Index

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

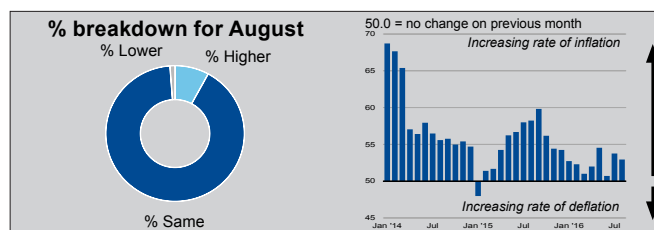
Total input costs rose for the nineteenth consecutive month in August, as shown by the seasonally adjusted index posting above the neutral 50.0 mark. The rise was slower than in July, however, and muted in the context of historical data. Both salaries and purchase prices increased, with the rate of expansion accelerating in the former but easing in the latter.



Input Costs: Purchase Prices Index

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

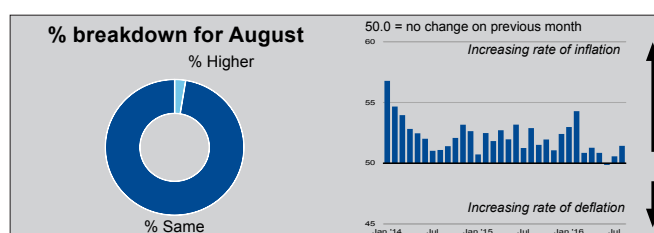
Purchasing costs showed an almost identical trend to overall input prices in August. The respective seasonally adjusted index edged down from the prior month and was below the series average. Stronger demand for inputs enabled some suppliers to raise their prices, according to respondents. That said, most panellists (91%) saw no change since July.



Input Costs: Staff Costs Index

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

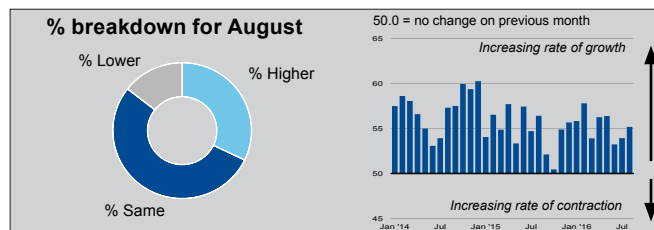
The rate of salary growth in Kenya's private sector quickened to a six-month high during August. However, with the overwhelming majority of survey participants (97%) signalling no change, the latest rise was only modest overall. Where higher wages were awarded, this was generally due to commission or overtime payments.



Quantity of Purchases Index

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

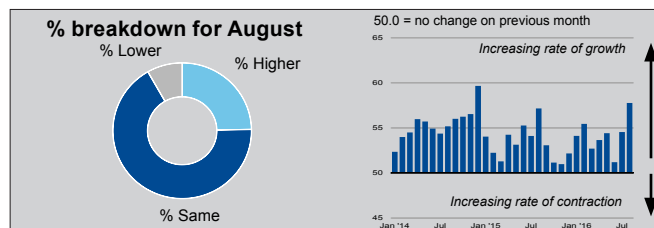
As has been the case in every month since data collection started in January 2014, purchasing activity rose in August. Moreover, the pace of expansion picked up to a three-month high, thanks largely to rising new business and output requirements. The latest increase was broadly in line with the average over the year to date.



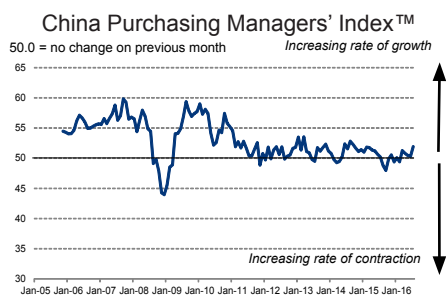
Stocks of Purchases Index

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

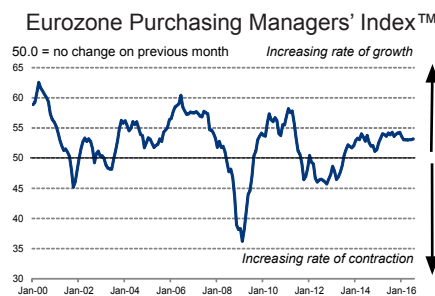
Kenyan private sector firms registered the sharpest rise in stocks of purchases since the end of 2014 during August. In fact, the seasonally adjusted index reading was the second-highest on record. Three times as many panellists noted an increase than a decrease, with a number building up inventories in order to cater for growing demand.



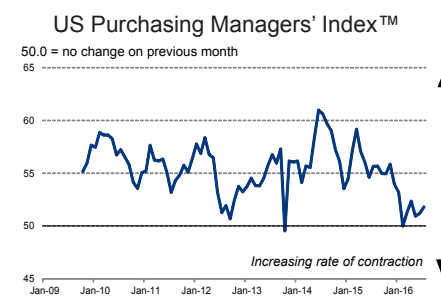
International PMI summary



Sources: Caixin, IHS Markit



Source: IHS Markit



Source: IHS Markit

Caixin China Composite PMI data (which covers both manufacturing and services) signalled a stronger expansion in Chinese business activity at the start of the third quarter. Furthermore, the Composite Output Index rose from 50.3 in June to 51.9 in July, to signal the fastest rate of growth since September 2014.

The rate of eurozone economic expansion ticked higher at the start of the third quarter. This was signalled by the Markit Eurozone PMI Composite Output Index rising to a six-month high of 53.2 in July. The headline index has now signalled growth for 37 successive months.

The seasonally adjusted Markit U.S. Composite PMI™ Output Index posted 51.8 in July. The reading was above that seen in June (51.2) and signalled the fastest expansion of private sector output since April. However, the latest upturn in business activity was still much weaker than the average since the survey began in late-2009.

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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