

# CfC Stanbic Bank Kenya PMI™

compiled by markit

## Kenya's private sector remains on strong growth path

### Key findings:

- PMI signals another marked improvement in business conditions
- Output, new orders and employment all rise sharply
- Growth of buying activity picks up to 14-month high

February data showed that the strength of Kenya's private sector expansion remained intact. Higher output, new orders and employment ensured that overall business conditions improved solidly again. Though slower than in January, the respective rates of expansion were still marked overall. Subsequently, firms felt sufficiently confident to raise their input buying to the greatest extent since late-2014. On the price front, cost pressures remained relatively muted, while charges rose further amid stronger client demand.

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 55.2, the seasonally adjusted PMI was consistent with a robust improvement in business conditions in February. While below January's 13-month record of 56.4, the latest reading was broadly in line with the series average (55.1). Notably, it was higher than the trend recorded in the second half of 2015 (53.7), thereby continuing the revival in Kenyan private sector growth seen in the early part of this year.

Both output and new business rose substantially in February. The respective rates of growth eased since the previous month, but remained sharp overall. There were reports that a general improvement in demand conditions had helped companies to

secure new clients, and activity increased accordingly.

A faster expansion in new export orders contributed to growth of total new business in February. The latest increase was the steepest in ten months, with firms commenting on high demand from neighbouring African economies including Uganda.

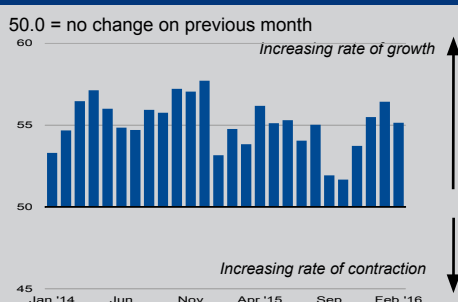
With incoming new work rising sharply, panellists were motivated to raise their input buying more quickly in February. The respective index climbed to a 14-month high, and pre-production inventories increased at a faster pace as a result.

The health of Kenya's private sector was reflected by a solid round of job creation at private sector companies. The rate of hiring eased slightly since January, but remained strong compared with the survey trend. According to respondents, one of the reasons behind higher employment was a drive to cut backlogs. Work-in-hand increased for the fourth straight month.

Meanwhile, overall input prices rose for the thirteenth month in a row. Though solid overall, the latest increase was subdued in the context of historical data. Underlying the relatively slow rise was the weakest expansion in purchase prices since last March. In contrast, salary growth picked up to a two-year high.

Charges increased again in February. Firms indicated that strong client demand had enabled them to raise tariffs.

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



### Purchasing Managers' Index

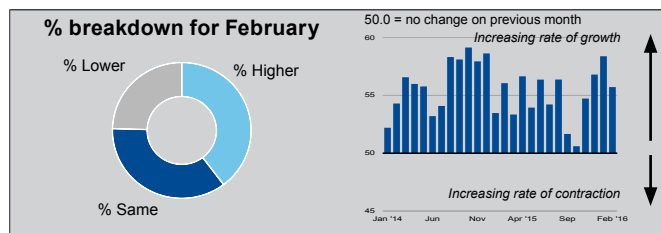
		Unadj.	Seas. Adj.
<b>2015</b>	Dec	58.1	55.5
<b>2016</b>	Jan	51.0	56.4
	Feb	56.5	55.2

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. Markit is a registered trade mark of Markit Group Limited.

## Output Index

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

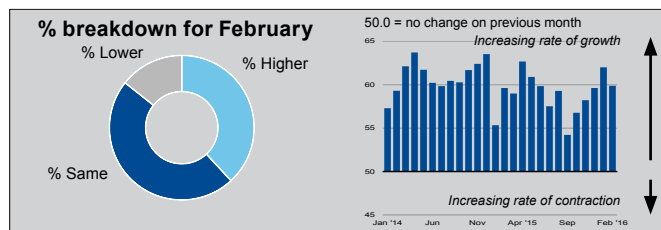
Kenyan private sector firms maintained their strong start to 2016 in February, raising output at a rate broadly in line with the series trend. Around 40% of panellists noted higher activity, which they mainly linked to incoming projects and new client wins. The rate of growth was slower than January's 13-month high, but still sharp overall.



## New Orders Index

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

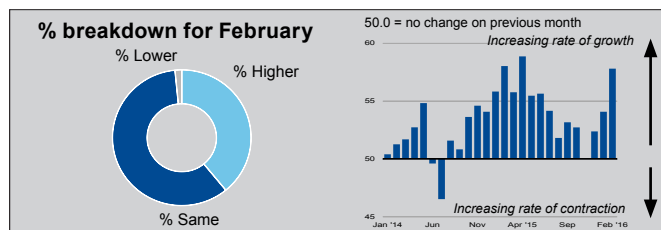
New business showed a similar trend to output in February, with the rate of expansion easing since January but remaining marked overall. Roughly 38% of survey participants saw an increase in new work, nearly three times the proportion that registered a fall (14%). Amid reports of a general improvement in demand conditions, a number of firms commented on success in gaining new clients.



## New Export Orders Index

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

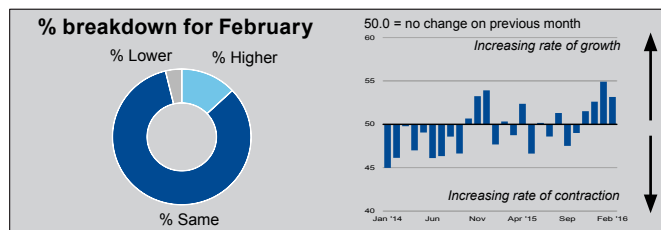
Growth of total new work was bolstered by a sharper rise in new business from abroad during February. In fact, the respective seasonally adjusted index posted one of its highest readings since data collection began. Higher exports were widely attributed to stronger demand in neighbouring African economies. Notably, Uganda was mentioned as a key source of incoming new business.



## Backlogs of Work Index

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

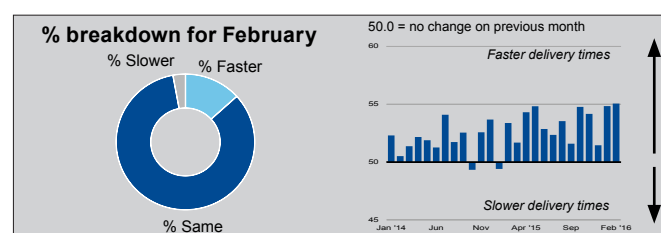
With new orders rising sharply, Kenyan private sector companies reported sustained pressure on operating capacity in February. Backlogs of work rose for the fourth successive month. Despite easing since January, the rate at which outstanding business increased was still the second-quickest in 14 months.



## Suppliers' Delivery Times Index

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

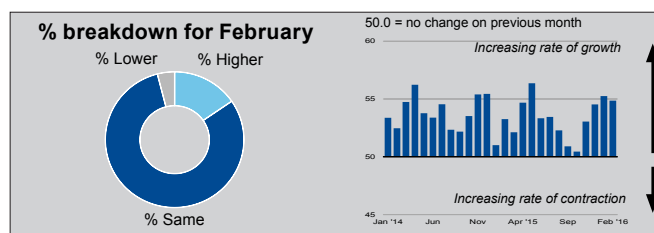
Suppliers' delivery times shortened to the greatest extent in the survey's history during February. Approximately 13% of the panel noted an improvement in vendor performance, versus just 3% that saw a deterioration. According to anecdotal evidence, strong competition among suppliers prompted faster deliveries.



### Employment Index

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

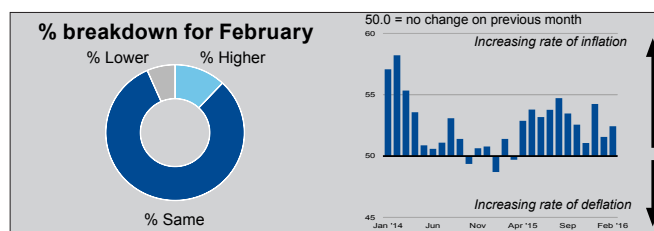
The seasonally adjusted Employment Index posted comfortably above the crucial 50.0 threshold in February. It signalled a robust rate of job creation that was stronger than the average over 26 months of data collection. With new order growth resulting in capacity pressures, some firms decided to hire additional staff in an effort to cut backlogs. Nearly four times as many respondents noted a rise in payrolls (15%) than a fall (4%).



### Output Prices Index

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

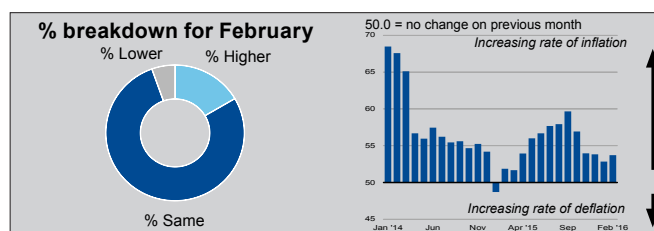
Average tariffs increased for the eleventh month in a row during February. The pace at which charges rose was faster than in January and broadly similar to the series average, albeit only moderate overall. Those panellists that raised selling prices mentioned that they were able to do so as a result of healthy client demand.



### Overall Input Prices Index

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

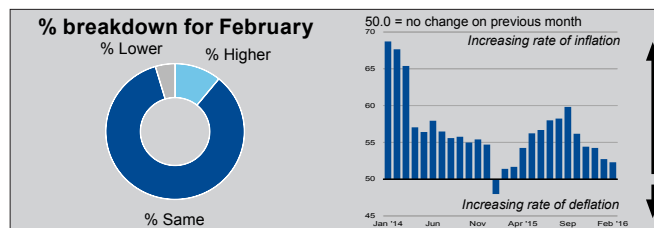
Total input costs in Kenya's private sector rose further in February. Though solid overall, the latest increase was muted in the context of historical data. Underlying data indicated that overall cost pressures were mainly driven by higher salaries, with the respective rate of growth picking up to a two-year high. Purchase prices also increased, but to only a modest extent.



### Input Costs: Purchase Prices Index

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

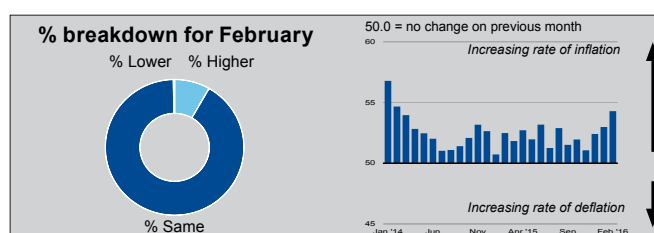
February data showed that relatively subdued overall cost pressures was a reflection of slow purchase price inflation. The rate of increase was the least marked in nearly a year, with the vast majority of firms (85%) seeing no change since January. Where purchasing costs were reported to have risen, several panellists referred to a tax on imported goods.



### Input Costs: Staff Costs Index

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

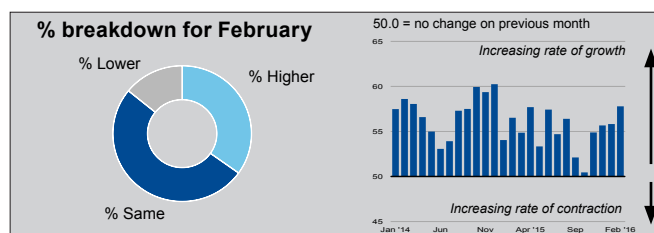
Staff costs rose on average in February, continuing the trend observed in every month since the survey began in January 2014. Furthermore, the rate of salary growth accelerated for the third straight month to the sharpest in two years. There were reports that the expansion in workloads had led to a greater amount of overtime payments.



## Quantity of Purchases Index

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

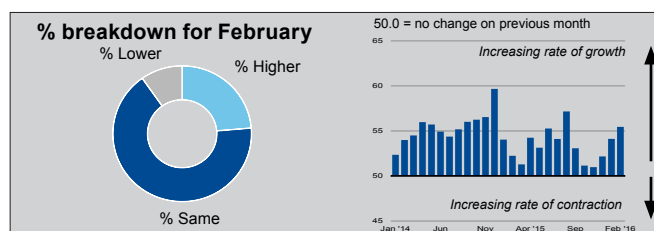
Purchasing activity continued to rise in February, as signalled by the seasonally adjusted index posting above the neutral 50.0 mark. Moreover, the pace of expansion quickened to a 14-month high, with nearly 35% of respondents noting an increase since the start of 2016. Growth of input buying was almost universally linked to higher sales in the latest period.



## Stocks of Purchases Index

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

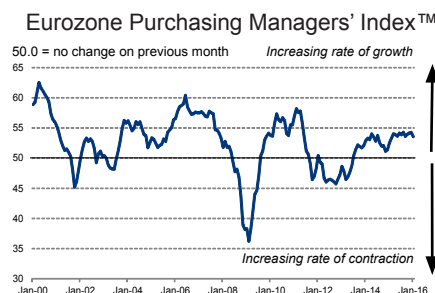
In line with the trend seen for purchasing activity, the rate of pre-production inventory building picked up in February. Stocks of inputs rose at the fastest pace since August last year. Companies suggested that they were building stock levels in order to cater for current and future improvements in demand.



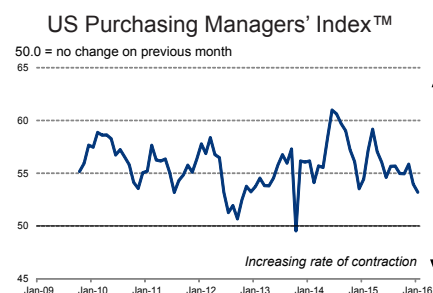
## International PMI summary



Sources: Caixin, Markit



Source: Markit



Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a stabilisation of Chinese business activity in January, following a slight reduction at the end of 2015. This was signalled by the headline Caixin Composite Output Index registering fractionally above the no-change 50.0 value at 50.1, up from 49.4 in December.

The eurozone economy made a disappointing start to 2016. The Markit Eurozone PMI Composite Output Index fell to a four-month low of 53.6, down from 54.3 in December. Nonetheless, the headline index has remained above the neutral 50.0 mark for 31 consecutive months.

The seasonally adjusted Markit U.S. Composite PMI Output Index registered 53.2 in January, down from 54.0 in December, to signal the weakest rise in private sector business activity since the current growth sequence began in November 2013. The slowdown in January largely reflected a more subdued expansion of service sector activity, as manufacturing output rose at a slightly faster pace.

## 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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