

# CfC Stanbic Bank Kenya PMI™

compiled by markit

## PMI slips to survey-record low in June

### Key findings:

- **Headline index signals only modest private sector growth**
- **Output close to stagnation**
- **Relatively subdued rise in new work**

June data pointed to a near-stalling of Kenya's private sector economy, as business conditions improved to the least extent since the survey began two-and-a-half years ago. Output barely rose and the rate of expansion in new work was close to a record low. Growth of employment and purchasing activity also eased, while backlogs increased at the fastest pace in the series history. Meanwhile, input costs rose more slowly than in May, contributing to a negligible 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.

By dropping from 54.0 in May to 51.5, the seasonally adjusted PMI signalled a substantial slowdown in growth of Kenya's private sector during June. In fact, the latest reading was a survey-record low. It also meant that, despite solid improvements in April and May, the second quarter was the weakest on average (53.4) since the series began in 2014.

One of the key factors behind weaker growth of the sector as a whole was a near-stagnation in output. The respective index for activity posted only just above neutrality, and pointed to the slowest expansion in the survey's history. There were reports that subdued demand and political unrest had hampered growth.

While new business continued to rise solidly overall, the rate of expansion eased and was well below the series trend in June. Data highlighted a softer rise in new orders from abroad. Nonetheless, some companies indicated that they had benefitted from the introduction of new products.

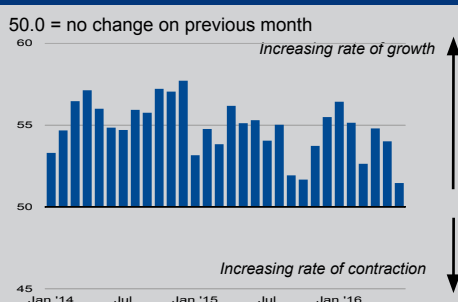
In line with the slowdown in demand, Kenyan private sector firms saw the pace of growth in purchasing activity ease in June. The latest increase was muted in the context of historical data. Likewise, the rate of pre-production inventory building moderated to a seven-month low.

Meanwhile, workforce numbers rose further in June, stretching the current upturn which has run throughout the survey's history. The pace of hiring was solid overall, albeit slightly weaker than in May. Panellists suggested that jobs had been created as a result of the opening of new branches.

Sustained job creation failed to alleviate pressure on operating capacity, however. With output almost stagnant, backlogs of work rose to the greatest extent since the survey started in January 2014.

Both input costs and charges increased only marginally in June. Respondents cited weak demand for inputs as a factor leading some suppliers to lower their prices.

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



### Purchasing Managers' Index

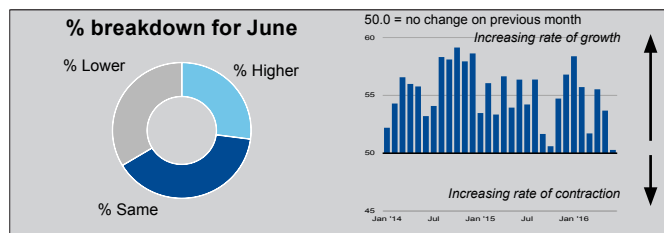
		Unadj.	Seas. Adj.
<b>2016</b>	Apr	55.6	54.8
	May	54.1	54.0
	Jun	50.1	51.5

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. 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.*

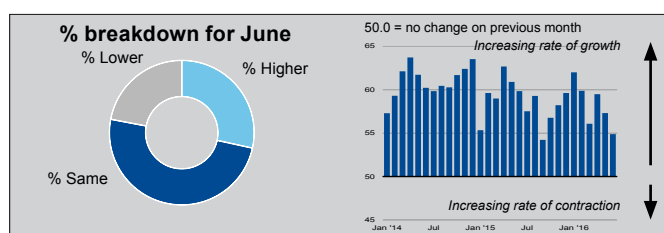
Growth of Kenyan private sector output eased to near-stagnation in June, as shown by the seasonally adjusted index posting only fractionally above the 50.0 no-change mark. The negligible rise was the weakest recorded in the survey's two-and-a-half year history. Some firms raised activity in line with improved sales, but others commented on poor demand and political unrest as factors weighing on growth.



## New Orders Index

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

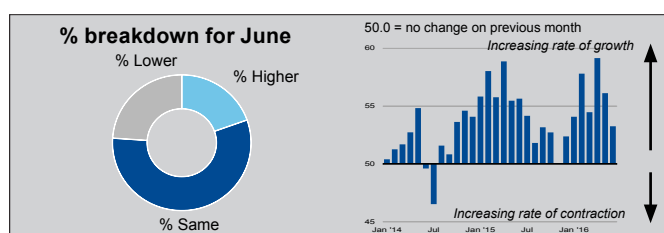
The rate of expansion in new work held up better than that for output during June, but it still slowed to the second-weakest since data collection started in January 2014. Roughly 28% of respondents noted a rise in new business, down from 37% in the previous month. Where orders increased, this was often thanks to the introduction of new products.



## New Export Orders Index

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

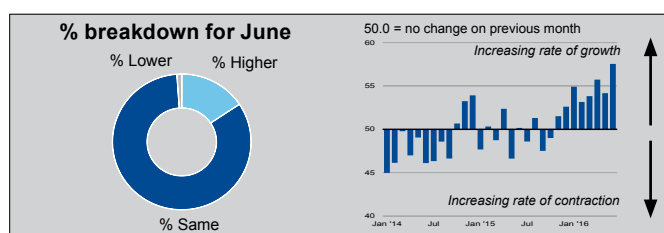
New export work showed a similar trend to total new business in June, as the rate of growth eased but remained solid overall. Though broadly in line with the series average, the latest rise in exports was the least marked since the turn of the year. According to anecdotal evidence, the level of demand varied 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.*

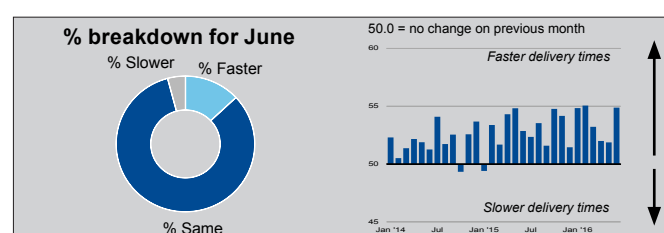
With new orders rising more quickly than output, June data highlighted another increase in outstanding business during June. Moreover, the rate at which backlogs were accumulated was the quickest in the survey's history. Around 16% of monitored companies signalled greater volumes of work-in-hand, against just 1% that saw a decline.



## Suppliers' Delivery Times Index

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

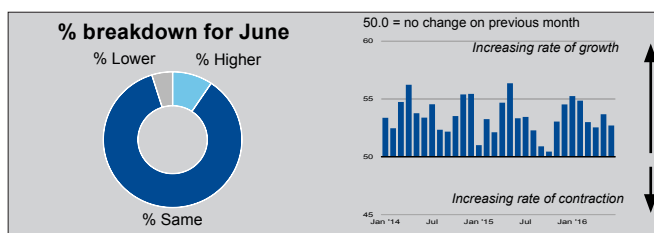
Average lead times shortened for the seventeenth month in a row midway through 2016. The extent to which vendor performance improved was the strongest since February, with exactly 13% of panel members seeing faster deliveries. Competition among suppliers was reportedly a key contributing factor, while firms also commented on less pressure at vendors as a result of subdued demand for inputs.



### Employment Index

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

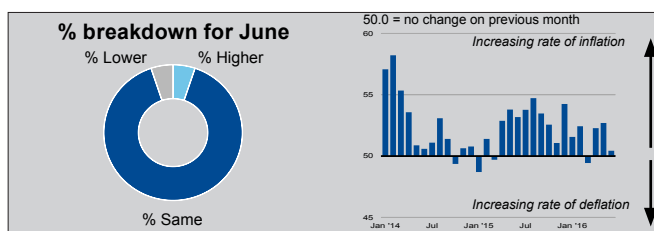
Kenyan private sector businesses recorded another rise in employment during June, continuing the trend observed throughout two-and-a-half years of data collection. In some cases, staff were hired in order to help with the opening of new branches. That said, the rate of job creation eased since May and was below the series average.



### Output Prices Index

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

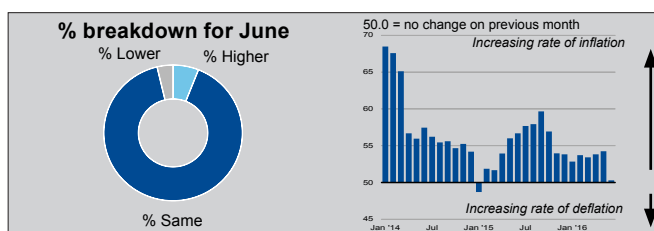
Output prices in Kenya's private sector barely rose in June, after having increased solidly in April and May. This was signalled by the seasonally adjusted index posting only slightly above the crucial 50.0 threshold. Panellists indicated that charges were dependent on whether suppliers had increased or decreased their purchase prices.



### Overall Input Prices Index

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

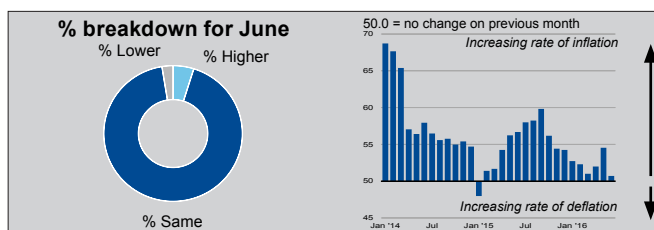
Overall input costs increased only fractionally in June, as shown by a seasonally adjusted index reading close to the neutral 50.0 value. The slower increase was a reflection of a marginal rise in purchasing costs and broadly no change in salaries. A small minority of respondents (6%) noted higher total input prices, while most (90%) signalled no change.



### Input Costs: Purchase Prices Index

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

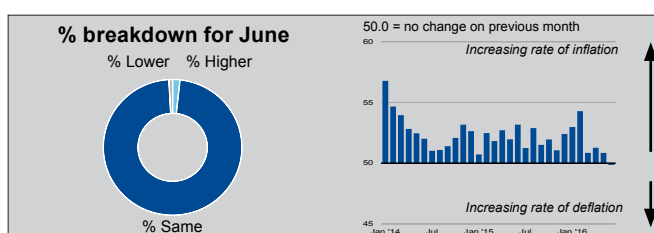
Purchase prices in Kenya's private sector rose only slightly at the end of the second quarter, mirroring the trend seen for overall input costs. The latest increase was the slowest in the current 17-month period of rising costs. Those firms that saw upward cost pressures commented on higher prices for certain raw materials, particularly fuel. On the other hand, some panellists mentioned that suppliers had reduced their prices.



### Input Costs: Staff Costs Index

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

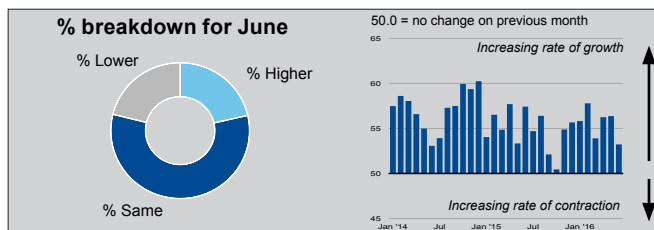
The seasonally adjusted Staff Costs Index posted close to the 50.0 no-change threshold in June, thereby signalling a broad stagnation in average salaries. This was the first month in which wages had failed to rise since data collection began two-and-a-half years ago. Some respondents trimmed their staff costs due to the slowdown in demand.



### Quantity of Purchases Index

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

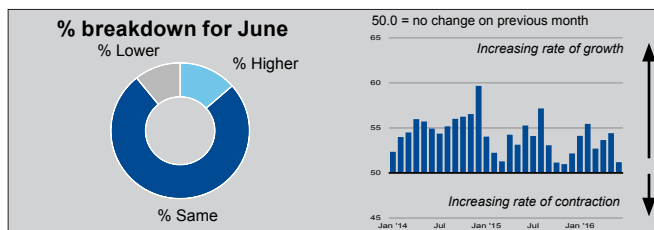
Growth of purchasing activity moderated to an eight-month low in June. Data suggested that the slowdown was largely reflective of relatively low new business levels and output requirements. The latest expansion was nevertheless solid overall, and it stretched the current upturn which has run throughout the survey's history.



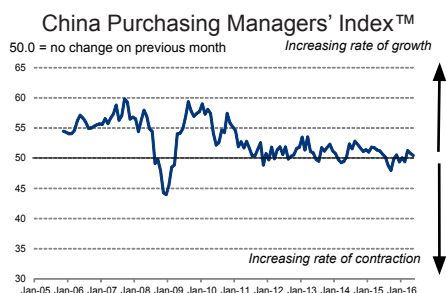
### Stocks of Purchases Index

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

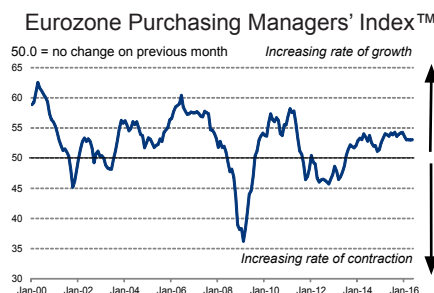
The rate of pre-production inventory building softened in June and was only modest. In fact, the latest rise was the slowest since last November and among the weakest ever recorded by the survey. Some firms built up their input stocks in response to new projects, but others cut back on inventories as output neared stagnation.



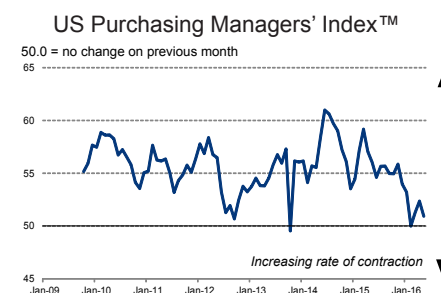
### International PMI summary



Sources: Caixin, Markit



Source: Markit



Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a further increase in total Chinese business activity during May. However, the Composite Output Index posted 50.5, down from 50.8 in April, to signal the slowest rate of expansion in the current three-month sequence of growth.

The Markit Eurozone PMI Composite Output Index ticked higher to 53.1, up from 53.0 in April. However, the past four months have seen economic growth hold broadly steady at February's 13-month low. The upturn was again led by the service sector.

The seasonally adjusted Markit U.S. Composite PMI Output Index dropped from 52.4 in April to 50.9 in May, to signal the slowest expansion of private sector output since February's stagnation. Higher levels of service sector activity contrasted with a slight reduction in manufacturing production during May.

### 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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