

CfC Stanbic Bank Kenya PMI™

compiled by markit

Kenyan private sector growth maintained at solid pace

Key findings:

- PMI dips since April but still points to healthy expansion
- Both output and new work rise solidly
- Rate of job creation quickens to three-month high

Kenya's private sector remained in good health during May, as business conditions improved solidly. Both output and new orders increased. That said, the respective rates of expansion eased since April, and were subdued in the context of historical data. The underlying strength of the economy was nevertheless highlighted by a faster rise in employment – job creation was at a three-month high. Firms also raised their input buying at the quickest rate in three months as they sought to keep pace with private sector expansion. Meanwhile, both input costs and output charges rose more quickly in May.

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.

Though falling from 54.8 in April to 54.0, the seasonally adjusted PMI pointed to a robust improvement in Kenyan private sector business conditions during May. The latest figure was below the overall series average (55.0), but broadly in line with the trend since the beginning of 2015 (54.3).

Higher output and new orders continued to bolster Kenya's private sector in May. Both rose solidly, though the rates of expansion were slower than their respective trends. Panellists indicated that new client wins and incoming projects had led them to raise their output. Moreover, growth of total new work

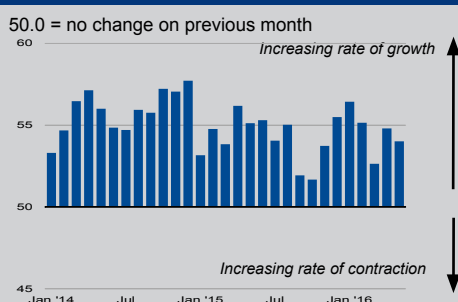
was supported by exports, which increased for the sixth straight month. Notably, some firms made particular reference to trade with Uganda.

In line with ongoing improvements in demand, employment rose again in May. Furthermore, the rate of hiring quickened since April to a three-month high. The pick-up in job creation failed to alleviate pressure on operating capacity, however, as continued new order growth meant that backlogs increased for the seventh month running.

Growth of purchasing activity was sustained at a marked pace similar to that seen in April. New business gains were reportedly behind the rise. As a result, the rate of pre-production inventory building remained strong, with the latest expansion the quickest since February.

On the price front, cost pressures intensified for the second successive month in May. The latest increase was solid overall, but remained weaker than the average over nearly two-and-a-half years of data collection. Higher purchase prices were behind the overall rise, with firms commenting on greater raw material and transportation costs. Charges also rose more quickly, as shown by the respective index climbing to a five-month high.

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



Purchasing Managers' Index

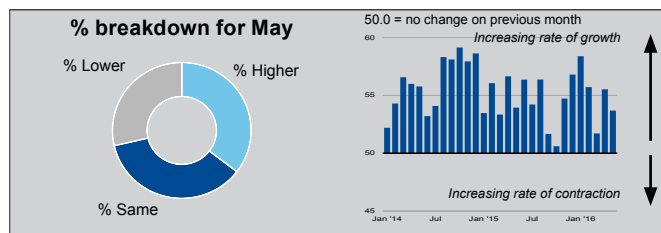
		Unadj.	Seas. Adj.
2016	Mar	52.5	52.6
	Apr	55.6	54.8
	May	54.1	54.0

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.

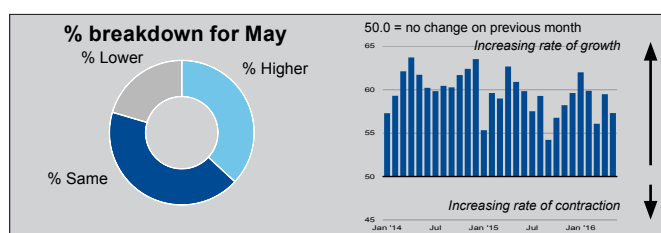
May data highlighted a slowdown in Kenyan private sector output growth, albeit not to the same extent seen at the end of the first quarter. In March, the respective index posted one of its lowest readings since the series began in January 2014, whereas the latest figure pointed to solid growth. More than 35% of panellists noted higher activity, which they often attributed to new business gains.



New Orders Index

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

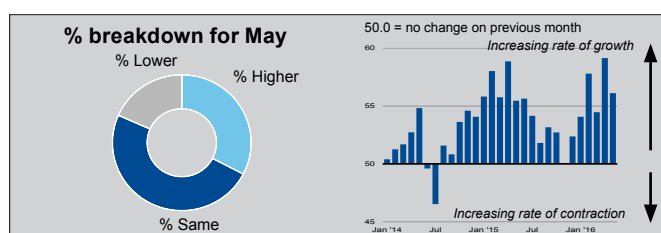
The rate of expansion in new work showed a similar trend to that for output, slowing since April but remaining faster than March's recent low. Nearly 37% of survey participants saw new orders increase in May, versus 20% that registered a decline. Firms commented on new client wins and incoming projects.



New Export Orders Index

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

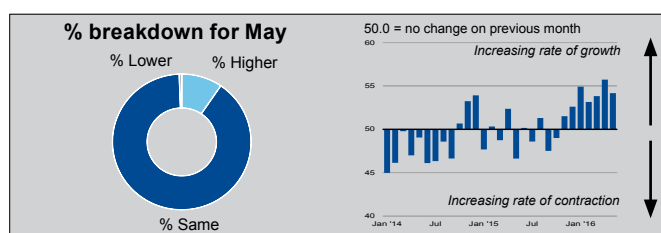
Growth of total new business was supported by another rise in new export work during May. The latest increase was the sixth in as many months and strong in the context of historical data, albeit weaker than in April. Improving demand was reported across a number of export markets, in particular Uganda.



Backlogs of Work Index

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

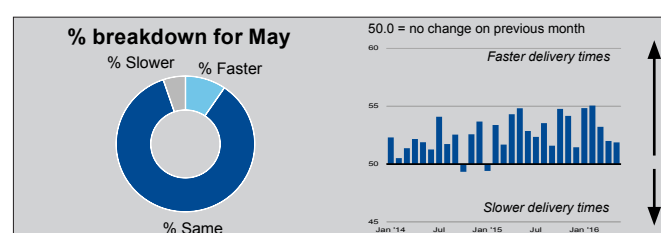
Volumes of work-in-hand (but not yet completed) at Kenyan private sector companies rose further in May, thereby marking a seven-month period of accumulation. Despite easing since April, the rate of expansion was sharper than the average over the current sequence. Higher workloads were behind growth of backlogs, according to panellists.



Suppliers' Delivery Times Index

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

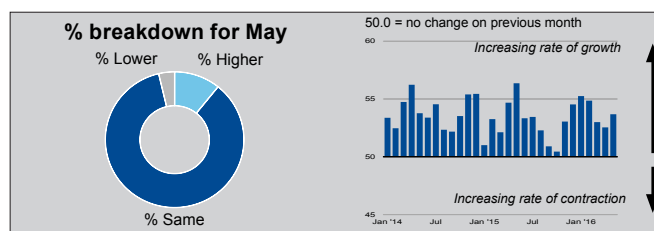
The seasonally adjusted Suppliers' Delivery Times Index posted above the crucial 50.0 threshold for the sixteenth month in a row during May. The extent to which lead times improved was little-changed from the previous month, however, and only modest overall. Some firms suggested that greater competition had made vendors more efficient, but others indicated that adverse weather had led to delays.



Employment Index

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

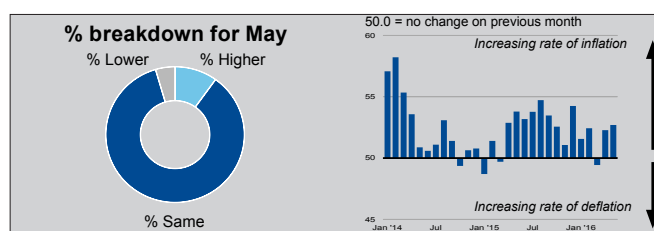
Contrasting with slower expansions in output and new business, jobs growth picked up in May. The rate of hiring was at a three-month high, with around 11% of respondents seeing an increase in staffing levels. Companies that raised employment did so in order to cope with rising client demand.



Output Prices Index

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

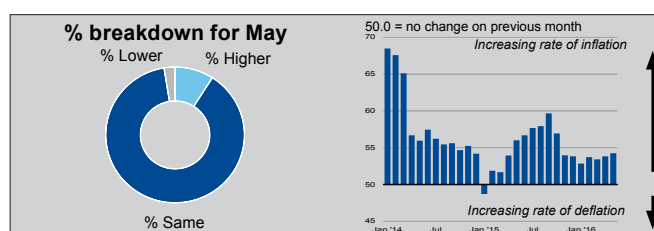
Average selling prices in Kenya's private sector rose for the second straight month in May. Furthermore, the rate of increase quickened from the prior month to the sharpest since last December. Twice as many respondents saw a rise (10%) than a fall (5%). Higher charges were widely linked to greater input costs.



Overall Input Prices Index

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

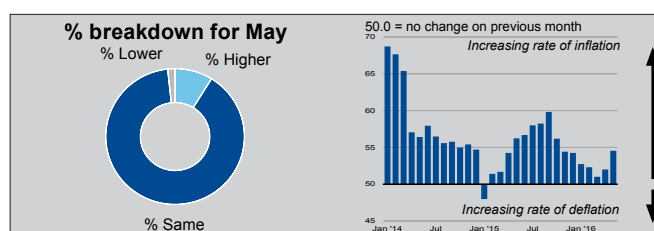
Overall input prices increased for the sixteenth consecutive month midway through the second quarter. The pace at which they rose accelerated to a seven-month high, but remained muted compared to the series average. Underlying data showed that a solid rise in purchase prices had been behind cost pressures, as salaries increased only modestly.



Input Costs: Purchase Prices Index

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

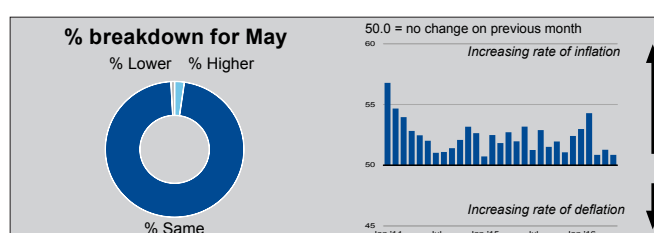
In line with the trend for overall input prices, purchasing costs rose at the fastest pace since October last year during May. According to anecdotal evidence, the increase was driven by higher raw material and transportation costs. That said, with most panellists (90%) recording no change since April, the rise was slower than the average over the first 29 months of data collection.



Input Costs: Staff Costs Index

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

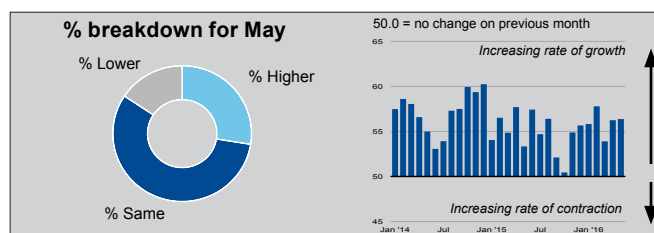
The rate of salary growth in Kenya's private sector economy was close to the weakest recorded by the survey during May. This was signalled by the seasonally adjusted index posting only marginally above the 50.0 no-change value, as the overwhelming majority of respondents (97%) indicated that wages had remained the same since April.



Quantity of Purchases Index

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

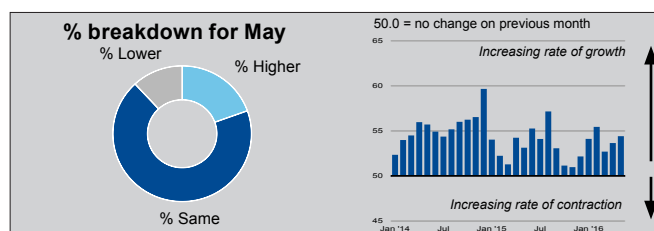
Robust growth of new business contributed to another marked rise in purchasing activity during May. The respective index was at a three-month high, with nearly twice as many panel members signalling an increase (28%) than a decrease (16%). The latest expansion was slightly faster than the survey average.



Stocks of Purchases Index

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

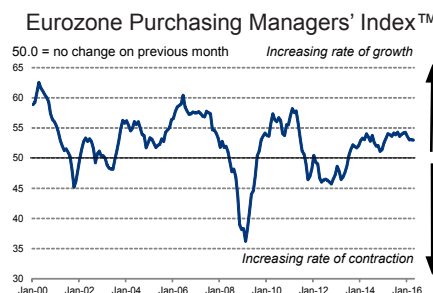
The sharp increase in purchasing activity led to a further build-up of post-production inventories during May. The rate of growth was the quickest in three months, with one-in-five respondents noting a rise since April. There were reports that incoming new projects and generally stronger demand had motivated firms to raise their input stocks.



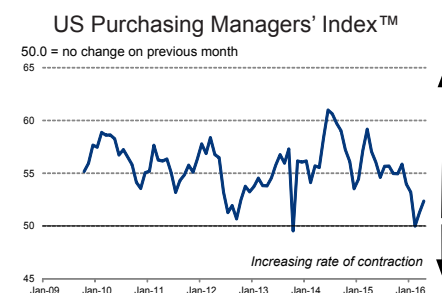
International PMI summary



Sources: Caixin, Markit



Source: Markit



Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) indicated a second successive monthly expansion of overall business activity in China during April. That said, the rate of activity growth eased since March to signal only a marginal rate of increase, with the composite index posting 50.8, down from 51.3.

The rate of eurozone economic expansion remained only modest in April, as the Markit Eurozone PMI Composite Output Index posted 53.0. This reading was a pip below March's 53.1. Nonetheless, the index has now signalled growth in each of the past 34 months.

The seasonally adjusted Markit U.S. Composite PMI Output Index picked up to 52.4 in April, from 51.3 in March, thereby signalling the fastest expansion of private sector output since January. Stronger growth of service sector business activity contrasted with the weakest increase in manufacturing production for just over five-and-a-half years.

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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