

CfC Stanbic Bank Kenya PMI™

compiled by markit

Growth of Kenyan private sector accelerates in February

Key findings:

- **Headline PMI picks up from survey-record low**
- **Output, new orders and employment all rise at sharper rates**
- **Input prices increase moderately, reversing January's reduction**

This report contains the first public release of data collected from the new monthly survey of business conditions in the Kenyan private sector. The survey, sponsored by CfC Stanbic Bank and produced by Markit, has been conducted since January 2014 and provides an early indication of operating conditions in Kenya. The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™).

The PMI is a composite index, calculated as a weighted average of five individual sub-components: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). 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 remained above the neutral 50.0 threshold in February, signalling a further improvement in Kenyan private sector operating conditions. Moreover, at 54.8, the latest reading was indicative of a solid expansion, rising from the survey-record low of 53.2 that was seen in January.

Kenyan private sector output increased at a faster rate in February, mirroring the overall improvement in business conditions. Furthermore, the pace at which output rose was broadly in line with the series average. Anecdotal evidence linked growth to stronger order books and commercial initiatives.

Amid reports of solid demand conditions, incoming new work

also rose more quickly. The rate of expansion was marked overall, helped by a healthy customer turnout. Likewise, growth of new export business picked up since January. In fact, the latest increase was the most marked in 14 months of data collection.

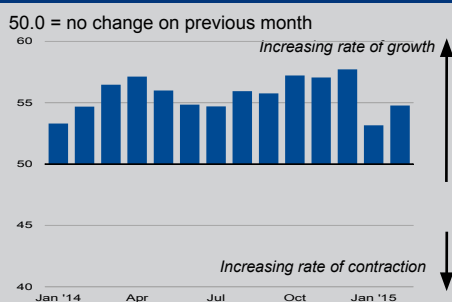
Companies continued to hire staff in response to increased production requirements in February. The rate of job creation accelerated in line with output and new orders, having eased to the weakest in the survey's history at the start of 2015.

Sharper expansions in output and new work intakes also led to ongoing growth of purchasing activity during February. Input buying rose at a faster pace, contrasting with the weakest increase in pre-production inventories since the survey began in January 2014.

A further by-product of higher new work inflows was a return to growth for backlogs of work. However, the level of outstanding business rose only fractionally during the month.

Meanwhile, total input prices increased at a moderate pace in February, reversing the trend observed in the previous month. Latest data signalled that the overall increase was driven by modest rises in both purchase prices and staff costs during the month. Subsequently, prices charged by Kenyan private sector firms rose in February, albeit at a historically muted pace.

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



Purchasing Managers' Index

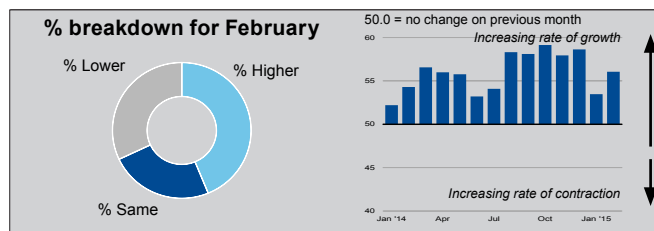
		Unadj.	Seas. Adj.
2014	Dec	59.1	57.7
2015	Jan	44.1	53.2
	Feb	56.7	54.8

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.

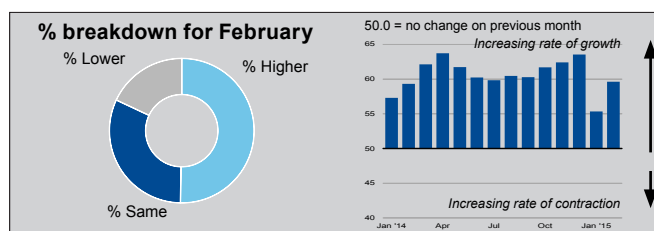
Latest data signalled further output growth at Kenyan private sector firms in February, as highlighted by the seasonally adjusted index posting above the crucial 50.0 threshold. Moreover, having eased to a seven-month low in January, the rate of expansion was robust overall and in line with the historical trend. Solid demand conditions and marketing initiatives were reported to have boosted production during the latest period.



New Orders Index

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

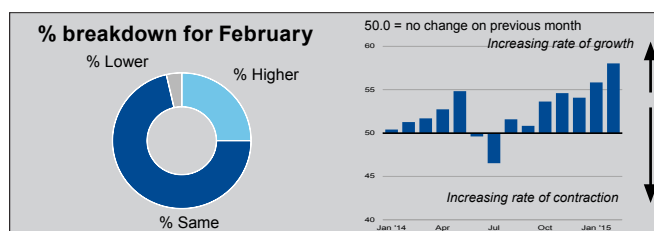
New orders placed with Kenyan private sector companies increased in February, extending the current sequence of rises which has run throughout the survey's 14-month history. Furthermore, the pace of growth accelerated during the month, mirroring the faster expansion in output. Around half of survey respondents noted higher new work inflows, with a number referring to a strong customer turnout.



New Export Orders Index

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

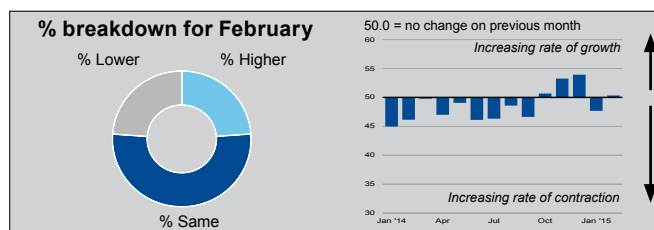
Growth of new export business quickened for the second successive month in February, as the seasonally adjusted index moved further above the 50.0 no-change mark to a survey-record high. Exactly 25% of panel members registered a rise in new work from abroad, amid reports of new contract wins in Europe and Africa. Exports have increased in 12 of the first 14 months of data collection.



Backlogs of Work Index

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

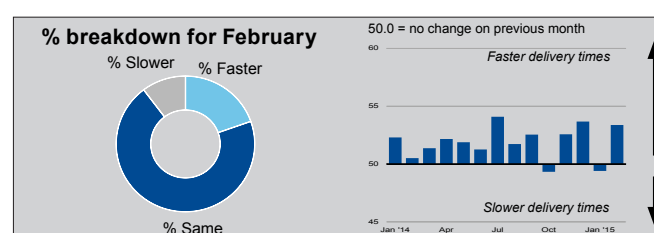
The level of unfinished work in Kenya's private economy rose fractionally in February, contrasting with the solid reduction recorded at the start of 2015. The latest expansion was the fourth in the past five months. According to panellists, pressure on capacity re-emerged as a result of new business gains.



Suppliers' Delivery Times Index

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

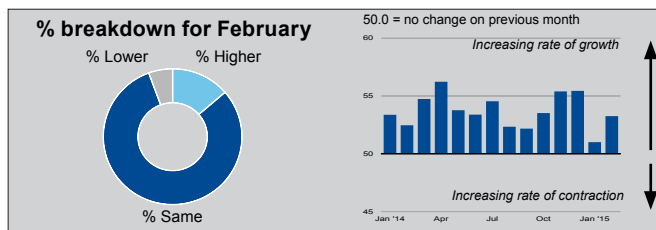
Average lead times shortened in February, reversing the trend seen in the prior month. Moreover, the latest improvement in vendor performance was solid and the third-strongest in the series history. Approximately one-fifth of survey participants reported shorter delivery times, twice the proportion that noted a lengthening. Companies suggested that competition between suppliers had led to an improvement in performance.



Employment Index

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

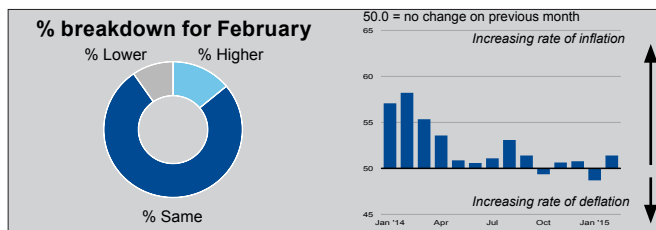
Private sector firms in Kenya continued to hire staff in February, as has been the case each month since the survey began in January 2014. The rate of job creation picked up from the record low observed in January, but remained slightly weaker than the historical average. Panel members generally attributed workforce growth to higher new work intakes and subsequent production requirements.



Output Prices Index

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

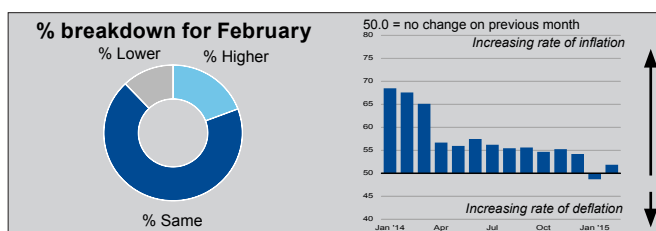
Average tariffs set by Kenyan private sector companies rose in February, having fallen for the first time in three months during January. However, the rate of increase was only moderate overall, and muted in the context of historic survey data. Those panellists that raised selling prices mentioned higher input costs and stronger demand as contributing factors.



Overall Input Prices Index

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

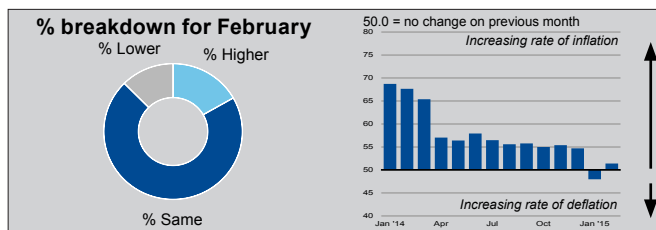
Upward cost pressures re-emerged in February, as signalled by the seasonally adjusted index rising above the 50.0 no-change mark. That said, total input costs increased at a modest pace that was the weakest in the series history, excluding the reduction observed in the previous month. Purchase prices and staff costs both rose moderately during the month.



Input Costs: Purchase Prices Index

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

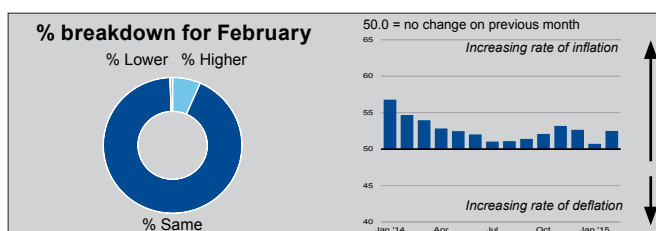
Average purchase costs faced by Kenyan private sector firms increased in February, following the moderate reduction recorded in January. This mirrored the trend observed for overall input prices. According to respondents, the latest rise occurred partly as a result of an appreciation of the US dollar against the Kenyan shilling. However, reports of lower fuel prices meant that the overall rate of increase was only modest.



Input Costs: Staff Costs Index

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

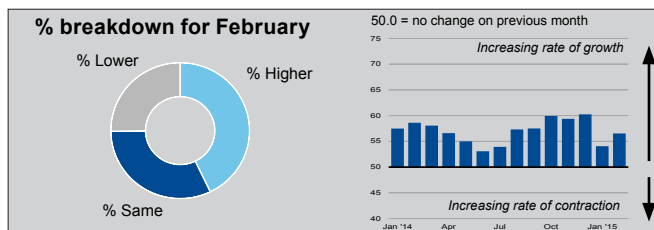
The seasonally adjusted Staff Costs Index posted above the 50.0 no-change mark for the fourteenth straight month in February, highlighting ongoing salary growth in the Kenyan private sector economy. Moreover, the latest reading picked up from January's low to signal a moderate increase during the month. Companies raised wages in order to compensate employees for stronger performance and higher living costs.



Quantity of Purchases Index

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

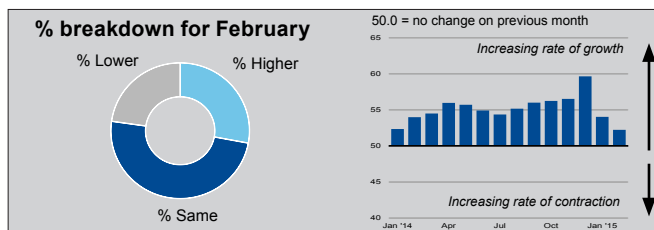
Purchasing activity rose at a faster pace in February, reflecting sharper growth of output and new orders. The latest expansion was robust overall, albeit marginally weaker than the average recorded over the first 14 months of data collection. Roughly 43% of surveyed firms increased their buying activity, versus 25% that reported a contraction.



Stocks of Purchases Index

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

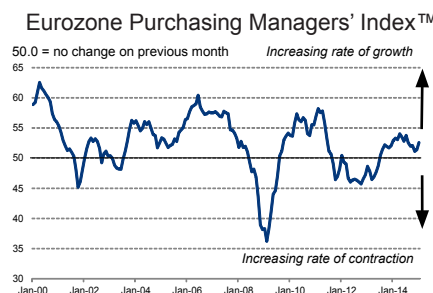
Despite remaining above the 50.0 no-change mark, the seasonally adjusted Stocks of Purchases Index slipped to a survey-record low in February. The latest reading was consistent with only a moderate rate of expansion. Where inventories were reported to have risen, a number of monitored companies referred to higher new work inflows.



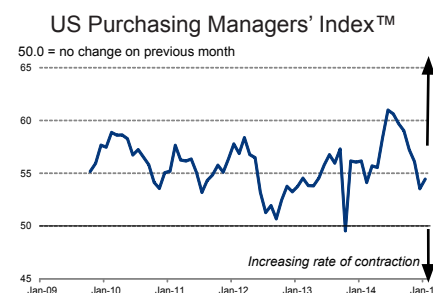
International PMI summary



Sources: Markit, HSBC



Source: Markit



Source: Markit

HSBC China Composite PMI data (which covers both manufacturing and services) signalled a further rise in total business activity in China at the start of 2015. That said, the rate of growth eased to the weakest in eight months, with the HSBC Composite Output Index posting at 51.0 in January, down from 51.4 in December.

At 52.6 in January, the Markit Eurozone PMI Composite Output Index was broadly in line with its average for 2014 as a whole (52.7). The headline index has now signalled expansion for 19 months running.

Adjusted for seasonal influences, the Markit U.S. Composite PMI Output Index (covering manufacturing and services) posted 54.4 in January, up from 53.5 in December and above the neutral 50.0 threshold for the fifteenth consecutive month. The latest reading indicated that U.S. private sector output growth rebounded since the previous month, but was still the second-slowest since February 2014.

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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