

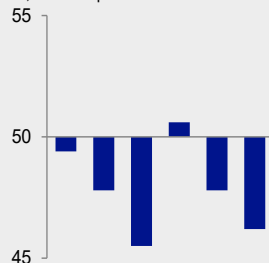
Stanbic Bank Kenya PMI®

Record inflationary pressures hit business conditions in October

46.2

KENYA PMI
OCT '23

PMI
May - Oct '23
sa, >50 = improvement



Input costs and output prices increase at record rates...

...leading to sharper falls in new orders and activity

Joint-fastest decline in employment since June 2020

Kenyan private sector firms faced unprecedented inflationary pressures in October, latest PMI® survey data showed, driven by a further rise in fuel prices and ongoing currency weakness. Input costs rose at the quickest pace since the survey began nearly a decade ago, leading companies to also increase selling prices at a record rate.

Consequently, the latest data signalled a worsening of the demand picture in October, as heightened prices eroded spending power and led to a marked fall in new business. Output levels were reduced accordingly, while firms also made their joint-fastest cut to workforces since the middle of 2020.

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 46.2 in October, the headline PMI was down from 47.8 in September and

indicative of a solid deterioration in the health of the private sector. The rate of decline was the second-fastest since August 2022 and close to the marked downturn seen in July.

Business conditions worsened amid a rapid pick-up of cost pressures across the private sector economy, with survey data signalling the strongest rise in input prices since data collection started in 2014. Around 46% of monitored firms reported that total expenses had increased from September, driven by a further uplift in fuel prices and associated transport costs. In addition, companies noted that ongoing currency weakness and increased tax burdens had added to costs.

In order to maintain sufficient margins, Kenyan companies also reported an unprecedented increase in selling prices in October, with the rate of inflation climbing above the previous high in mid-2022.

The uplift in charges had a strong impact

Stanbic Bank Kenya PMI
sa, >50 = improvement since previous month



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on client demand and business activity. The latest survey data indicated a marked and accelerated decline in new order volumes, which was broad-based across each of the five sub-sectors but steered by construction and wholesale & retail. Similarly, output levels contracted sharply and to a greater degree than in September.

With economic conditions appearing to toughen, Kenyan firms tightened spending on inputs and labour. Employment numbers were reduced at the joint-strongest rate since June 2020, following a renewed (but slight) fall in September. Purchasing activity also dropped, albeit only modestly.

Meanwhile, there was a slight improvement in vendor performance, after lead times had lengthened slightly in the previous month. Firms noted that this was due to cash flow concerns at vendors, leading them to make quicker deliveries in order to boost payments.

Finally, business expectations for the coming 12 months remained muted in October, with firms showing a modest degree of positivity that was little-changed from September. That said, optimism was still stronger than the record low in April. Hopes that sales and activity will pick up contributed to a renewed increase in firms' inventory holdings.

Comment

Christopher Legilisho, Economist at Standard Bank commented:

“The Kenya Purchasing Managers’ Index (PMI) deteriorated markedly in October. Output and new orders contracted across all sectors surveyed, with new orders falling the fastest in the construction, wholesale and retail sectors. Cost-of-living pressures and cashflow difficulties saw customer demand declining, while weaker output and lower workloads led to an increased rate of job cuts.

“Meanwhile, Kenyan businesses reported burgeoning inventories, and therefore raised their selling prices in October to protect their profit margins. Input prices and purchase price pressures faced by Kenyan businesses were attributed to a further increase in fuel prices and transport costs.

“Encouragingly, firms involved in new export orders remained robust, with greater demand from both Africa and Europe. However, business expectations for the next 12 months are quite weak.”



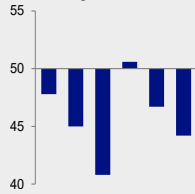
PMI®

by **S&P Global**

Output and demand

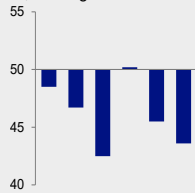
Output Index

May - Oct '23
sa, >50 = growth



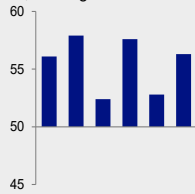
New Orders Index

May - Oct '23
sa, >50 = growth



New Export Orders Index

May - Oct '23
sa, >50 = growth



Output

The seasonally adjusted Output Index fell further below the 50.0 neutral mark in October, indicating a sharp decline in private sector activity across Kenya. The downturn was the quickest recorded since July and among the worst in the series history, with all five sub-sectors registering a contraction on the month. According to panellists, tougher economic conditions led to lower new business intakes and reduced output.

New orders

New business inflows fell for the second straight month at the start of the fourth quarter. Moreover, the decline was quicker than in September and steep overall, as firms highlighted a marked drop in customer demand linked to inflationary pressures and cash flow difficulties. Of the five sectors covered by the survey, new orders fell the quickest in construction and wholesale & retail.

New export orders

Foreign demand trends continued to run counter to the direction of total sales in October, as Kenyan firms reported a sustained and sharper uplift in new orders from abroad. Where higher export sales were recorded, companies especially highlighted greater demand from Africa and Europe.

Output Index

sa, >50 = growth since previous month



New Orders Index

sa, >50 = growth since previous month



New Export Orders Index

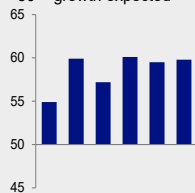
sa, >50 = growth since previous month



Business expectations

Future Output Index

May - Oct '23
>50 = growth expected



Kenyan business confidence was again historically weak during October. The Future Output Index recorded little movement from the previous two readings, although it was still solidly above the survey-low set in April. In total, one-in-five respondents expect output to increase over the year ahead, with this often attributed to new branches, greater marketing and additional products. Construction firms were the most optimistic out of the five sub-sectors.

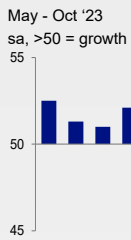
Future Output Index

>50 = growth expected over next 12 months



Employment and capacity

Employment Index



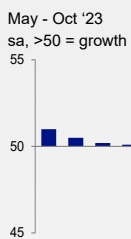
Employment

In response to lower levels of output and new orders, Kenyan private sector firms reduced their staffing numbers for the second month running in October. Furthermore, the rate of job cuts accelerated to a solid pace that was the joint-quickest since June 2020. Panellists commented on both the non-replacement of leavers and staff reductions due to lower workloads.

Employment Index



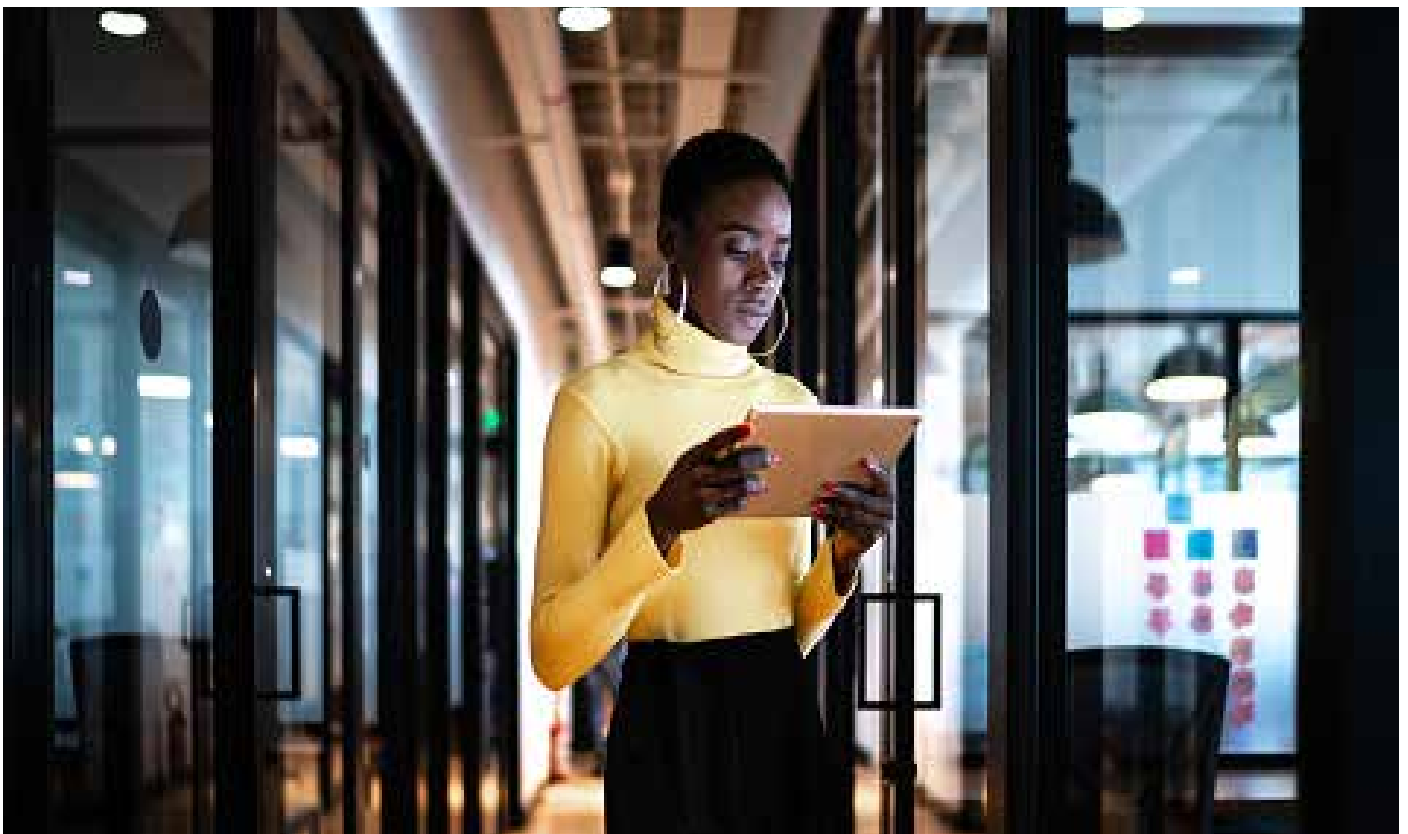
Backlogs of Work Index



Backlogs of work

There was a renewed rise in the level of outstanding business at Kenyan companies in October, as the seasonally adjusted Backlogs of Work Index crept back above the 50.0 neutral threshold. This followed the first (albeit mild) reduction in backlogs for seven months in September. That said, the latest increase was only marginal.

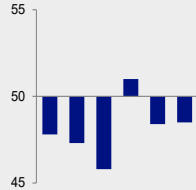
Backlogs of Work Index



Purchasing and inventories

Quantity of Purchases Index

May - Oct '23
sa, >50 = growth



Quantity of purchases

Purchasing activity across the Kenyan private sector economy continued to fall at the turn of the fourth quarter, marking the sixth decline in seven months. Anecdotal evidence indicated that firms reduced their buying levels due to lower new orders. However, despite a marked drop in new business intakes, the reduction in purchases was modest and largely unchanged from the previous survey period.

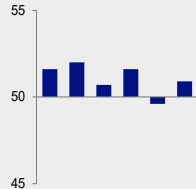
Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index

May - Oct '23
sa, >50 = faster times



Suppliers' delivery times

Supplier performance returned to positive territory in October. Adjusted for seasonal influences, the Suppliers' Delivery Times Index posted marginally above the 50.0 neutral value, after falling below it for the first time in six months in September. Some businesses highlighted that cash flow concerns prompted vendors to make quicker deliveries in order to boost payments.

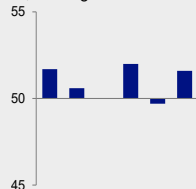
Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index

May - Oct '23
sa, >50 = growth

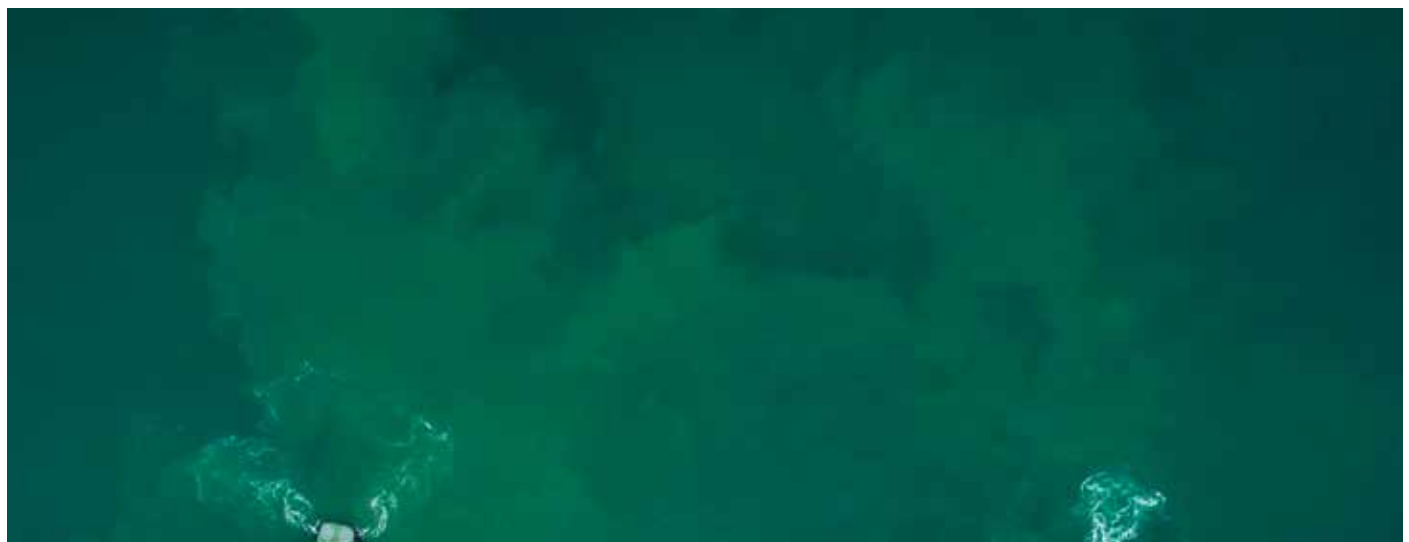


Stocks of purchases

Kenyan businesses reported a modest increase in their inventories over October, thereby reversing a fractional drop in the prior month. Where inventories rose, this was often linked to hopes that sales volumes will recover, while some firms pointed to heightened inflation projections. Stocks increased in all monitored sectors, except manufacturing.

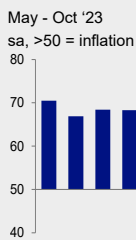
Stocks of Purchases Index

sa, >50 = growth since previous month



Prices

Input Prices Index

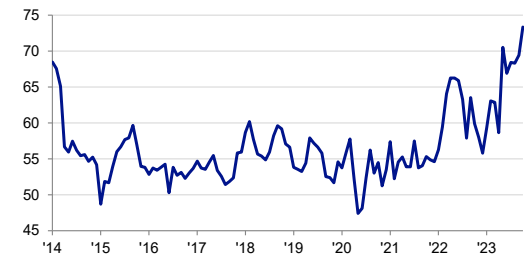


Input prices

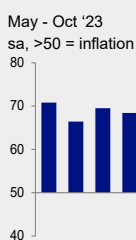
Input cost inflation hit a record high in the Kenyan economy in October, as indicated by the respective seasonally adjusted index climbing above its previous record seen in May. Notably, around 46% of surveyed businesses found that input costs had risen since the previous month, which was widely attributed to increases in fuel and material prices. By sub-sector, the uplift in costs was most pronounced in construction.

Input Prices Index

sa, >50 = inflation since previous month



Purchase Prices Index

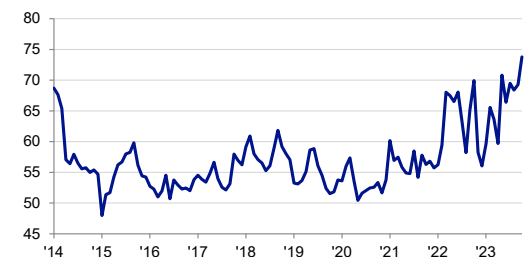


Purchase prices

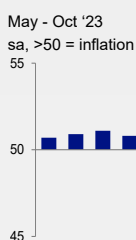
Purchase prices faced by Kenyan firms increased substantially over the course of October. Indeed, the pace of inflation was unprecedented in the survey's history (since 2014) and driven by marked rises in all five sub-categories. According to survey panellists, fuel prices were the principal driver of higher costs, with firms also seeing upticks in associated transport costs. Currency weakness and higher taxes were also reported.

Purchase Prices Index

sa, >50 = inflation since previous month



Staff Costs Index



Staff costs

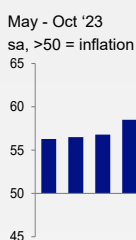
Staffing costs in the Kenyan private sector decreased at the start of the fourth quarter, in stark contrast to the trend for purchase prices. The reduction in wages was the first recorded in 2023 so far. That said, with the seasonally adjusted index ticking just below the 50.0 mark, the indicated drop in staff costs was only fractional.

Staff Costs Index

sa, >50 = inflation since previous month



Output Prices Index

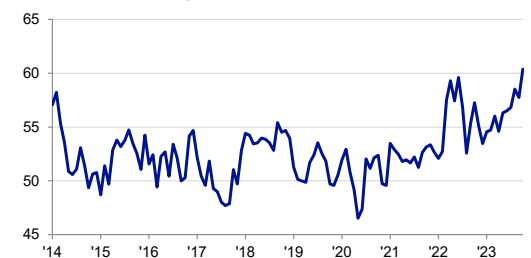


Output prices

Faced with unprecedented cost pressures, Kenyan businesses registered a considerable uplift in selling charges during October. In fact, the pace of inflation was also at a record high, climbing above the previous peak in mid-2022. Roughly 20% of firms raised their own prices during the month, compared to 1% that noted a fall, with panellists often citing the need to protect profit margins.

Output Prices Index

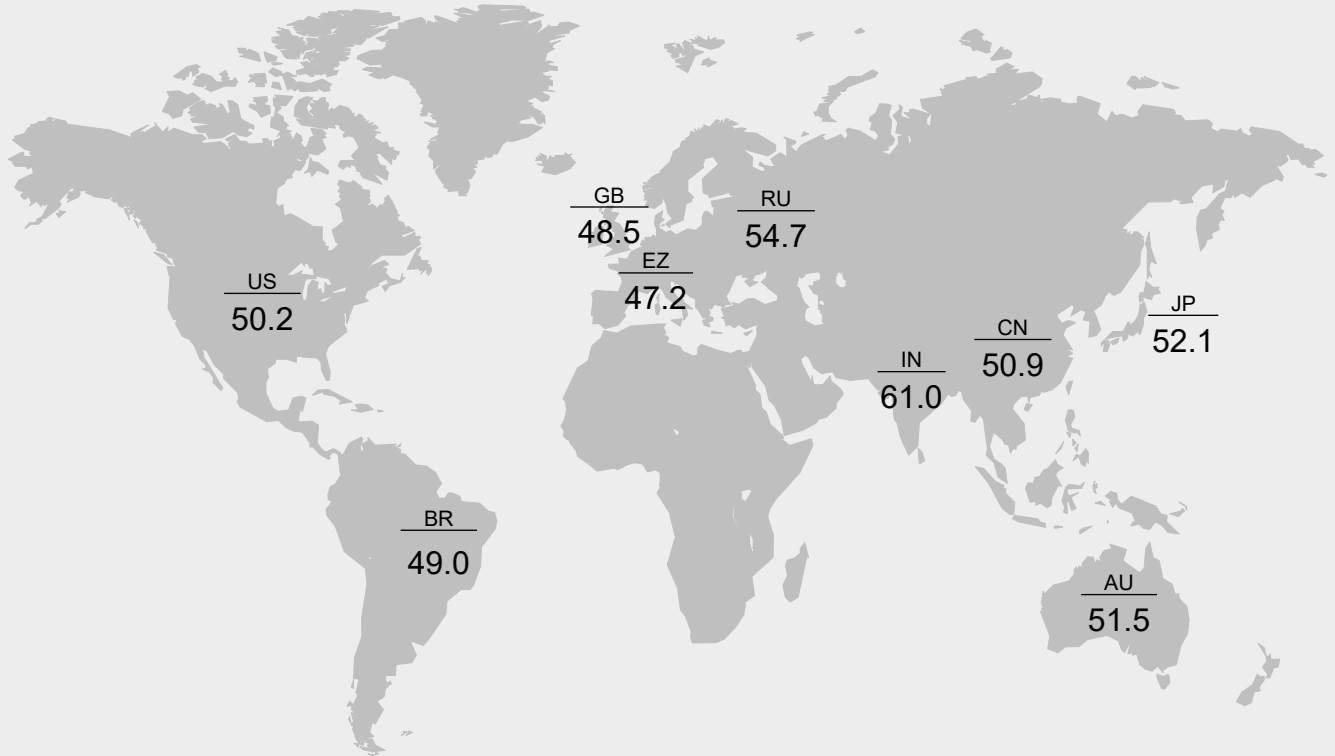
sa, >50 = inflation since previous month



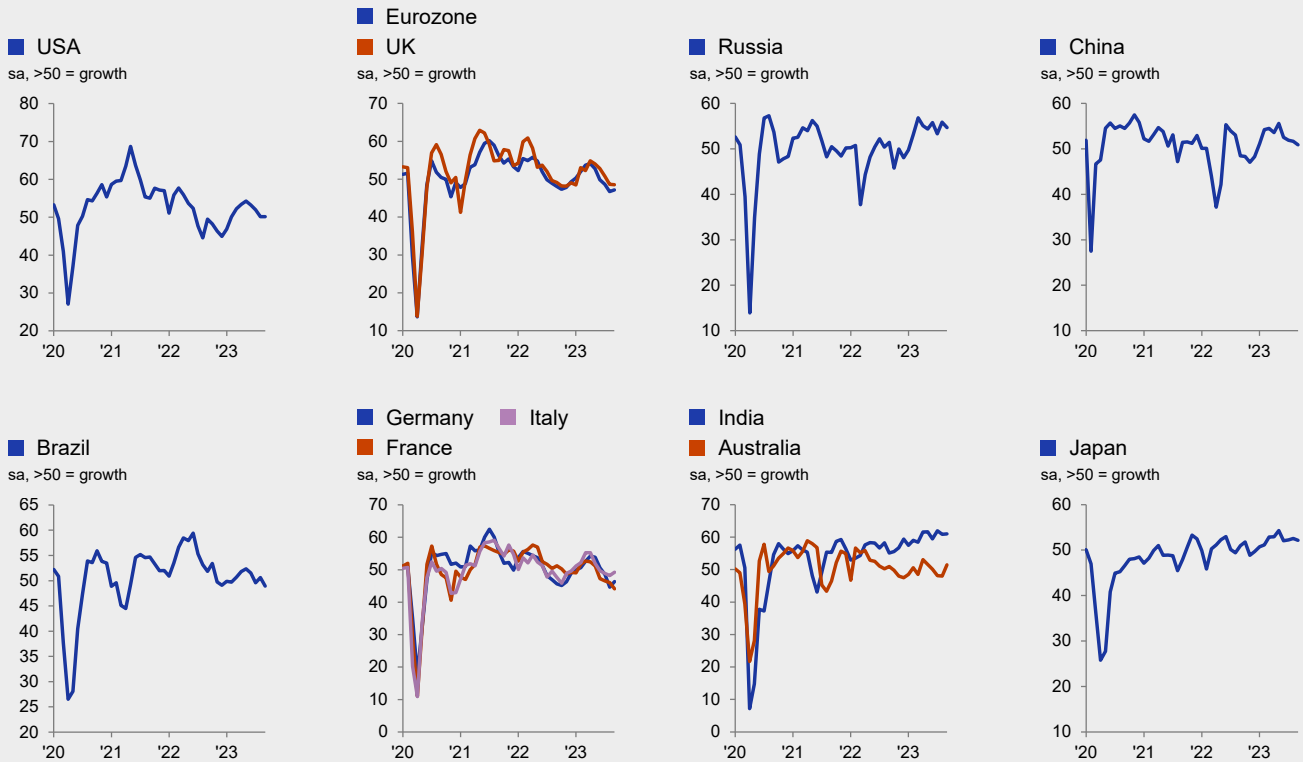
International PMI

Composite Output Index, Sep '23
sa, >50 = growth since previous month

The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



Composite Output Index



Survey methodology

The Stanbic Bank Kenya PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include agriculture, mining, manufacturing, construction, wholesale, retail and services. Data were first collected January 2014.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@spglobal.com.

Survey dates

Data were collected 12-27 October 2023.

Survey questions

Private sector

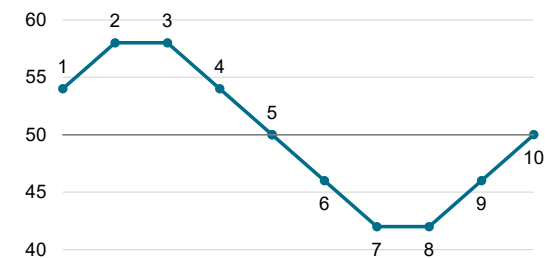
Output	Suppliers' Delivery Times
New Orders	Stocks Of Purchases
New Export Orders	Input Prices
Future Output	Purchase Prices
Employment	Staff Costs
Backlogs Of Work	Output Prices
Quantity Of Purchases	

Index calculation

$$\% \text{ "Higher"} + (\% \text{ "No change"})/2$$

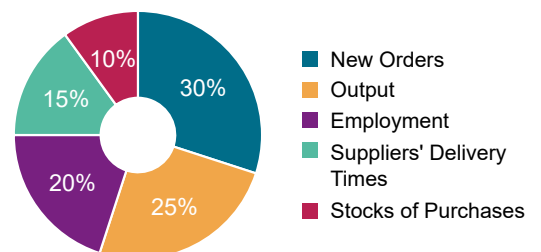
Index interpretation

50.0 = no change since previous month



- | | |
|--------------------------|----------------------------|
| 1 Growth | 6 Decline, from no change |
| 2 Growth, faster rate | 7 Decline, faster rate |
| 3 Growth, same rate | 8 Decline, same rate |
| 4 Growth, slower rate | 9 Decline, slower rate |
| 5 No change, from growth | 10 No change, from decline |

PMI component weights



Sector coverage

PMI data include responses from companies operating in sectors classified according to the following ISIC Rev.4 codes:

A Agriculture, Forestry and Fishing	K Financial and Insurance Activities
B Mining and Quarrying	M Professional, Scientific and Technical Activities
C Manufacturing	N Administrative and Support Service Activities
F Construction	P Education*
G Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	Q Human Health and Social Work Activities*
H Transportation and Storage	R Arts, Entertainment and Recreation
I Accommodation and Food Service Activities	S Other Service Activities
J Information and Communication	

*Private sector

Contact

Christopher Legilisho
 Economist
 Standard Bank
LegilishoC@stanbic.com

Catherine Ngina Njoroge
 Marketing and Communications
 Stanbic Bank
 Tel: +254 722 664 992
NjorogeC@stanbic.com

David Owen
 Senior Economist
 S&P Global Market Intelligence
 T: +44 1491 461 002
david.owen@spglobal.com

Sabrina Mayeen
 Corporate Communications
 S&P Global Market Intelligence
 T: +44 7967 447 030
sabrina.mayeen@spglobal.com

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Stanbic Bank Kenya is a member of the Standard Bank Group, Africa's largest bank by assets. With a solid foundation in Kenya and history spanning over 110 years, Stanbic is one of the top banks operating in Kenya focused on fostering her socio-economic growth wide with a branch network across the country providing services to individuals, businesses and Commercial clients. Standard Bank Group which is the largest financial institution in Africa by Market capitalization, has on-the-ground representation in 20 African countries - making them one of the largest banking networks on the continent. Standard Bank Group's largest shareholder is Industrial and Commercial Bank of China (ICBC), the world's largest bank, with a 20.1% shareholding. Standard Bank Group has direct, on-the-ground representation in 20 African countries.

At Stanbic Bank, we are proudly Kenyan with a clear purpose which is Kenya is our Home, we drive her Growth. This informs everything we do as an organization as we are committed to the growth and development of Kenya, its people and industries. It is with this drive that Stanbic Bank Kenya continues to move forward with its purposeful strategy to drive Kenya's growth by actively seeking opportunities to partner with both Government and private Sector to unlock their potential and contribution to the economy.

Stanbic Bank Kenya provides the full spectrum of financial services. The Consumer and High Net-worth division Stanbic Bank continue to serve the people of Kenya with a range

of personal banking products and solutions. Stanbic Bank also offers Wealth services and product offerings, including insurance, investment, fiduciary, bespoke banking and multi-generational wealth preservation solutions to high net worth individuals, retail, business, commercial, and corporate clients across the Bank's footprint.

Its Corporate and Investment Banking division serves a wide range of requirements for banking, finance, trading, investment, risk management and advisory services. Corporate and Investment Banking delivers this comprehensive range of products and services relating to investment banking; global markets; and global transactional products and services. Stanbic Bank's Corporate and Investment Banking expertise is focused on industry sectors that are most relevant to emerging markets. It has strong offerings in oil, gas and renewables; power and infrastructure and agriculture.

With regard to Business and Commercial unit, Stanbic Bank Kenya offers banking and other financial services to medium-sized enterprises and high value small businesses. This unit serves the increasing need among Africa's small business and individual customers for banking products that can meet their shifting expectations and growing wealth.

Stanbic Bank is listed on the Nairobi Securities Exchange (NSE).

<http://www.stanbicbank.co.ke>

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About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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