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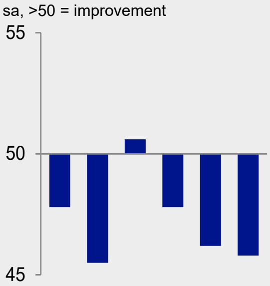
Stanbic Bank Kenya PMI®

Inflationary pressures continue to hit demand in November

45.8

KENYA PMI
NOV '23

PMI
Jun - Nov '23
sa, >50 = improvement



Cost and charge inflation remain close to record highs

New orders and output continue to fall markedly

Fastest drop in employment outside of initial COVID-19 lockdown

Business conditions in Kenya remained in a steep decline halfway through the final quarter of the year according to the latest PMI® survey data, amid sizeable falls in output, new orders and employment. Firms across the private sector noted that rapid inflation had again suppressed demand and created cash flow challenges, leading to further cuts in activity, staffing and purchasing.

Indeed, inflationary pressures on firms stayed near record levels during November, following October's historic uplift, as companies widely reported currency depreciation, higher taxes and increased fuel charges. The rise in input costs translated into another marked uplift in firms' output charges, which was also slightly softer than October's survey record.

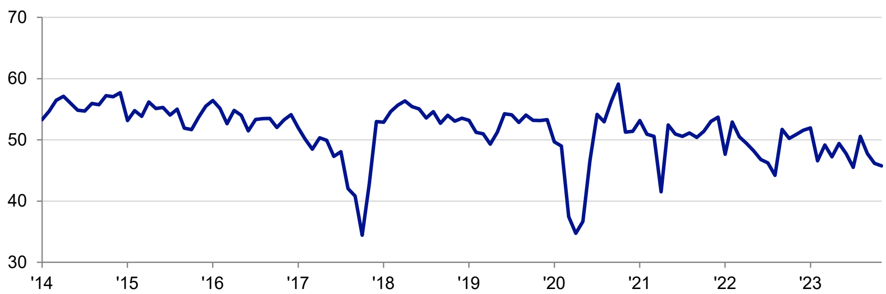
The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI®). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

At 45.8, dropping from 46.2 in October, the headline index pointed to a sharp decline in the performance of the Kenyan private sector in November. The reading marked the third contraction in as many months, and was among the weakest seen in the index's near decade-long history.

Driving the downturn in operating conditions was another historic increase in business costs during November. After reaching the highest level in the series history one month ago, the rate of input cost inflation remained marked and was the second-fastest on record, with firms largely relating this to a further depreciation in the shilling against the US dollar, higher taxes and greater fuel charges.

Likewise, output prices increased at a near-record pace in the latest survey period, as companies often passed on costs to clients to maintain their margins.

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



PMI by S&P Global

Contents

Rapid inflationary pressures on businesses and customers alike resulted in sustained contractions in activity and new business. The latest survey data indicated a sharp fall in new order volumes, one that was similar to October's and among the worst on record. Reports from survey members showed that customer spending had fallen due to increased prices and cash flow challenges.

Subsequently, output levels were pared back at a steep and accelerated rate. Contractions were seen in nearly all sectors, with agriculture the only broad category to record an expansion. By contrast, construction firms suffered the worst declines in new orders and output.

Reductions in output and new orders led to quicker falls in purchasing and employment at Kenyan firms in November. Most notably, staff numbers dropped at one of the sharpest rates on record, with stronger falls only registered during the first COVID-19 lockdown. Lower input purchases helped to shorten delivery times for the second month running, although the improvement was only slight.

Finally, business expectations for the coming year were subdued and dropped slightly to a four-month low. In total, just 17% of companies were confident of growth, linked to expansion plans and the launching of new products and services.

Comment

Christopher Legilisho, Economist at Standard Bank commented:

"The Kenyan Purchasing Managers Index (PMI) deteriorated further in November, reflecting still difficult business conditions for the private sector. Besides the agricultural sector, output and new orders declined across all monitored sectors; the construction sector was the worst hit. Inflationary pressures and cashflow difficulties saw customer spending declining, and the rate of job losses increasing in the private sector because of weaker output and reduced workloads. This corroborates a recent statement by the Federation of Kenya Employers that Kenya has lost approximately 3% y/y (70,000) of the jobs in the formal private sector due to the rising cost of doing business.

"On the pricing front, Kenyan businesses reported increasing inventories, and therefore raised selling prices in November. Rising input prices and purchase price pressures are being attributed to further increases in fuel prices, electricity costs and taxes among other factors.

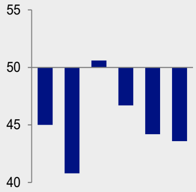
"Exporters continued to perform strongly, helping to offset weak domestic output, as demand from Europe and Asia was greater. Still, the business outlook for the next 12 months is quite weak based on the survey results from respondents."

Output and demand

Output
Index

Jun - Nov '23

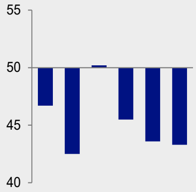
sa, >50 = growth



New Orders
Index

Jun - Nov '23

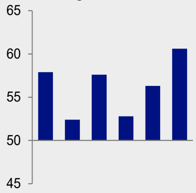
sa, >50 = growth



New Export
Orders Index

Jun - Nov '23

sa, >50 = growth

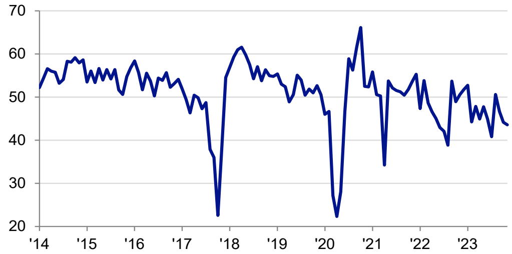


Output

Business output in Kenya contracted for the third successive month in November, with the seasonally adjusted index falling further below the 50.0 neutral mark. The latest reading signalled a marked decrease, which was the most severe in the construction industry. Notably, output fell in all monitored sectors except for agriculture. Where lower activity was reported, survey respondents highlighted lower sales and cash flow challenges linked to high inflation.

Output Index

sa, >50 = growth since previous month

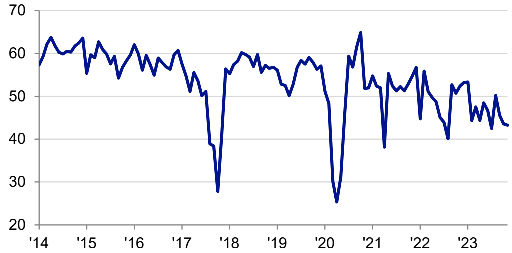


New orders

After indicating a sharp drop in new order inflows in October, the seasonally adjusted New Orders Index fell further in November to signal the fastest decline in four months. Panellists often noted that higher prices and the cost-of-living crisis limited customer spending. Like output, construction faced the worst drop in new business out of the five monitored sectors, while agriculture was the only category to see a rise.

New Orders Index

sa, >50 = growth since previous month



New export orders

Export demand continued to improve midway through the final quarter of the year, helping to offset weakness in domestic sales. In fact, the uplift in new export business was the strongest seen since December 2021. There were mentions of higher demand from Europe, Japan and mainland China, with some panellists attributing improvements to increased advertising.

New Export Orders Index

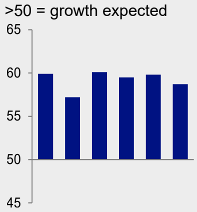
sa, >50 = growth since previous month

Business expectations

Future
Output Index

Jun - Nov '23

>50 = growth expected



The level of confidence in the Kenyan economy remained modest in November, with just 17% of businesses giving a positive prediction for output in a year's time. The degree of sentiment was down to a four-month low and below the average seen in 2023 to date. Where growth was forecast, firms cited plans to expand their product ranges, offer more services and open new branches in an effort to boost sales.

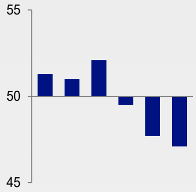
Future Output Index

>50 = growth expected over next 12 months

Employment Index

Jun - Nov '23

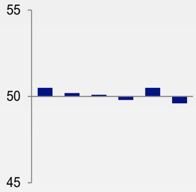
sa, >50 = growth



Backlogs of Work Index

Jun - Nov '23

sa, >50 = growth



Employment and capacity

Employment

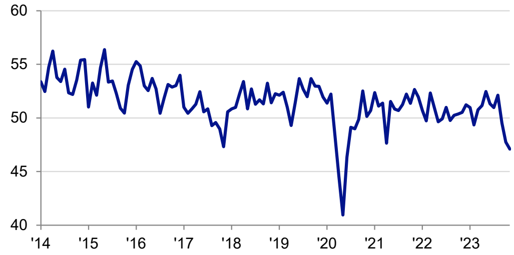
November data pointed to a reduction in workforce numbers at Kenyan firms for the third month in a row, which panellists largely related to weaker sales and a corresponding drop in workloads. Furthermore, the degree of job shedding was the greatest recorded in the series near-decade history when excluding the initial COVID-19 lockdown in 2020. Job levels fell in all five of the monitored sectors.

Backlogs of work

Outstanding business volumes at Kenyan private sector companies decreased slightly in November, reversing the similarly marginal rise seen in the previous survey period. November's fall marked only the third monthly reduction in backlogs of work in 2023 so far.

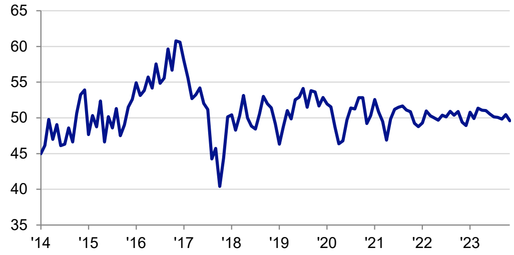
Employment Index

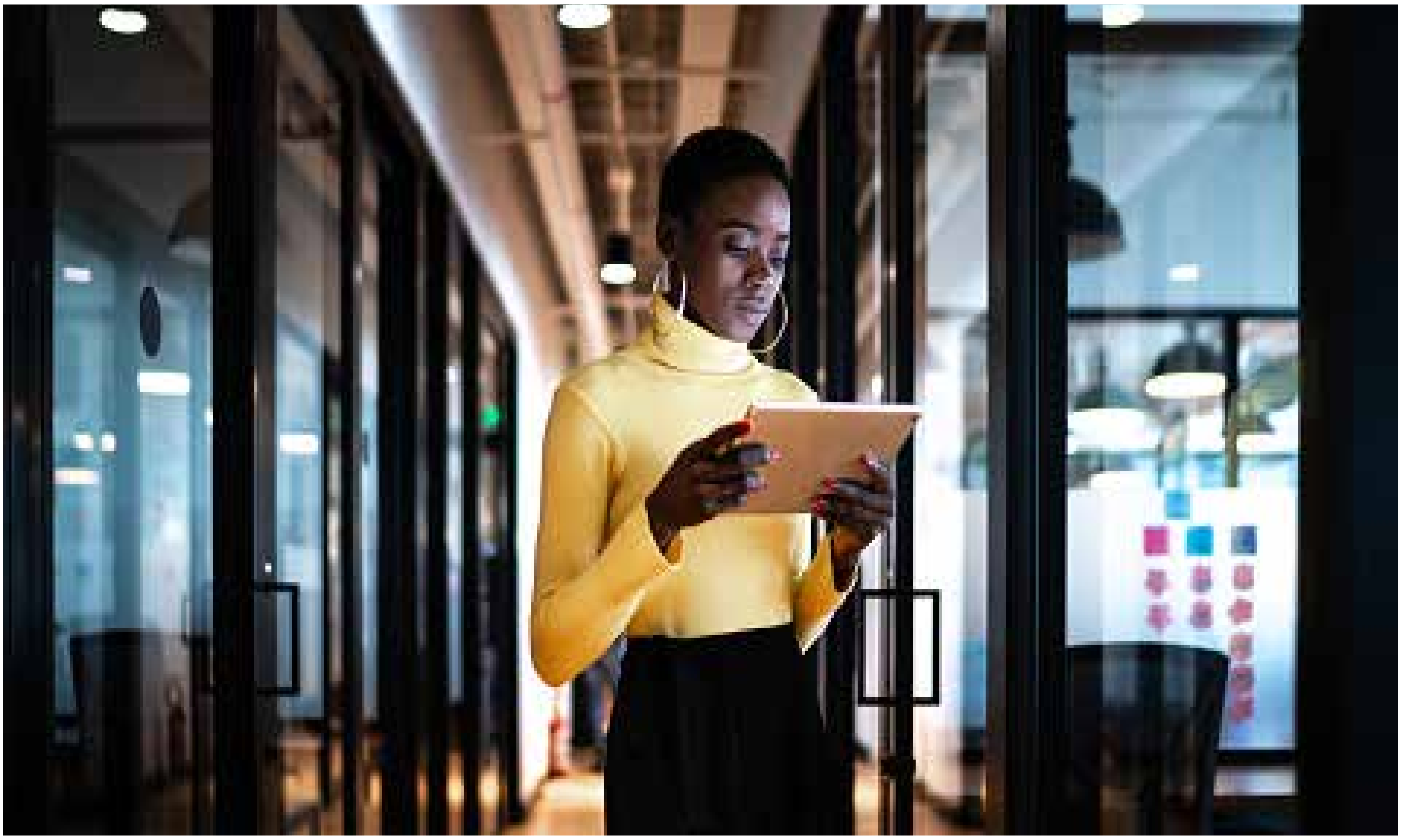
sa, >50 = growth since previous month



Backlogs of Work Index

sa, >50 = growth since previous month



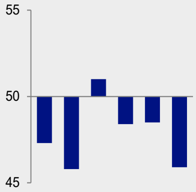


Purchasing and inventories

Quantity of Purchases Index

Jun - Nov '23

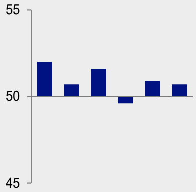
sa, >50 = growth



Suppliers' Delivery Times Index

Jun - Nov '23

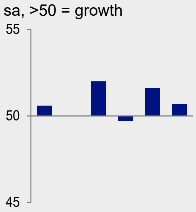
sa, >50 = faster times



Stocks of Purchases Index

Jun - Nov '23

sa, >50 = growth

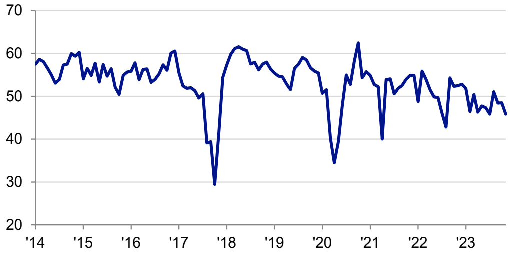


Quantity of purchases

Falling new business volumes translated into a drop in purchasing activity for the third month in succession during November. The pace of decline accelerated from October and was sharp, but remained softer than the concurrent decrease in new work. Matching the trends seen for output and new orders, the sharpest cut in purchases was seen in the construction sector.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' delivery times

Kenyan firms reported a further drop in average lead times midway through the final quarter of the year, amid evidence that increased vendor competition and lower input demand had supported faster deliveries. On the flip side, some respondents indicated that high input prices, shortages and flooding had led to delays. Subsequently, the overall improvement in supplier performance was only mild.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month

Stocks of purchases

The volume of inputs held at private sector companies rose during November, marking the third increase in four months. That said, the pace of accumulation slowed from October and was only marginal. While some firms added to their stocks in anticipation of a boost to demand, others cut their holdings due to lower new orders.

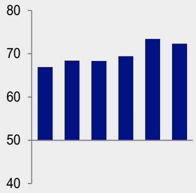
Stocks of Purchases Index

sa, >50 = growth since previous month

Input Prices Index

Jun - Nov '23

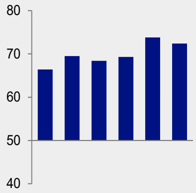
sa, >50 = inflation



Purchase Prices Index

Jun - Nov '23

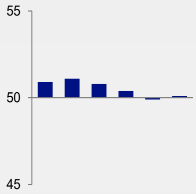
sa, >50 = inflation



Staff Costs Index

Jun - Nov '23

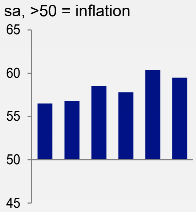
sa, >50 = inflation



Output Prices Index

Jun - Nov '23

sa, >50 = inflation



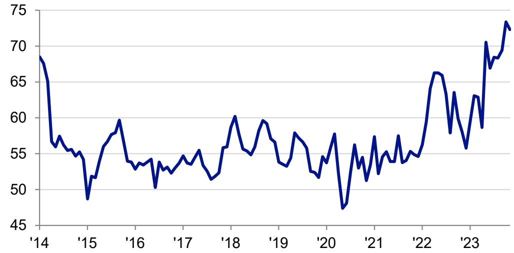
Prices

Input prices

Input prices rose at a near-unprecedented pace in the penultimate month of the year, with the rate of inflation coming down only slightly from October's survey record. Approximately 45% of businesses saw their cost burdens rise on the month, driven by especially marked uplifts in the wholesale & retail and construction sectors. Granular data showed that the increase in overall input costs was primarily driven by higher purchase prices.

Input Prices Index

sa, >50 = inflation since previous month

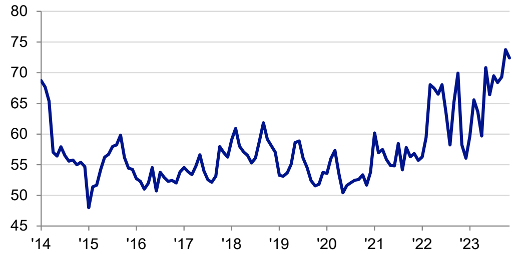


Purchase prices

Kenyan companies continued to report substantial pressure on purchasing costs in November. Adjusted for seasonality, the Purchase Prices Index dipped from October, but was nonetheless at its second-highest reading in the history of the survey (since 2014). A high dollar-shilling rate, rising fuel prices, greater electricity costs and increased VAT were often highlighted by respondents.

Purchase Prices Index

sa, >50 = inflation since previous month

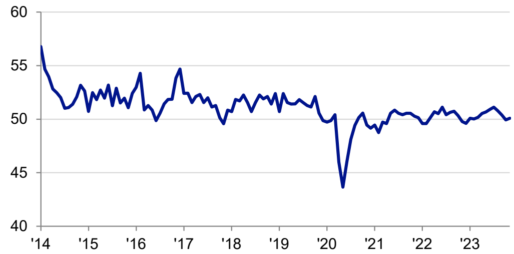


Staff costs

For the second consecutive month, Kenyan businesses reported a relative stability in staff costs during November, as indicated by the seasonally adjusted index posting roughly in line with the neutral 50.0 mark. The vast majority of panellists signalled that wages were left unchanged from the previous survey period.

Staff Costs Index

sa, >50 = inflation since previous month

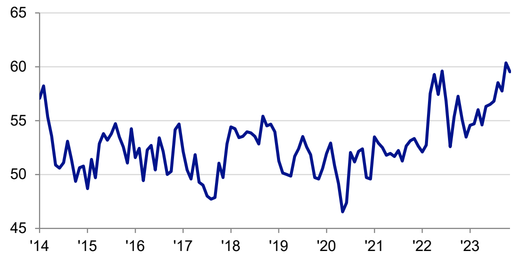


Output prices

Kenyan businesses shared greater cost burdens with their clients once again in November. The rate of charge inflation followed a similar trend to that of input costs, namely softening slightly from October's record high. Wholesale & retail companies were the most likely to post an increase in their selling prices.

Output Prices Index

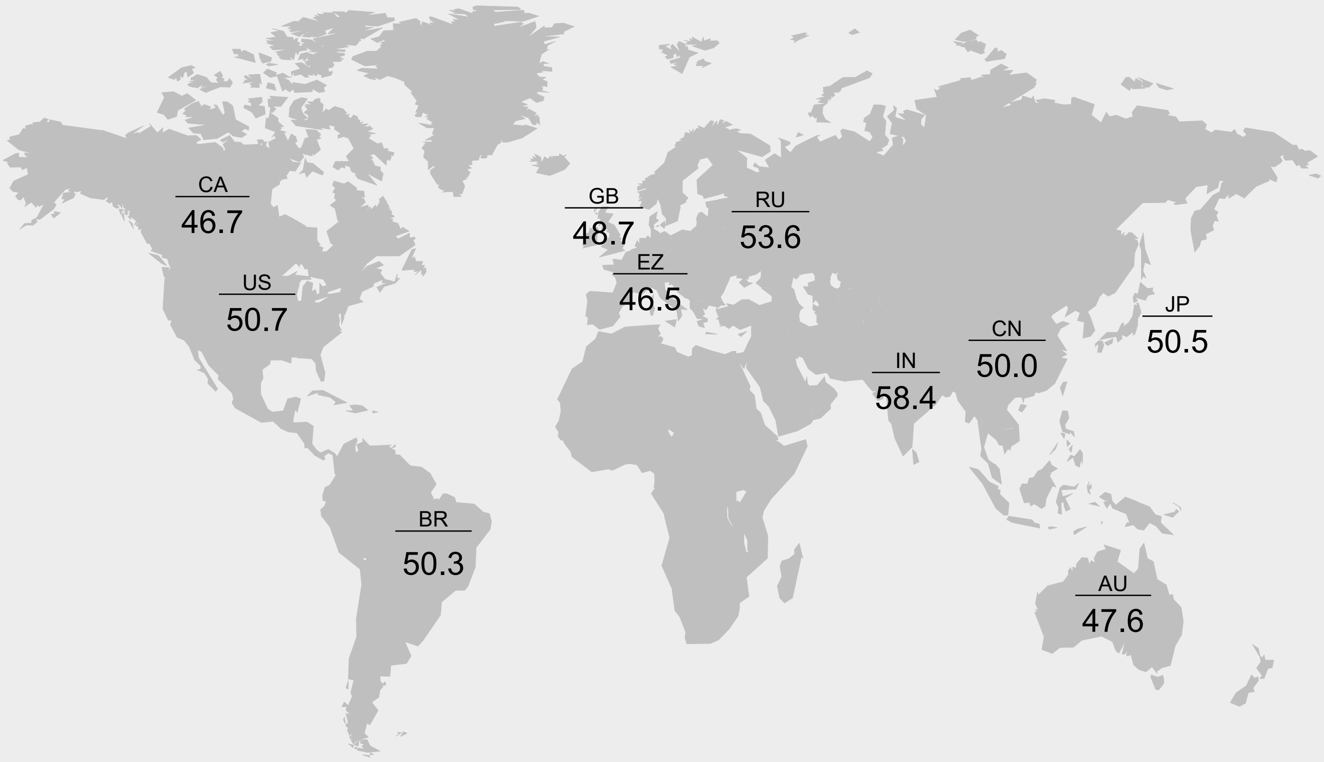
sa, >50 = inflation since previous month



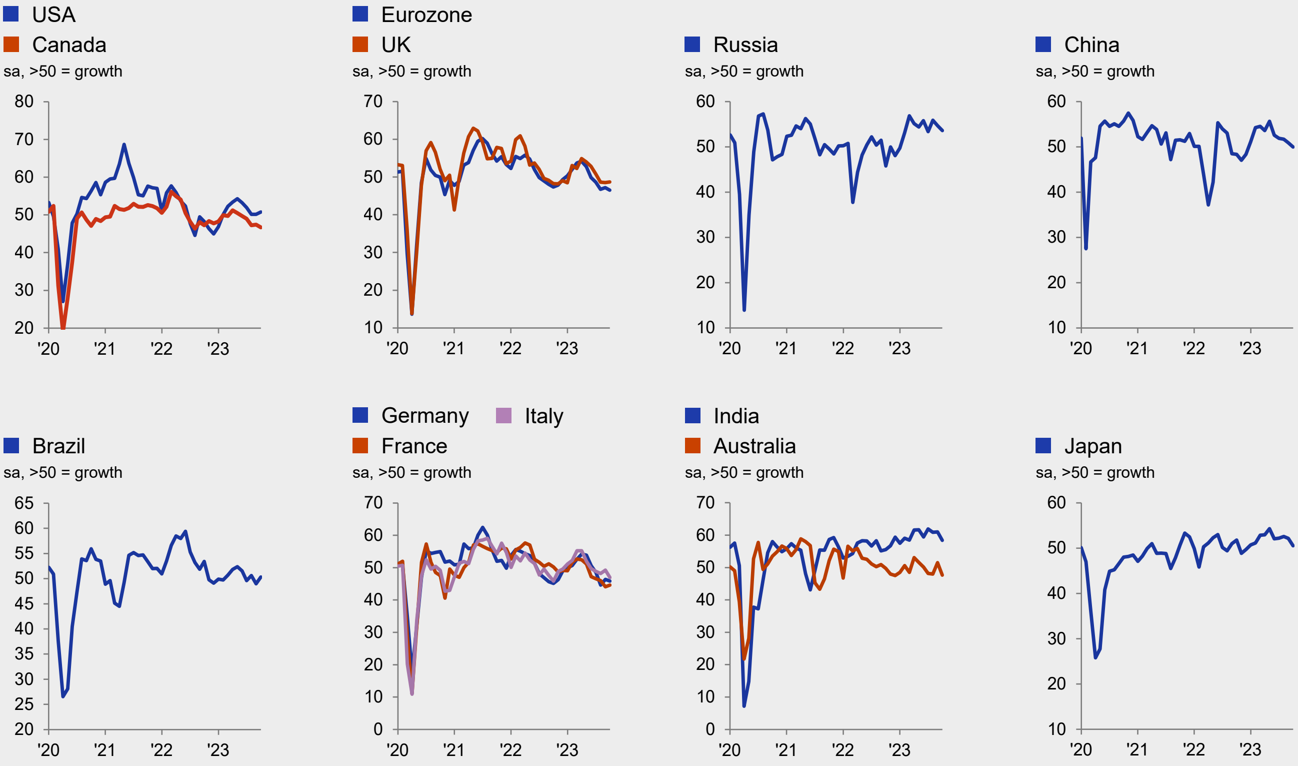
International PMI

Composite Output Index, Oct '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 9-28 November 2023.

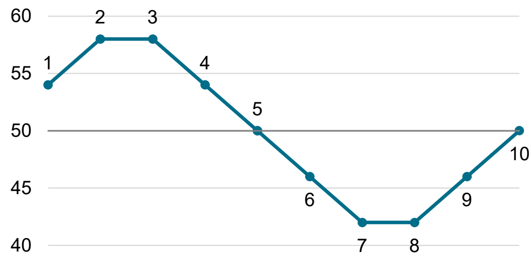
Survey questions
Private sector

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

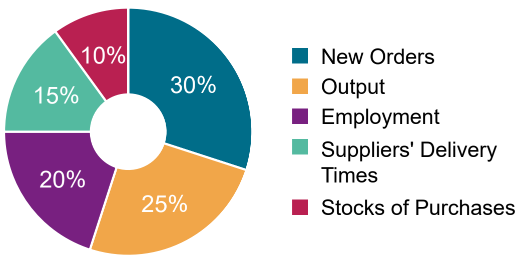
% "Higher" + (% "No change")/2

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

PMI® by S&P Global

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About Stanbic Bank Kenya

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

About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.com.

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. www.spglobal.com/marketintelligence/en/mi/products/pmi