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Stanbic Bank Kenya PMI™

Kenyan economy rebounds in May as restrictions ease

Key findings

Output and new business expand after severe declines in April

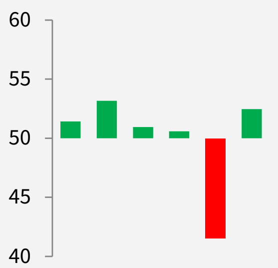
Job numbers increase at quickest rate since January

Margins squeezed despite slower rise in input costs

Kenya PMI

MAY
52.5
APR: 41.5

Last six months



Business conditions in the Kenyan private sector recovered partially in May, after tightened measures on travel and curfew led to a steep contraction in April. New business grew at the fastest rate in seven months, while output and employment both rose to the strongest degrees since January. Price margins were squeezed for the third month running as output charges rose at a slower rate than input prices, despite the latter increasing at the softest pace since February.

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.

After falling sharply below the 50.0 value in April, the headline PMI was back in growth territory in May. At 52.5, the index was up 11 points to its highest in four months, albeit signalling only a moderate improvement in operating conditions. Notably, the latest expansion was softer than the contraction recorded in April, suggesting that overall economic performance remained below the level seen before restrictions were reimposed.

Four sub-indices of the PMI rose above the 50.0 neutral mark in May, namely output, new orders, employment and stocks of purchases. Firstly, output grew at a solid rate as firms reported an easing of curfew hours and travel restrictions between counties. This loosening of measures also supported a sharp rise in new orders that was the quickest since October 2020. There was notable strength on the exports side, as orders from foreign clients increased markedly.

Job creation returned in the latest survey period as a result of a strong increase in workloads. This contributed to a third consecutive fall in backlogs of work, albeit one that was only fractional.

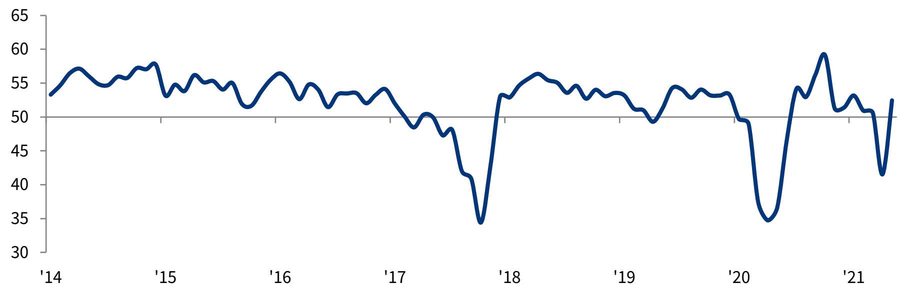
Input purchasing also moved into growth territory in May, although spare capacity gained from the previous month helped suppliers to deliver inputs more quickly. Despite this, stock levels expanded only modestly.

Prices data indicated a further squeezing of profit margins. Despite some businesses recording higher charges, the overall rate of output charge inflation remained slower than that of input prices. Respondents often linked a rise in purchase prices to increased transport fees, which in turn was attributed to higher fuel costs. Staff expenses rose for the first time since October 2020, but overall cost inflation slowed to a three-month low.

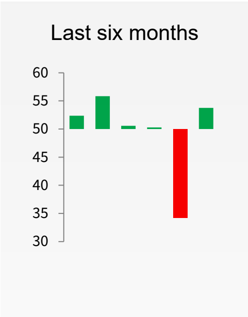
Business expansion plans drove another robust forecast for the next 12 months of output in May. Confidence improved to a three-month high, with around 27% of companies expecting an overall upturn.

PMI

sa, >50 = improvement since previous month



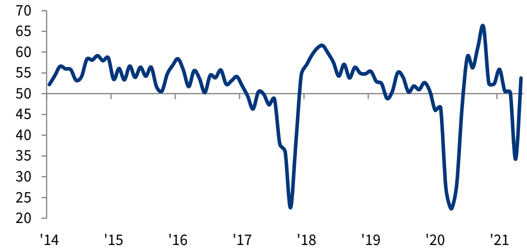
Output Index



Output in Kenya's private sector returned to growth in May, in part offsetting a severe decline in activity during April. According to the survey panel, a relaxation of measures on curfews and travel between counties was largely behind the expansion. Firms also reported an increase in client orders. The rate of output growth was the quickest since January, with rebounds seen in the agriculture, services and wholesale & retail sectors.

Output Index

sa, >50 = growth since previous month



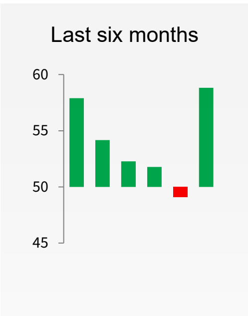
New Orders Index

The seasonally adjusted New Orders Index moved back above the 50.0 growth threshold in May, as firms indicated a steep increase in demand from clients. Moreover, the pace of expansion was the sharpest seen for seven months. As was the case for output, rising new order inflows were registered by agriculture, services and wholesale & retail companies, while declines were recorded in manufacturing and construction.

New Orders Index

sa, >50 = growth since previous month

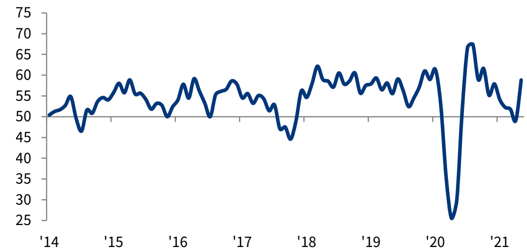
New Export Orders Index



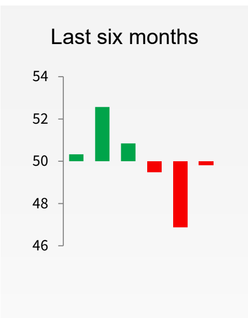
New export orders were up sharply during May, after falling for the first time in 11 months in April. Furthermore, the increase in exports was the most marked since October 2020. Where growth was recorded, firms linked this to relaxed COVID-19 measures and improved demand from other East African countries.

New Export Orders Index

sa, >50 = growth since previous month



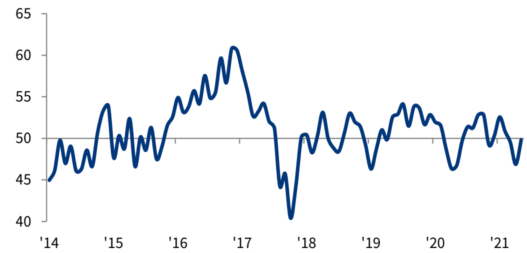
Backlogs of Work Index



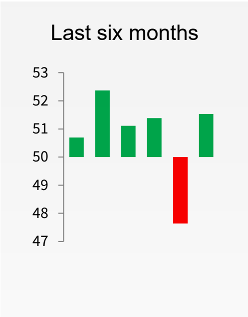
Backlogs of work continued to fall across the Kenyan private sector in May, although the rate of decline slowed markedly from the previous month and was fractional. Notably, a rise in new orders led to capacity pressures at some firms, particularly those in the manufacturing and services categories. Backlogs have now fallen in each of the past three months.

Backlogs of Work Index

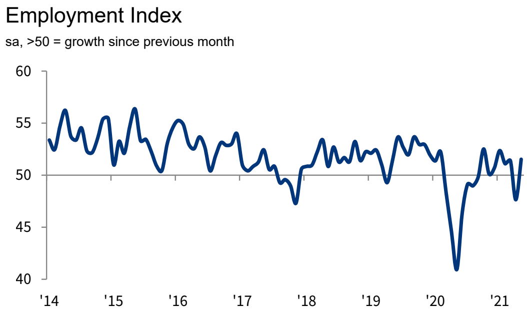
sa, >50 = growth since previous month



Employment Index

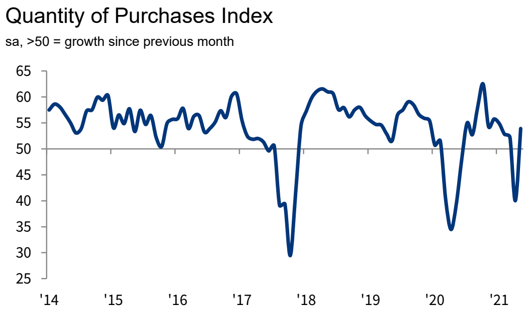


Rising demand in the private sector economy led companies to expand their workforce numbers for the seventh time in eight months in May. Although modest, the pace of job creation was the quickest recorded since January. Employment rose across most of the monitored sectors in the latest period, but fell in agriculture and was broadly unchanged in wholesale & retail.

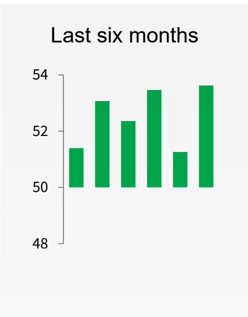


Quantity of Purchases Index

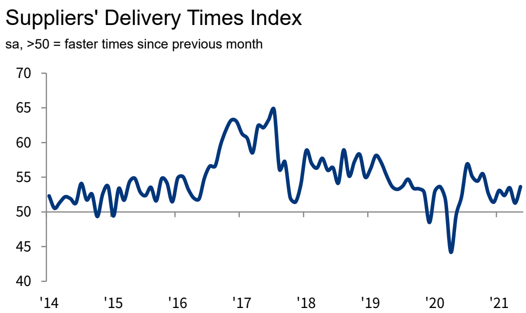
Amid efforts to rebuild inventories, Kenyan companies raised their purchasing of inputs midway through the second quarter. This followed a sharp decline over April in response to tightened travel restrictions. The latest expansion was the fastest in four months, and largely attributed to higher new orders.



Suppliers' Delivery Times Index

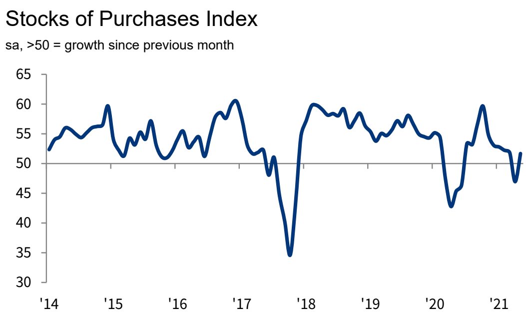


Vendor performance improved again in May, extending the current sequence of upturn to a whole year. Moreover, the rate at which lead times shortened was the quickest since last October. Panellists often noted that a recent reduction in input demand meant that suppliers were able to deliver more quickly. Improvements were also driven by strong competition among vendors.

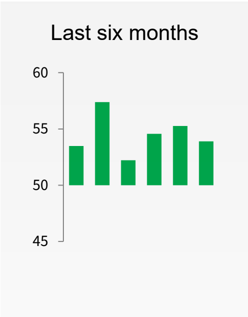


Stocks of Purchases Index

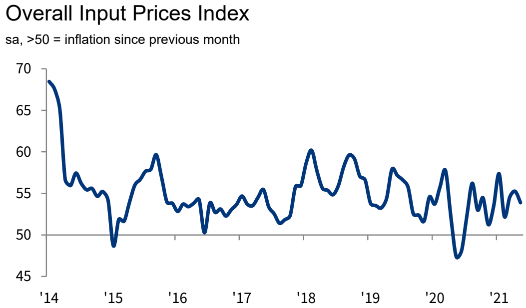
Kenyan businesses raised their stocks of purchases during May, albeit only modestly. In fact, barring the renewed decrease in April, the latest expansion was the slowest seen for 11 months. Stocks were generally increased in anticipation of higher sales as COVID-19 restrictions are eased.



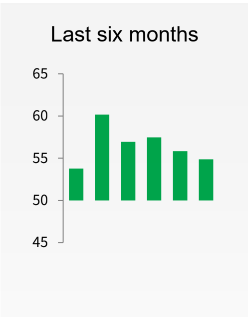
Overall Input Prices Index



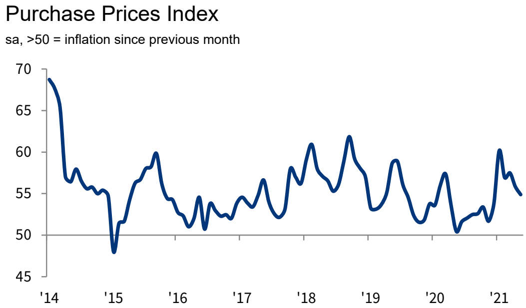
Private sector companies in Kenya saw a solid increase in overall cost pressures during May. The rise was mainly driven by purchase prices, though there was also a renewed uptick in staff costs. The rate of input price inflation slowed to a three-month low, however. Higher input costs were seen by all five monitored industries for the third month running.



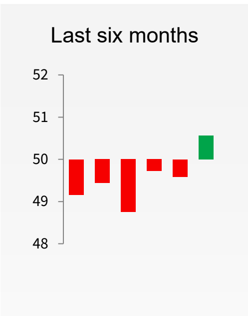
Purchase Prices Index



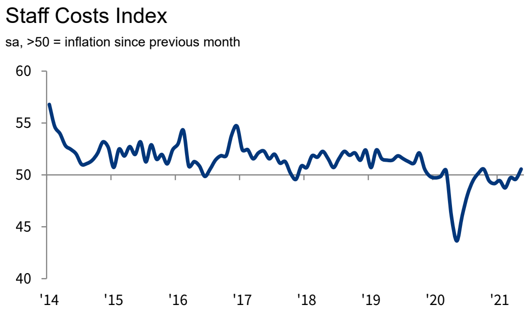
Purchase prices rose sharply midway through the second quarter of the year, despite the rate of increase softening to the weakest seen in 2021-to-date. Around 9% of companies saw an increase in prices, while less than 1% registered a decline. Where rising purchase costs were recorded, firms mainly cited higher fuel prices that led to an increase in transportation costs.



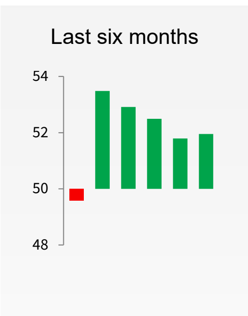
Staff Costs Index



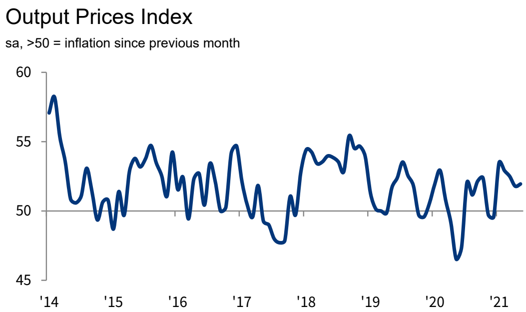
For the first time since October 2020, the seasonally adjusted Staff Costs Index rose above the 50.0 neutral value in May, signalling a rise in private sector salaries. Although marginal, the rate of inflation was the joint-quickest for 19 months. Firms that raised wages highlighted efforts to motivate staff. On the other hand, the recent drop in sales led some companies to lower salaries.



Output Prices Index

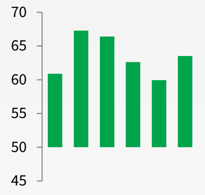


Output charges increased for the fifth month in a row in May, and at a moderate pace that was broadly aligned with the series average. Notably, the respective seasonally adjusted index rose for the first time since January. Despite efforts by several firms to maintain their profits, the pace of inflation remained slower than that of input prices.



Future Output Index

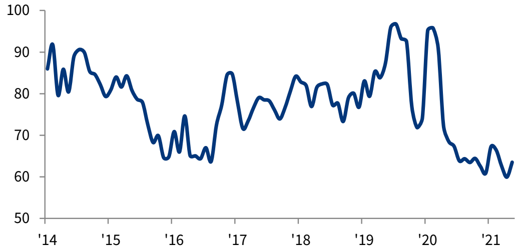
Last six months



The Future Output Index rose for the first time in four months during May, signalling improved optimism towards the year ahead. Approximately 27% of businesses predicted an expansion in output, against less than 1% that forecast a decline. Optimism was largely based on business expansion plans, including new branch openings, increased marketing and opportunities to move into foreign markets.

Future Output Index

>50 = growth expected over next 12 months

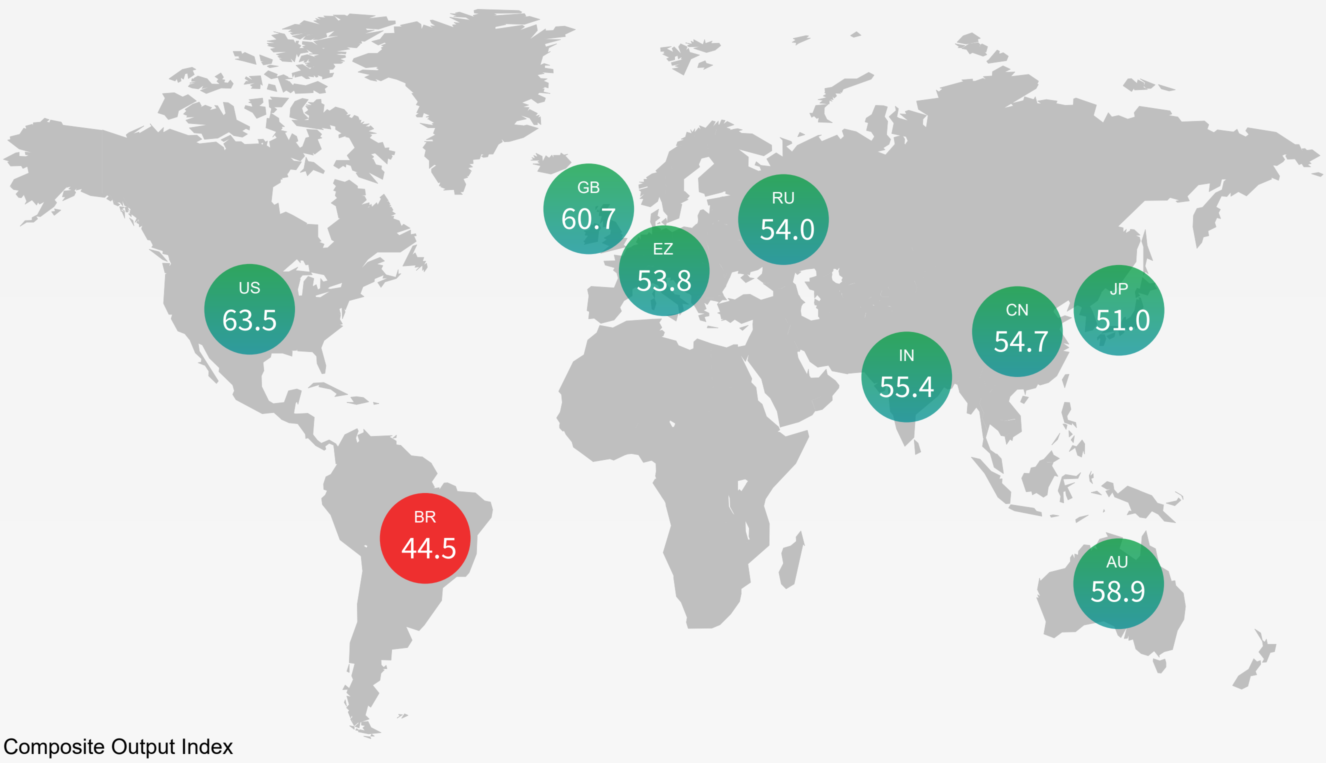


International PMI

Composite Output Index, Apr '21

sa, >50 = growth since previous month

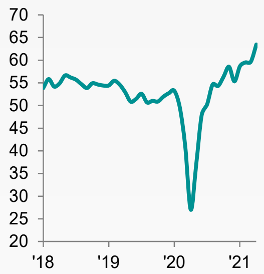
The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



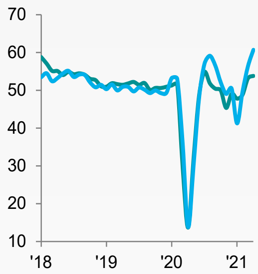
Composite Output Index

sa, >50 = growth since previous month

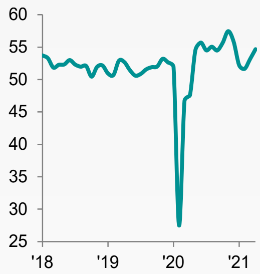
USA



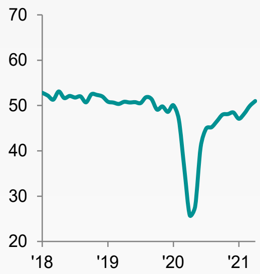
Eurozone / UK



China



Japan



Methodology

The Stanbic Bank Kenya PMI™ is compiled by IHS Markit 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.

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.

May data were collected 12-26 May 2021.

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

ihsmarkit.com/products/pmi.html.

About Stanbic Bank

Stanbic Bank Kenya is a member of the Standard Bank Group, Africa's largest bank by assets.

Standard Bank Group reported total assets of R1,95 trillion (about USD143billion) at 31 December 2016, while its market capitalisation was R246 billion (about USD18 billion). The 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. Standard Bank Group has 1 221 branches and 8 815 ATMs in Africa, making it one of the largest banking networks on the continent. It provides global connections backed by deep insights into the countries where it operates. In Kenya the bank has a network of 26 branches.

Stanbic Bank provides the full spectrum of financial services. It's 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 mining and metals; oil, gas and renewables; power and infrastructure; agribusiness; telecommunications and media; and financial institutions.

The bank's personal and business banking unit offers banking and other financial services to individuals and small-to-medium enterprises. 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).

For further information log on to www.stanbicbank.co.ke.

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