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Stanbic Bank Kenya PMI™

Business conditions improve at weaker rate in June

Key findings

Output and new order growth slip from May

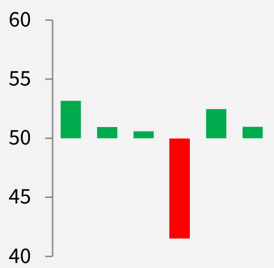
Marginal rise in employment as backlogs creep up

Outlook nears record low

Kenya PMI

JUN
51.0
MAY: 52.5

Last six months



The latest PMI survey data indicated a second consecutive monthly improvement in the health of the Kenyan private sector in June. The upturn was supported by further rises in output and new orders, although rates of growth slipped from May. Hiring activity continued as firms faced a renewed increase in backlogs, while there were additional efforts to build inventories ahead of predicted sales growth. However, concerns about further COVID-19 restrictions meant that the business outlook slipped to the second-weakest in the series history.

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.

The headline PMI fell from 52.5 in May to 51.0 in June, indicating a sustained, but weaker, expansion in the Kenyan private sector economy. Four of the five sub-components of the PMI gave a negative directional influence, the exception being the Stocks of Purchases Index which ticked higher.

Output at Kenyan companies continued to rise at the end of the second quarter, but only at a modest pace. Survey panellists found that an improvement in customer demand and greater cash flow supported overall growth.

New orders also increased in June, but to a lesser degree than in May. A similar trend was seen for export sales, as firms noted a rise in demand from European clients.

A sustained upturn in new orders provided fresh capacity pressures, leading to the first increase in outstanding work in four months. Firms subsequently added to their workforce numbers, although the rate of job creation slowed from the previous month and was marginal.

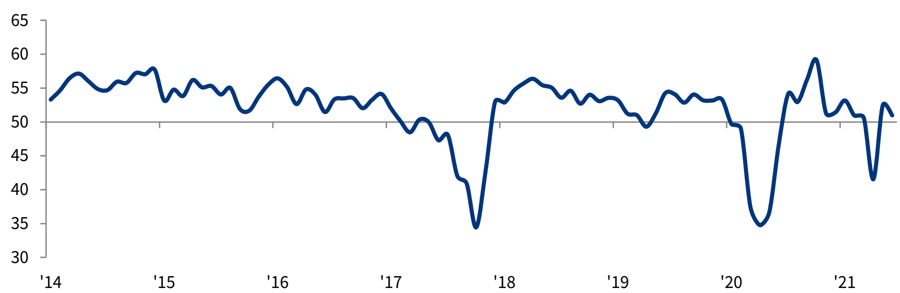
Purchasing of inputs also expanded during June, with firms often reporting efforts to build inventories in anticipation of higher new order inflows. Meanwhile, suppliers' delivery times were shortened to the greatest extent since last October.

Rising fuel costs and increased raw material demand drove another solid increase in purchase prices in June. Firms also saw a rise in staff costs for the second month running, albeit only a marginal one. Overall input cost inflation was unchanged from May, leading businesses to raise their selling charges in a bid to sustain profit margins.

Finally, the outlook for business activity in 12 months' time worsened in June and was almost level with the series nadir recorded in April. Despite expansion plans bolstering confidence, concerns about future COVID-19 restrictions drove widespread hesitancy, with nearly four-fifths of respondents expecting no change in output.

PMI

sa, >50 = improvement since previous month

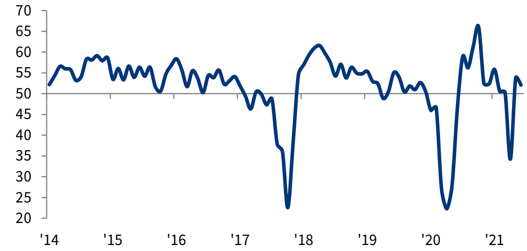


Output Index

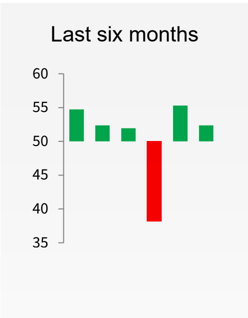
A return to more normal business conditions helped firms to expand their output for the second month running in June. Panellists reporting a rise in activity often mentioned an increase in client numbers and cash circulation. That said, the rate of growth was modest and slower than that seen in May. The agriculture, construction, manufacturing and services sectors recorded an expansion in output, whereas wholesale & retail saw a marginal decline.

Output Index

sa, >50 = growth since previous month



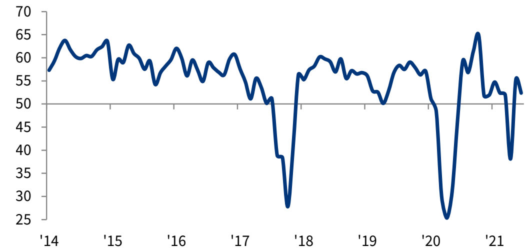
New Orders Index



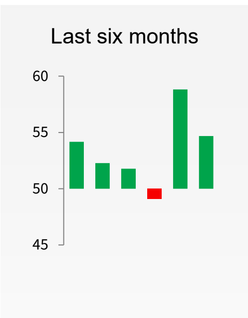
New orders increased further in the Kenyan private sector in June, a second successive rise following a marked contraction at the start of the second quarter. The rate of growth eased from the previous month, however, and was only modest. While 18% of respondents saw a rise in new orders linked to improving customer demand, about 16% reported a decrease amid reports that clients lacked spending power. Manufacturers saw a drop in new orders, but the remaining categories registered an upturn.

New Orders Index

sa, >50 = growth since previous month



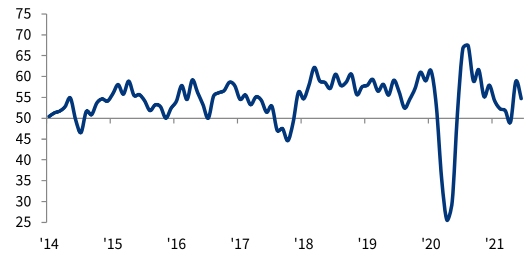
New Export Orders Index



Kenyan firms selling to foreign clients continued to see a strong rise in new export sales at the end of the second quarter. Surveyed businesses often commented that looser restrictions in European countries contributed to an increase in export demand. The rate of growth slowed from May but remained stronger than the series average.

New Export Orders Index

sa, >50 = growth since previous month

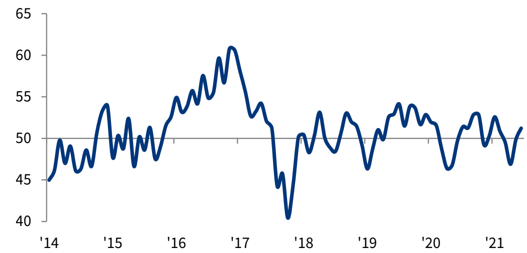


Backlogs of Work Index

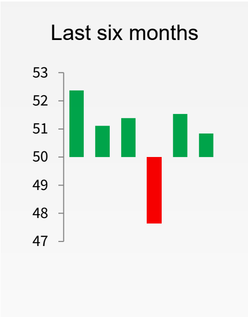
Backlogs of work started to rise in June, following a three-month sequence of decline. Companies often attributed the expansion to an increase in new order inflows. Whilst only marginal, the accumulation of backlogged work was recorded across all five monitored industries.

Backlogs of Work Index

sa, >50 = growth since previous month



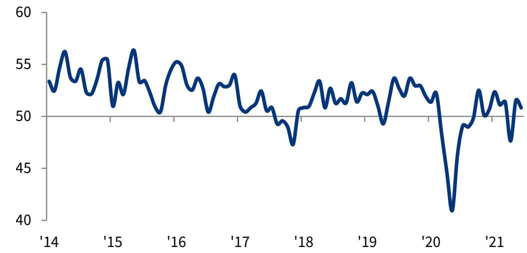
Employment Index



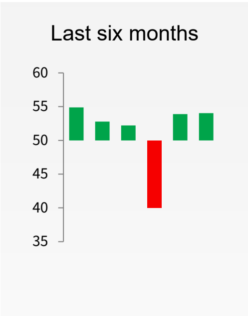
Rising demand in Kenya's private sector encouraged firms to increase their workforce sizes in June. As such, the seasonally adjusted Employment Index pointed to a second successive rise in staffing levels. That said, the pace of job creation slowed due to efforts by some companies to reduce wage bills.

Employment Index

sa, >50 = growth since previous month



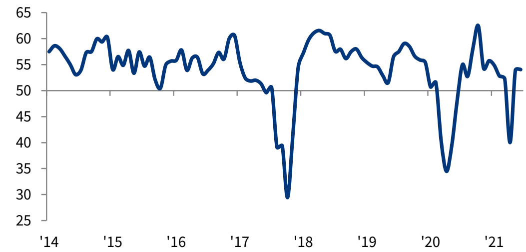
Quantity of Purchases Index



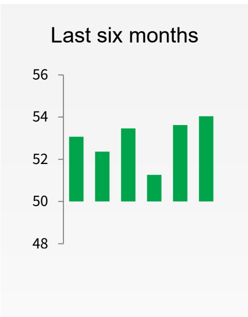
Purchasing activity at Kenyan companies continued to rise solidly in June. Moreover, the rate of growth ticked up slightly from May to the sharpest in five months. Firms generally commented that a rise in sales led them to purchase more inputs. Growth was recorded across all the monitored sectors in June, led by agriculture.

Quantity of Purchases Index

sa, >50 = growth since previous month



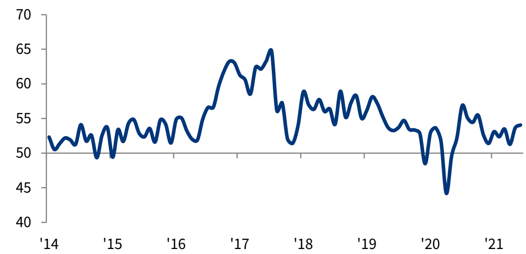
Suppliers' Delivery Times Index



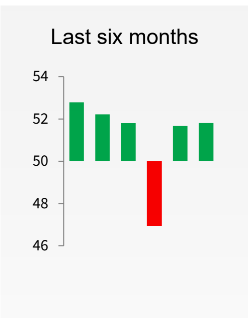
As has been the case for the past 13 months, Kenyan businesses saw an improvement in supplier performance during June. Notably, the rate of improvement was the strongest since October last year, with around 10% of survey respondents seeing a shortening of lead times over the month. Anecdotal evidence suggested that vendors made faster deliveries as they faced tough competition.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



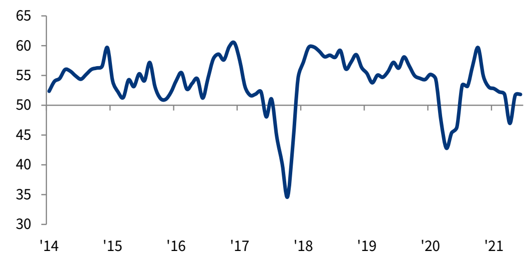
Stocks of Purchases Index



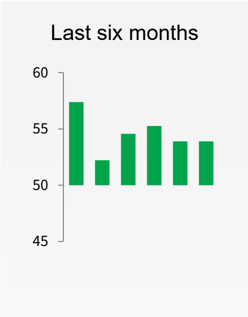
Efforts to procure inputs in anticipation of a boost to new business inflows led to an expansion in stock levels in June. That said, the rate of growth was little-changed from May, and only modest. The agriculture, manufacturing and wholesale & retail categories all saw an increase in stocks of purchases over the month.

Stocks of Purchases Index

sa, >50 = growth since previous month



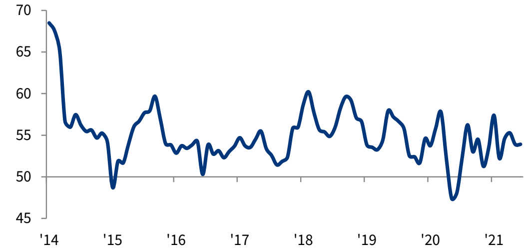
Overall Input Prices Index



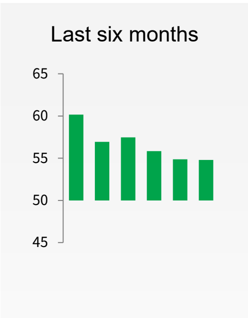
June data signalled a solid rise in input prices across the Kenyan private sector economy, with the rate of inflation unchanged from May. Purchasing costs continued to drive overall price pressures, despite a weaker increase than in the previous survey period. Staff costs also rose, but only marginally.

Overall Input Prices Index

sa, >50 = inflation since previous month



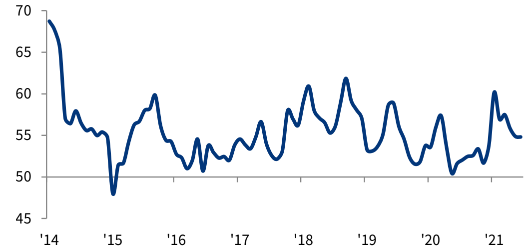
Purchase Prices Index



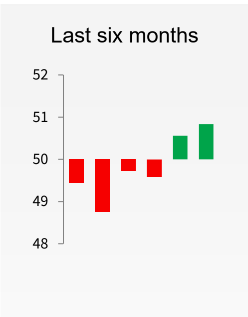
Purchase prices continued to increase solidly in June, although the rate of inflation eased to the softest seen in 2021 so far. Firms reporting a rise in purchase costs often related this to higher fuel prices, whereas others found that stronger demand and supply shortages pushed up prices for some raw materials.

Purchase Prices Index

sa, >50 = inflation since previous month



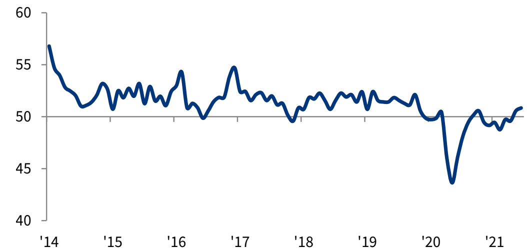
Staff Costs Index



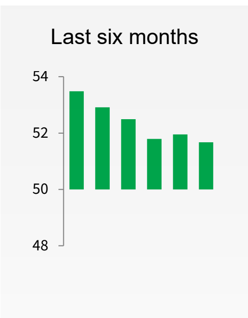
Salaries paid to private sector workers ticked up for the second month running in June, as shown by the seasonally adjusted Staff Costs Index which posted above the 50.0 no-change mark. Whilst only marginal, the pace of increase quickened slightly to the most marked since October 2019. Salary increases were mainly linked to efforts to boost productivity.

Staff Costs Index

sa, >50 = inflation since previous month



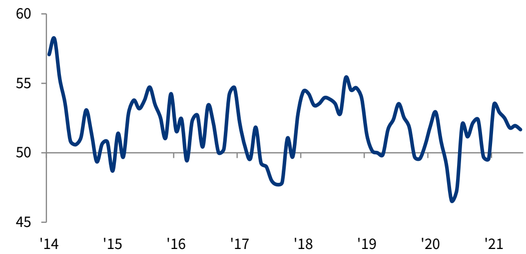
Output Prices Index



Output prices rose again at the end of the second quarter, thereby extending the sequence of inflation that began in January. Higher charges were often attributed to a rise in demand, as well as an increase in purchasing costs. However, with some companies offering discounts to attract clients, the overall rate of charge inflation softened to a six-month low.

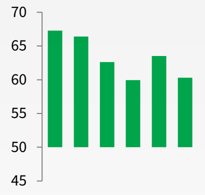
Output Prices Index

sa, >50 = inflation since previous month



Future Output Index

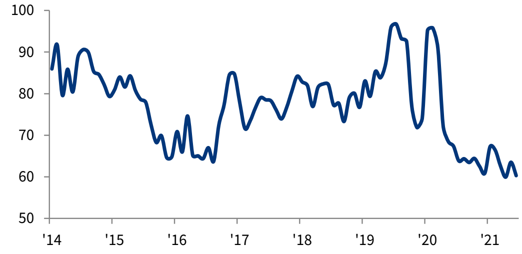
Last six months



Future business expectations were relatively muted in June, and only slightly stronger than April's record low. Despite numerous mentions of expansion plans fuelling optimism, around 79% of respondents predicted no change in output over the next 12 months. Notably, there were concerns that a further round of COVID-19 restrictions could harm business activity.

Future Output Index

>50 = growth expected over next 12 months

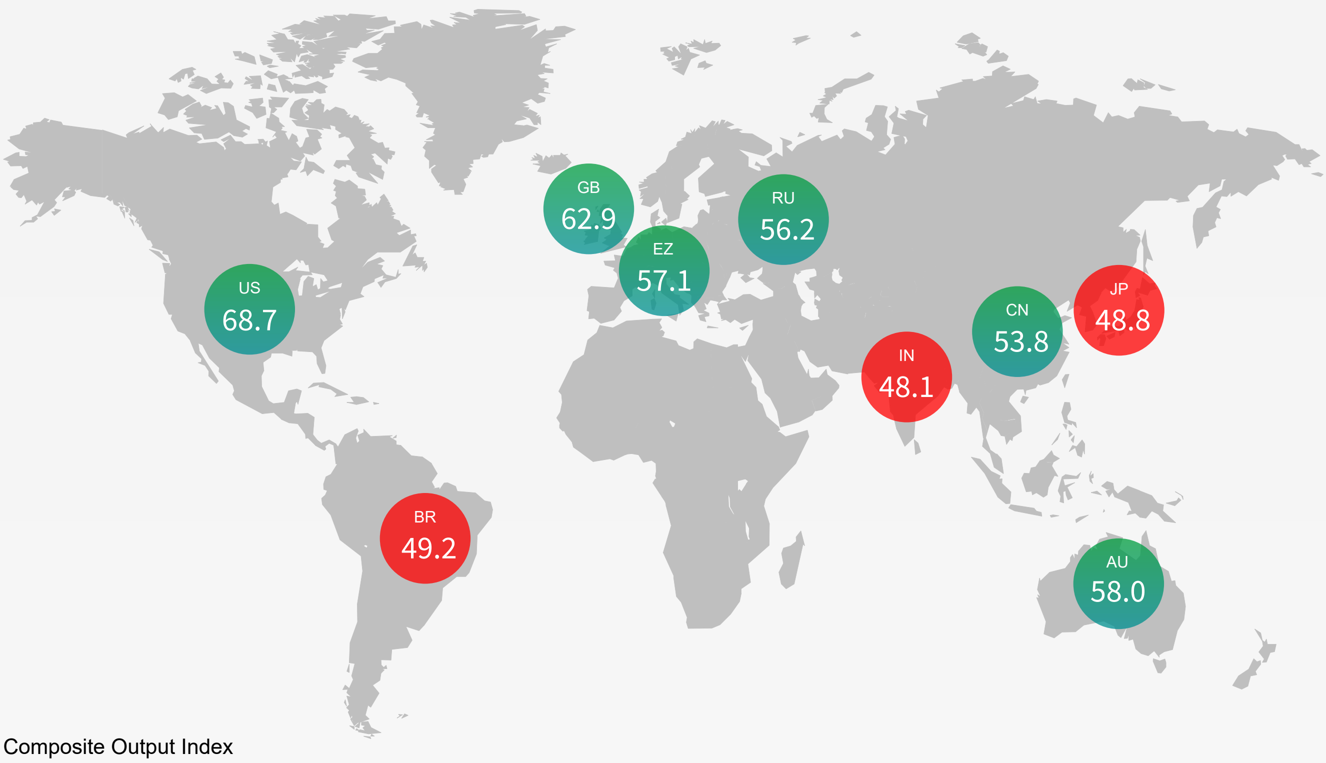


International PMI

Composite Output Index, May '21

sa, >50 = growth since previous month

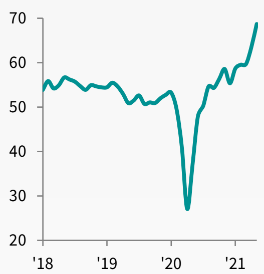
The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



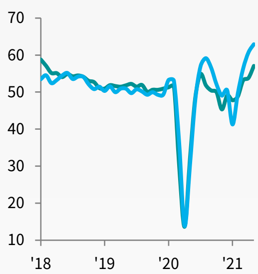
Composite Output Index

sa, >50 = growth since previous month

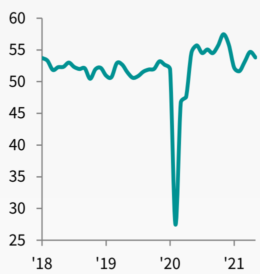
USA



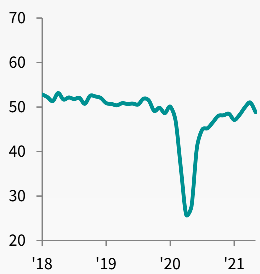
Eurozone / UK



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.

June data were collected 11-28 June 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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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.