

Stanbic Bank Kenya PMI™

Output growth softens again in July, as inflationary pressures strengthen

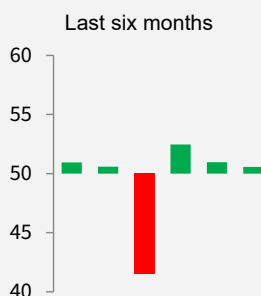
Key findings

Output and new order growth weaken to three-month lows

Tax changes push input costs higher

Business optimism improves to five-month high

Kenya PMI



Growth momentum in Kenya's private sector slowed again at the start of the third quarter of the year, as surveyed businesses reported weaker expansions in output, new orders, employment and purchasing. At the same time, cost inflationary pressures rose to a 16-month high as tax changes resulted in a sharp uptick in purchase prices.

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 index fell for a second straight month from 51.0 in June to 50.6 in July, to indicate only a marginal improvement in operating conditions across Kenya's private sector. Barring the sharp downturn in April, the rate of growth was the joint-weakest since conditions began to improve after the first wave of the pandemic.

The three biggest components of the PMI, the Output, New Orders and Employment indices, all fell to three-month lows, but remained above the 50.0 no-change mark to indicate further expansions.

Businesses that saw an increase in new order volumes often pointed to an improvement in cash flow and increased marketing activity. On the other hand, some firms reported losing customers due to the ongoing effect of the pandemic.

Underlying sector data also presented a mixed picture in July. Agriculture, construction and services firms registered growth of new business, whereas manufacturing and wholesale & retail companies saw a decline. Output trends also followed the same pattern, leading to only a modest expansion overall.

With sales growth slowing, the rate of job creation among Kenyan firms eased to the softest in three months. Firms also largely held off from making new purchases, as input buying rose only slightly and to a far lesser extent compared to June.

Cost pressures accelerated sharply at the start of the third quarter, as businesses found that tax changes led to a marked increase in the price of imported goods. Higher fuel costs and input shortages were also mentioned, with the resulting increase in input prices the quickest since March 2020. Amid efforts to maintain profit margins, output charges were also raised to a greater extent, albeit not as quickly as input costs.

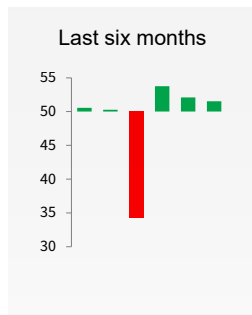
On a positive note, business confidence improved to a five-month high in July, with nearly a third of businesses providing a positive forecast for output over the coming 12 months. Several firms cited plans to open new branches and increase their advertising. That said, the overall degree of optimism remained some way off the survey's long-run average (data collection began in January 2014).

PMI

sa, >50 = improvement since previous month



Output Index



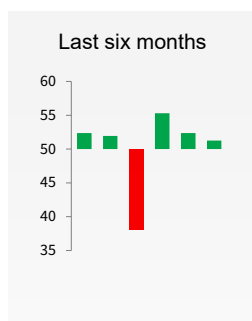
For the third month running, Kenyan businesses saw an increase in output during July as market conditions recovered further from the reintroduction of lockdown measures in April. However, the expansion was only marginal and slower than that seen in June. While 27% of panellists saw a rise in output, around 26% reported a decrease. Sector data also presented a mixed performance, as agriculture, construction and services recorded growth, but manufacturing and wholesale & retail registered downturns.

Output Index

sa, >50 = growth since previous month



New Orders Index



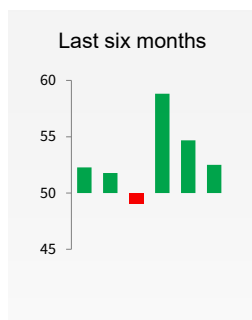
In a similar fashion to output, the seasonally adjusted New Orders Index pointed to a third successive rise in sales at Kenyan firms during July. That said, barring the sharp decline in April, the latest upturn was the weakest seen since new orders began to recover from the first wave of the pandemic. Higher demand was generally linked to improved cash flow and increased marketing activity, whereas other firms commented on a drop in customer numbers.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index



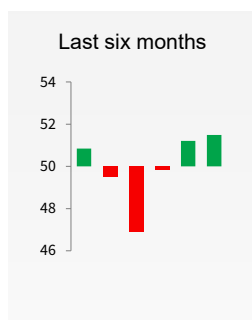
Growth in new export orders continued to soften at the start of the third quarter of the year. The latest expansion was the third in as many months, and moderate overall.

New Export Orders Index

sa, >50 = growth since previous month



Backlogs of Work Index



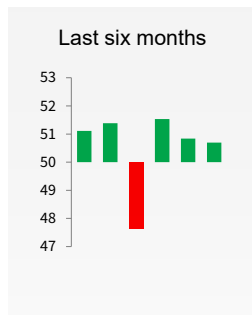
July data indicated another increase in backlogs of work across the Kenyan private sector. The rate of accumulation picked up slightly from the end of the second quarter, and was the quickest since January. Where backlogs rose, panellists related this to increased orders from clients.

Backlogs of Work Index

sa, >50 = growth since previous month



Employment Index



Rising demand levels encouraged businesses to increase their staffing levels in July. Several firms reported taking on more temporary staff in order to complete new orders. The rate of job creation was marginal, however, and the weakest for three months. At the sector level, job numbers rose across manufacturing, construction, agriculture and wholesale & retail, but fell in services.

Employment Index

sa, >50 = growth since previous month



Quantity of Purchases Index



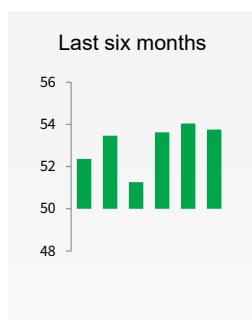
Purchasing activity rose to a lesser extent during July, as indicated by the respective seasonally adjusted index which posted only slightly above the 50.0 neutral mark. Surveyed businesses largely related this to a slowdown in sales growth. Higher purchases were largely driven by the agriculture sector, contrasting with renewed falls in the manufacturing and wholesale & retail categories.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index



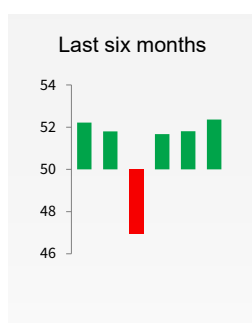
July data pointed to another solid improvement in supplier performance across the Kenyan private sector. Roughly 10% of the survey panel saw lead times shorten from the previous month, linked to efforts by vendors to deliver more quickly. The rate of reduction in delivery times slowed fractionally from June, but was still the second-quickest in nine months.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index



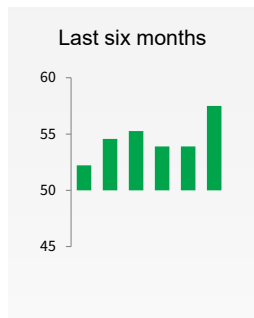
Firms in Kenya added to their inventories for the third successive month in July. The rate of growth picked up slightly, but remained slower than the series average. Respondents generally linked higher stocks to expectations that new orders would continue to rise.

Stocks of Purchases Index

sa, >50 = growth since previous month



Overall Input Prices Index



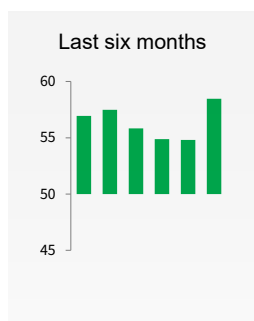
Changes in tax rules across Kenya resulted in a much sharper increase in input costs at the start of the third quarter. The pace of inflation picked up to the fastest since March 2020. Underlying data signalled a sharp rise in purchase prices over the month, but only a marginal increase in staff costs. Construction, manufacturing and wholesale & retail posted a quicker rise in input prices compared to June.

Overall Input Prices Index

sa, >50 = inflation since previous month



Purchase Prices Index



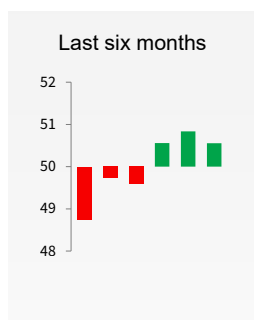
The rate of purchase price inflation accelerated for the first time in four months during July. Around 19% of respondents saw purchasing costs rise, often attributing this to the impact of tax changes on import prices, as well as higher fuel costs and material shortages. Overall, the latest rise in purchase prices was the sharpest since January.

Purchase Prices Index

sa, >50 = inflation since previous month



Staff Costs Index



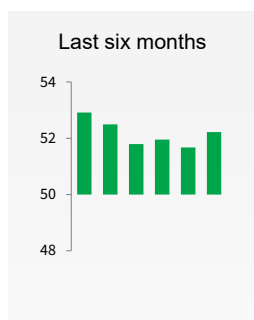
Staff costs faced by Kenyan companies continued to rise in July, albeit at a slightly weaker rate than in the previous survey period. Some firms reported increasing salaries in order to motivate their staff.

Staff Costs Index

sa, >50 = inflation since previous month



Output Prices Index



Private sector firms in Kenya reported an increase in average prices charged in July, extending the current run of inflation seen since the start of the year. Moreover, the latest rise was the quickest since March, and stronger than the series trend. Charges were often raised in response to tax changes and their impact on input costs.

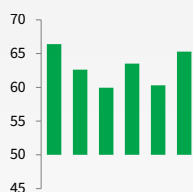
Output Prices Index

sa, >50 = inflation since previous month



Future Output Index

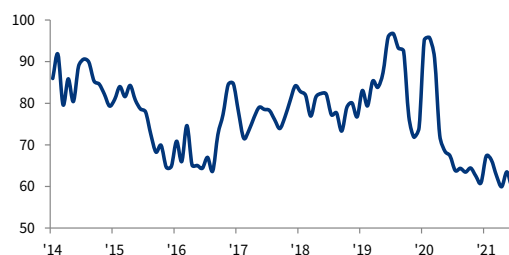
Last six months



The Future Output Index rose to its highest level in five months during July, to signal increased confidence among Kenyan firms that activity would grow over the coming 12 months. Nearly one-third of respondents provided a positive response, while less than 1% of firms were pessimistic. That said, the degree of optimism remained well below the series long-run average.

Future Output Index

>50 = growth expected over next 12 months

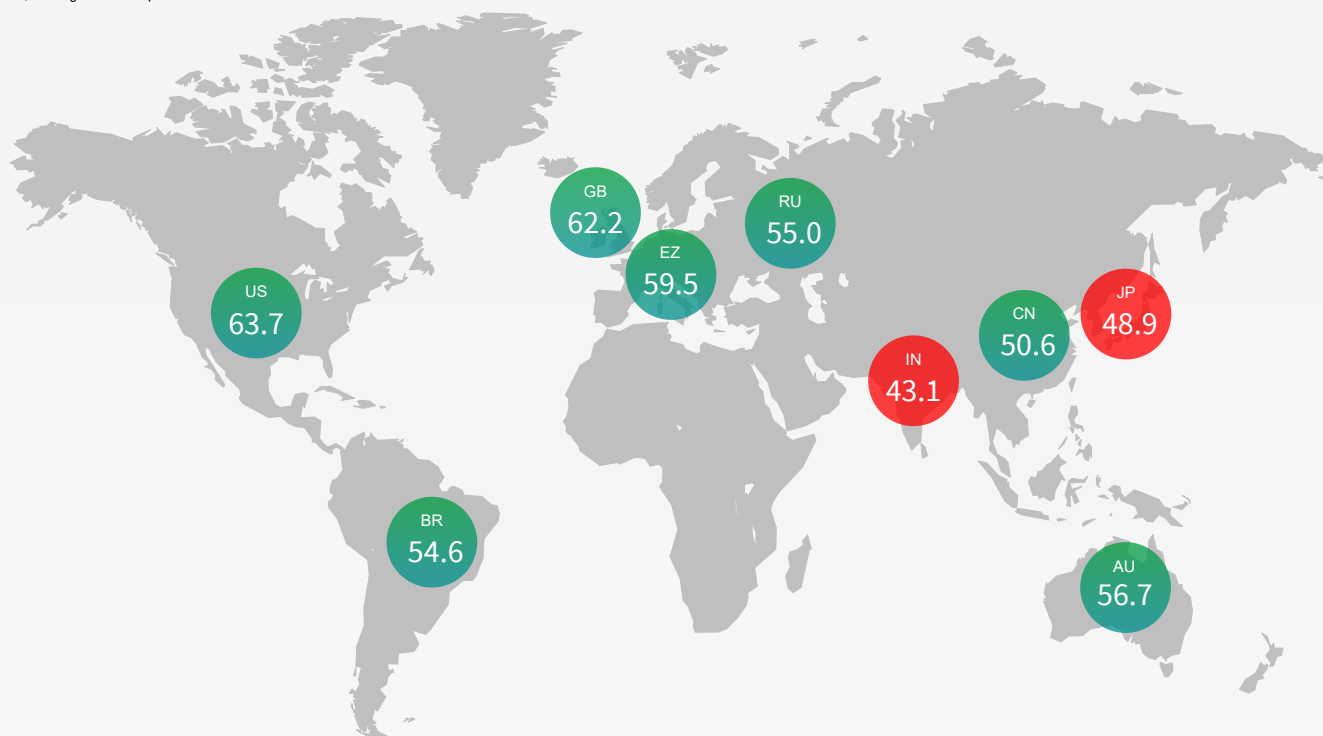


International PMI

Composite Output Index, Jun '21

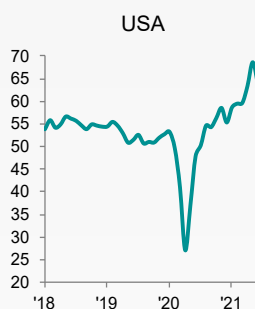
sa, >50 = growth since previous month

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

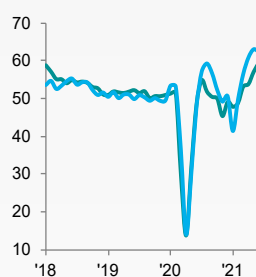


Composite Output Index

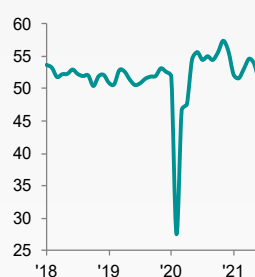
sa, >50 = growth since previous month



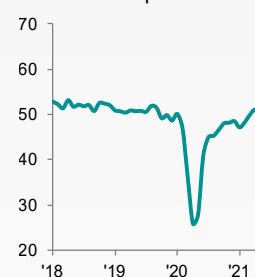
Eurozone / UK



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.

July data were collected 12-28 July 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.

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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. 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 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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