Stanbic Bank Kenya PMI™

New business growth picks up in August

Key findings

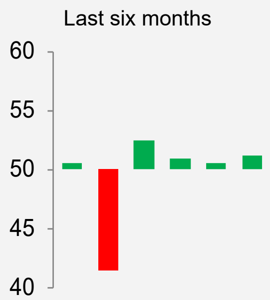
New orders rise at faster rate, but output growth slips to four-month low

Cost inflationary pressures ease after spike in July

Business confidence slips to near-record low

Kenya PMI

AUG
51.1
JUL: 50.6



Business conditions in the Kenyan private sector economy improved for a fourth straight month in August. Furthermore, the rate of growth picked up as firms saw a faster expansion in new business compared to July. Job creation also strengthened, but output rose at the slowest rate in four months and business confidence fell to a near-record low. After climbing sharply in July, the pace of input cost inflation eased in August, leading firms to increase their charges at the softest rate in 2021 so far.

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.

In August, the headline PMI picked up to 51.1 from 50.6 in July, to remain above the 50.0 neutral mark for the fourth month in a row. That said, the reading signalled only a marginal improvement in business conditions that was slower than the average seen since data collection began in 2014.

The improvement in the headline index was partially driven by an acceleration in new order growth in August. Sales rose in four of the five monitored sectors, but were unchanged among manufacturing firms. According to survey respondents, the recovery in market activity after the COVID-19 lockdown drove an improvement in cash flow and customer demand.

The rise in sales led companies to expand output for the fourth month running in August, though the rate of expansion slipped to the weakest recorded in this sequence. Despite higher activity, there was a further accumulation of backlogs of work, which in part encouraged companies to add to their workforces.

Purchasing of inputs rose at a quicker, but only modest, pace midway through the third quarter, as firms commented on the need to facilitate higher sales and add to their inventories. Strong competition among vendors continued to drive wait times for inputs down, although material shortages and road problems meant that the latest improvement was the slowest since April.

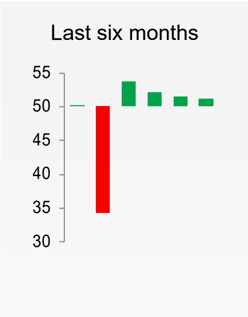
A recent increase in taxes on products and imported goods continued to push purchasing costs higher in August, but the rate of inflation cooled markedly from July. Notably, the rate of overall input price inflation softened to a six-month low. Consequently, fewer firms raised their output prices during the month, with the latest uptick the slowest recorded in 2021 so far.

Finally, the outlook for future activity slipped to almost the weakest in the series history over August, and was only slightly above April's record low. Reports of ongoing economic instability linked to the pandemic meant that only around one-in-five surveyed firms projected output to grow over the next 12 months.

PMI

sa, >50 = improvement since previous month

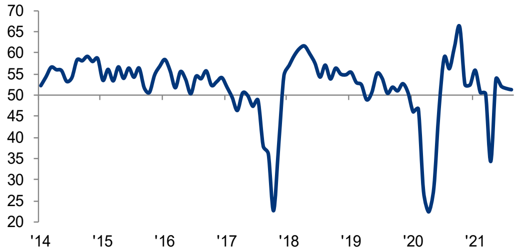
Output Index



August survey data signalled a fourth successive rise in activity levels in the Kenyan private sector economy, as businesses continued to recover from a sharp downturn in April. However, growth momentum lessened again as the respective seasonally adjusted index fell for the third month running. Where activity rose, firms linked this to higher new orders and increased cash flow. However, some respondents noted a reduction in customer spending amid ongoing economic instability.

Output Index

sa, >50 = growth since previous month

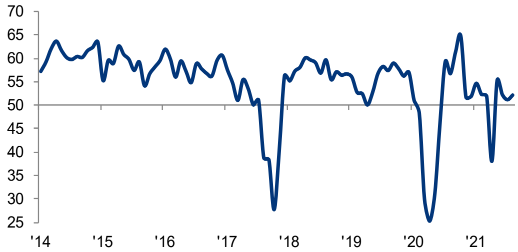


New Orders Index

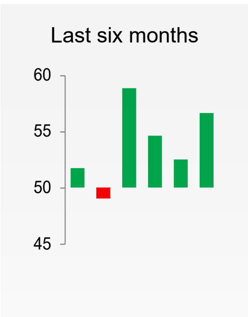
Adjusted for seasonal factors, the New Orders Index pointed to a modest and fourth successive rise in new business at Kenyan firms in August. Notably, the rate of expansion picked up for the first time since sales volumes returned to growth during May. Anecdotal evidence suggested that the resumption of normal activities had led to increased cash flow among clients. Across the five monitored sectors, new orders rose in agriculture, construction, services and wholesale & retail, but were unchanged in manufacturing.

New Orders Index

sa, >50 = growth since previous month



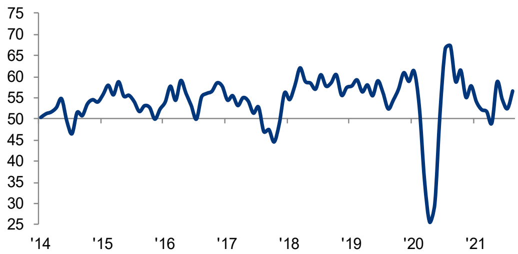
New Export Orders Index



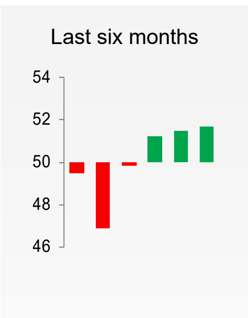
As well as total new orders, Kenyan firms saw a quicker rise in new orders from abroad midway through the third quarter. The rate of growth accelerated to a sharp pace that was also the strongest registered in three months. Firms highlighted a rise in demand from clients in Europe and the Middle East, in particular.

New Export Orders Index

sa, >50 = growth since previous month



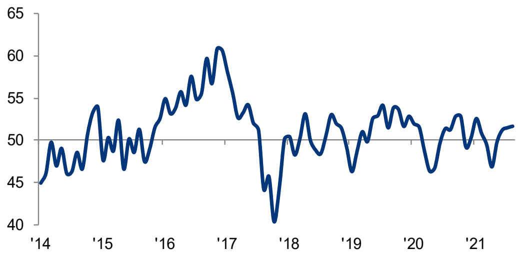
Backlogs of Work Index



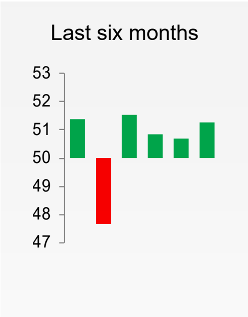
Higher new orders led to a further increase in the volume of backlogs at Kenyan companies during August. Moreover, the rate of accumulation quickened slightly from July to the most marked since the first month of the year. Backlogs of work grew in agriculture, construction and wholesale & retail, were unchanged in the service sector, but fell in manufacturing.

Backlogs of Work Index

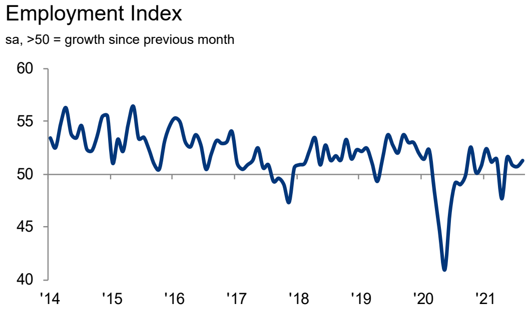
sa, >50 = growth since previous month



Employment Index

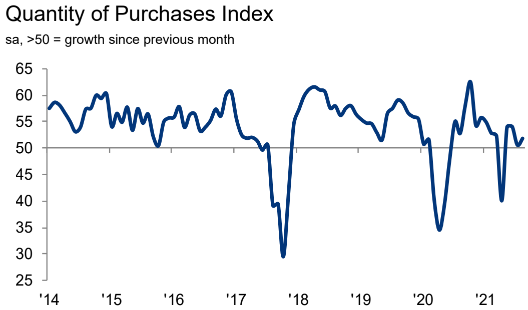


Rising workloads encouraged private sector companies in Kenya to expand their staff capacity further in August. As a result, latest data showed a fourth successive monthly increase in employment. The upturn in job numbers was the quickest since May, but only modest overall and slower than the series long-run average. Notably, employment rose in all five main categories over the month.

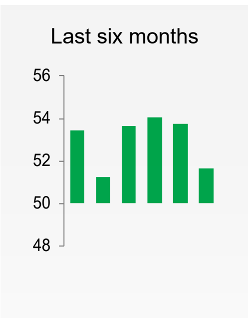


Quantity of Purchases Index

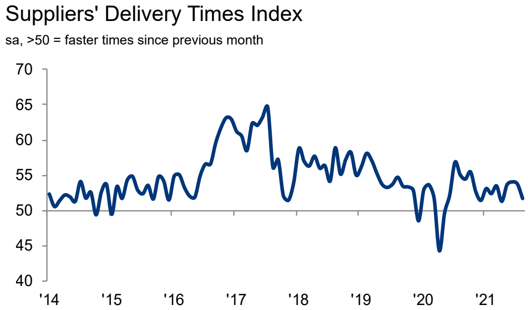
Purchasing activity expanded at a quicker, but only modest, rate midway through the third quarter of the year. Roughly 15% of survey panellists stated an increase in buying activity, whereas 10% posted a decline. Higher purchases were largely to facilitate an increase in sales, according to anecdotal evidence. As was the case for new orders, input buying rose in all monitored sectors except for manufacturing.



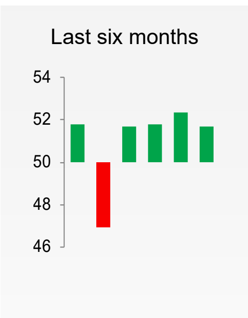
Suppliers' Delivery Times Index



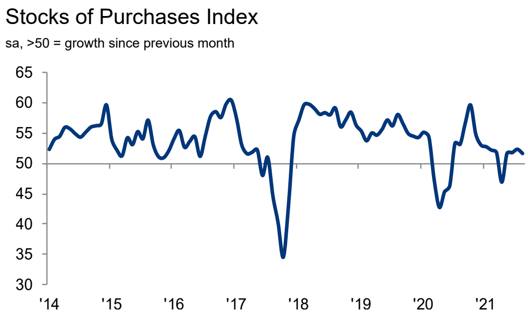
Kenyan suppliers continued to make faster deliveries in August, as highlighted by the seasonally adjusted Suppliers' Delivery Times Index posting above the no-change 50.0 level. However, the indicated rate of improvement in supply chain performance slowed notably from July to the weakest in four months. Tough competition among vendors largely drove efficiency gains, according to panellists, but material shortages and traffic problems weighed on the overall improvement.



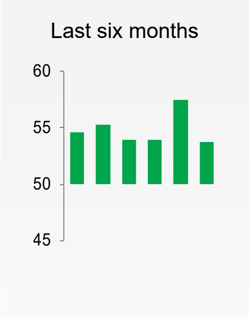
Stocks of Purchases Index



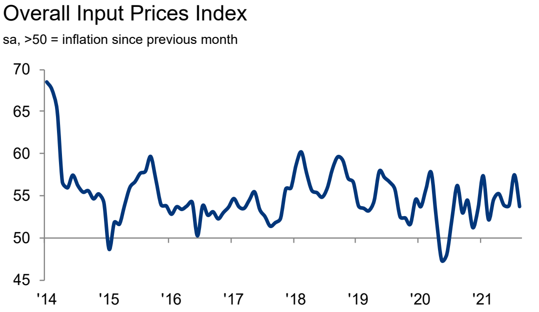
Kenyan companies stocked more inputs in August, thus extending the run of expansion to four months. Where inventories rose, panellists linked this to hopes that new business will expand in the future, as well as to guard against supply shortages. That said, the rise in stock levels was modest and the weakest recorded since May.



Overall Input Prices Index

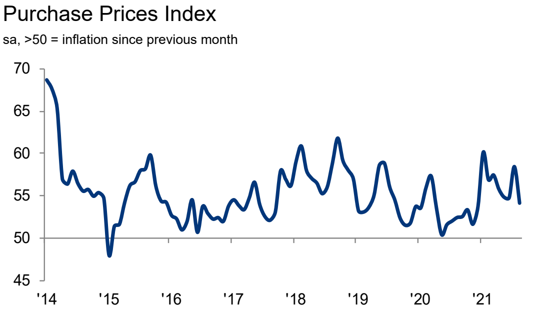


Input prices faced by Kenyan businesses rose solidly during August. The rate of inflation softened considerably from July's 16-month high, but was nevertheless broadly in line with those seen in the prior two months. Where costs rose, firms continued to highlight recent tax increases on products, alongside material shortages and higher payroll expenses.

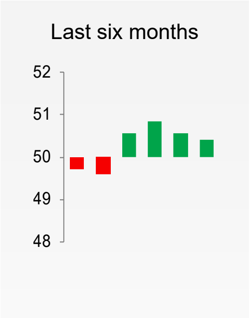


Purchase Prices Index

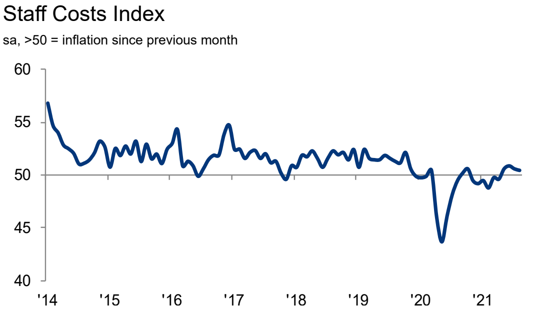
Firms reported a solid increase in purchasing costs in the latest survey period, often linking this to tax increases on products, including imported goods. Some companies also commented on shortages of raw materials that led to a rise in prices. However, after climbing sharply in July, the rate of purchase price inflation slowed to the weakest recorded in 2021 so far.



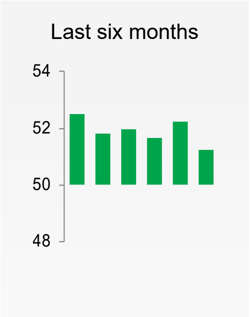
Staff Costs Index



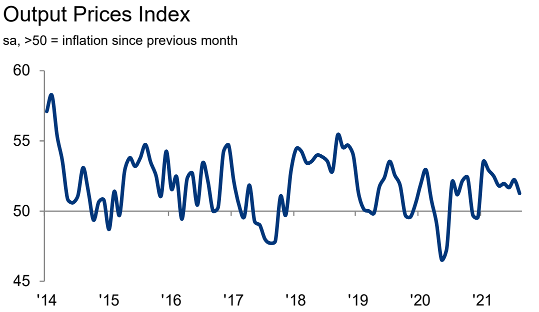
Staff costs continued to rise halfway through the third quarter, thus continuing the run of inflation seen since May. That said, the latest increase was the softest in the current sequence, and only marginal. Some firms raised employee salaries as part of bargaining agreements, whereas others reduced them due to a loss of sales.



Output Prices Index

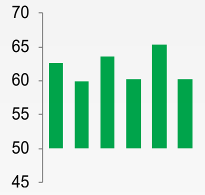


Average prices charged by private sector firms were raised again in August, thus stretching the current run of inflation that began at the start of the year. However, with cost inflation moderating, the overall increase in output charges was the weakest seen in this period. Construction was the only sector to register a sharp increase in charges during August, while manufacturing, services and wholesale & retail saw only modest rises. Agriculture firms reduced their selling prices on the month.



Future Output Index

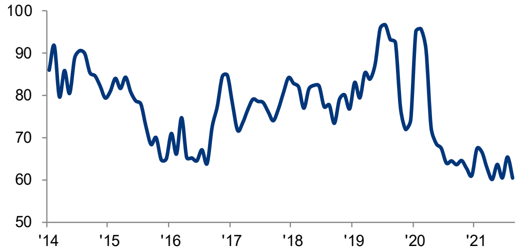
Last six months



The Future Output Index failed to gain further ground in August, in fact slipping to a near-record low as only about one-in-five survey respondents projected a rise in activity over the coming 12 months. Where optimism was recorded, this was linked to plans for branch openings, increased marketing and investment in new capital. Roughly 79% of respondents meanwhile gave a neutral response, amid continued economic uncertainty linked to the pandemic.

Future Output Index

>50 = growth expected over next 12 months

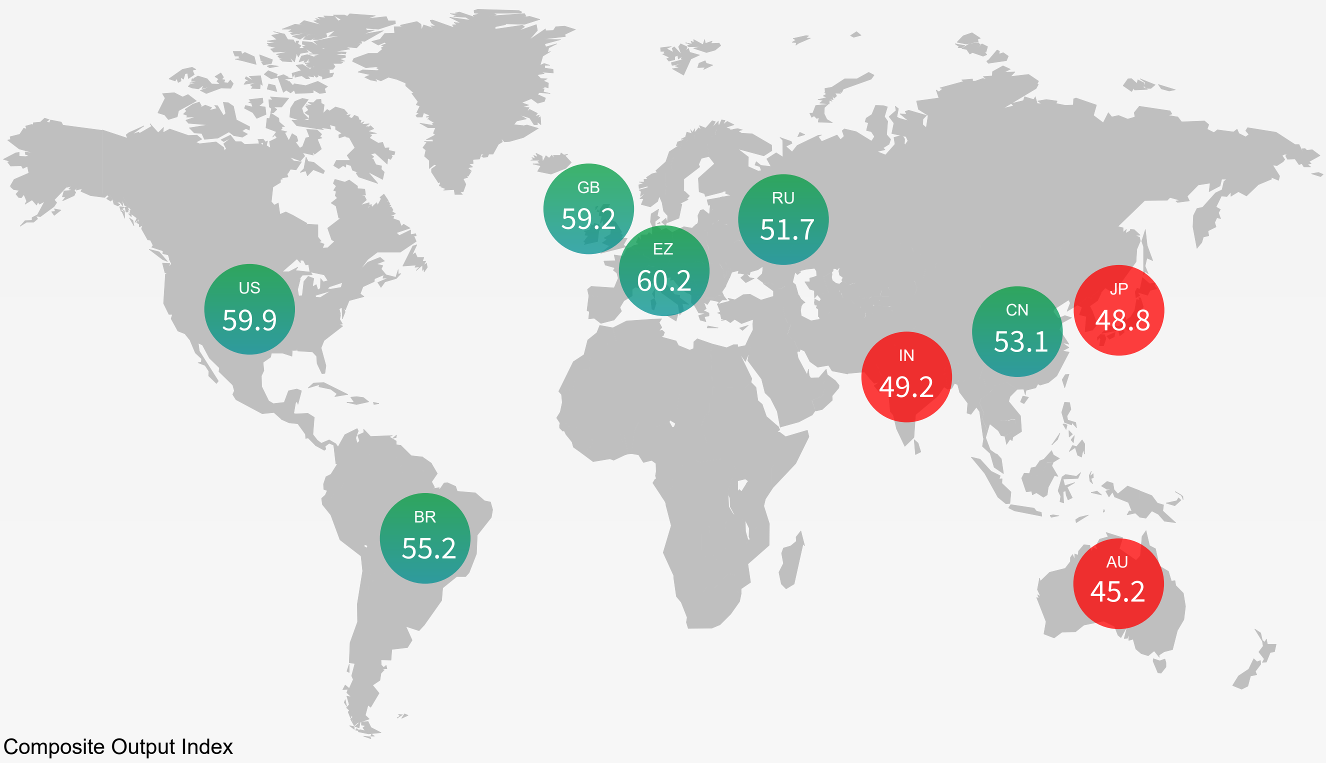


International PMI

Composite Output Index, Jul '21

sa, >50 = growth since previous month

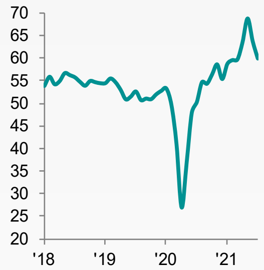
The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



Composite Output Index

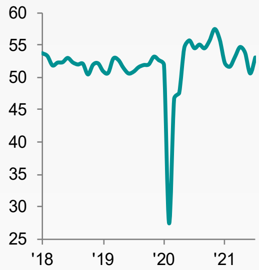
sa, >50 = growth since previous month

USA

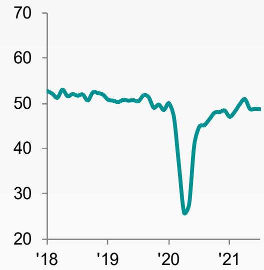


Eurozone / UK

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.

August data were collected 12-26 August 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.

About IHS Markit

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.

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