Stanbic Bank Kenya PMI™

Output growth dissipates as price pressures hit consumer spending

Key findings

Output rises only marginally in September

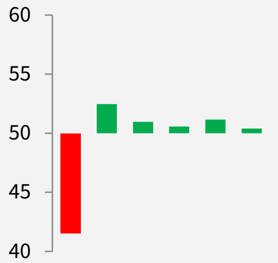
Higher living costs weaken sales growth

Fastest rise in employment for eight months

Kenya PMI

SEP
50.4
AUG: 51.1

Last six months



Kenyan private sector activity grew at only a marginal pace in September, according to the latest PMI survey, as rising living costs weighed on consumer spending and new orders. The hike in energy prices particularly hit demand, as well as driving a sharper rate of both input cost and output charge inflation. More positively, capacity pressures led firms to increase their staffing levels at the strongest rate since January.

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.

Falling from 51.1 in August to 50.4 in September, the headline index signalled an overall improvement in operating conditions. That said, the pace of improvement was marginal and the weakest seen in the current five-month sequence of growth.

Output and new orders rose in September, driven by a continued recovery in demand from the strict lockdown earlier in the year. Exports were also a key source of growth, as foreign orders increased at the fastest rate since October 2020.

That said, there were numerous reports that a rise in living costs had weakened consumer spending, leading to a softer - and only marginal - rate of total sales growth. Subsequently, the rate at which business activity expanded was the slowest seen since the return to growth following April's lockdown-induced decline.

Higher fuel prices was a key factor leading to the uptick in living costs. As well as impacting demand, businesses found that the price hike added to purchasing prices, which rose sharply. Faced with higher cost burdens, firms raised their selling charges to the greatest extent since February.

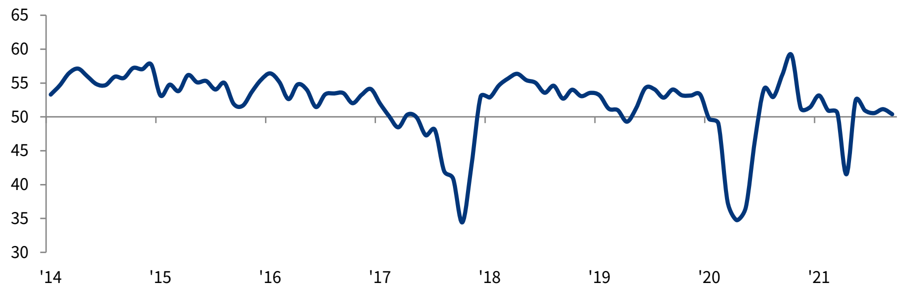
Backlogs of work meanwhile rose for the fourth month running, leading a number of companies to add to their staffing levels. Notably, the rate of employment growth was the quickest seen for eight months.

Input purchasing also expanded, and to the strongest degree since June, while firms saw delivery times shorten to the greatest extent in almost a year. These improvements supported another modest increase in inventory levels.

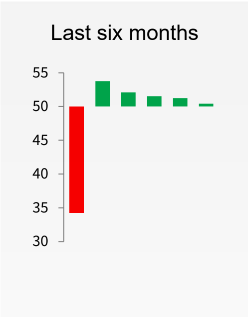
Lastly, the outlook for future activity remained relatively weak in September, despite improving slightly from August. Around 72% of respondents expect output to be unchanged over the coming year, amid uncertainty surrounding the pandemic and inflationary pressures. Positive forecasts were meanwhile driven by hopes of increased marketing and capital investment.

PMI

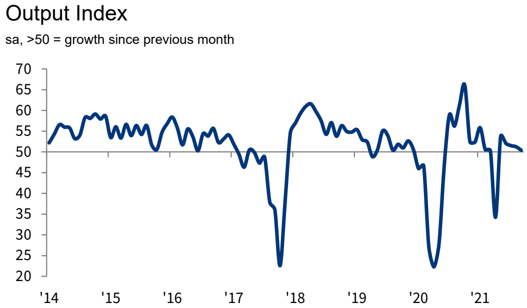
sa, >50 = improvement since previous month



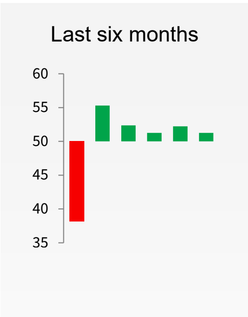
Output Index



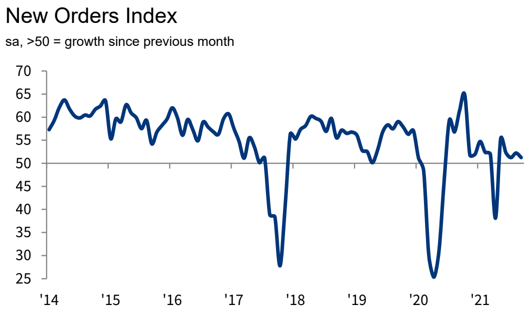
Continuing the trend seen since June, the rate of growth in Kenyan business activity slowed further in September. In fact, the latest expansion was only marginal. Whilst there were reports of improving economic conditions from the easing of lockdown rules including curfew hours, many firms highlighted a negative impact from rising prices.



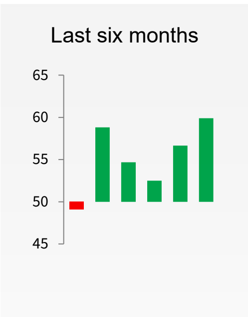
New Orders Index



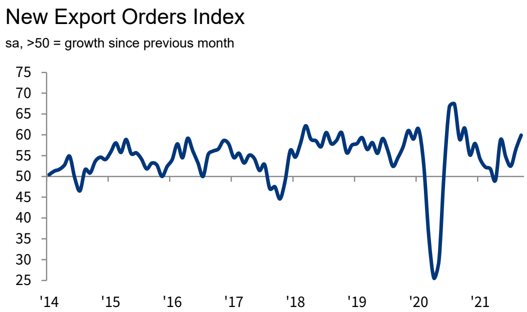
New orders across Kenya's private sector remained in expansion mode for a fifth straight month in September. That said, the pace of growth softened and was the joint-weakest in this period (level with July). According to anecdotal evidence, some clients had cash to spend whereas others struggled with higher prices and increased living costs. New orders rose in four of the five monitored sectors during the month, with manufacturing the only exception.



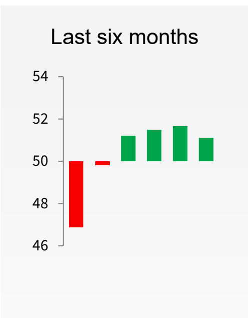
New Export Orders Index



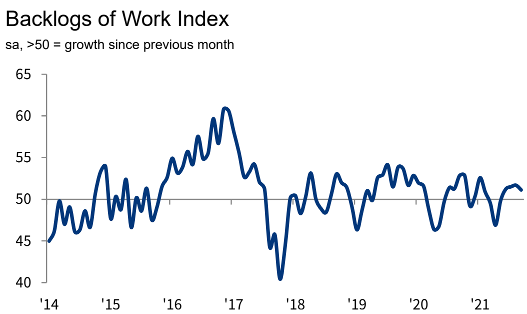
Unlike that of total new orders, the rate of new export order growth accelerated in September and was marked. Respondents seeing a rise in foreign sales often noted an increase in demand from European customers, as well as other East African countries. The strengthening of growth led the respective seasonally adjusted index to its highest reading since October 2020.



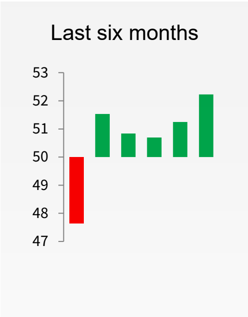
Backlogs of Work Index



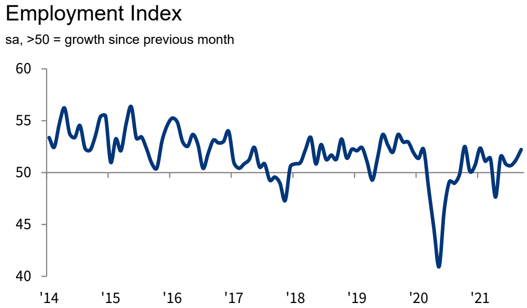
Kenyan companies reported a further increase in levels of outstanding business at the end of the third quarter. Notably though, the seasonally adjusted Backlogs of Work Index fell for the first time in five months, indicating a softer increase in backlogs than in August. Construction was the only monitored category to see a noticeable rise in work-in-hand, while manufacturing and services registered declines.



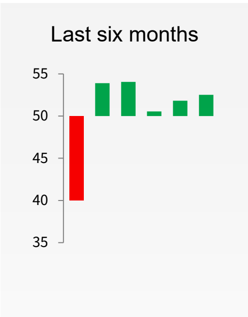
Employment Index



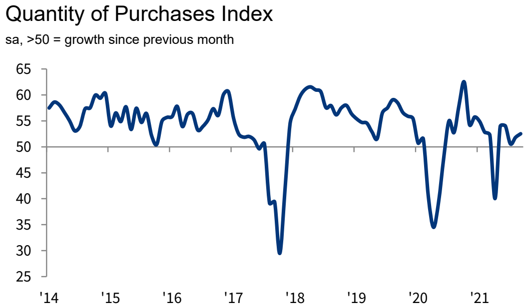
Matching the trends for output and new orders, Kenyan businesses increased their staff numbers for the fifth month running in September. The rate of employment growth quickened to the fastest since the start of the year. All five sectors added to their workforces during the month, with particularly sharp increases seen in construction and agriculture.



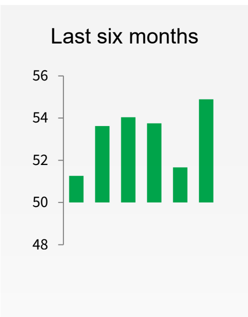
Quantity of Purchases Index



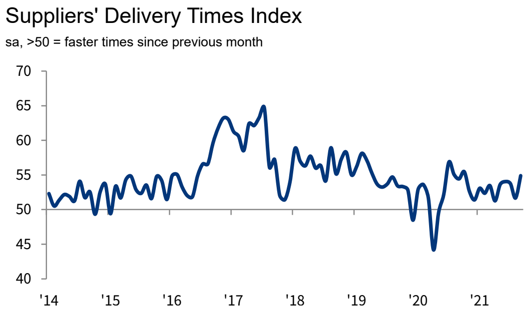
Efforts to build inventories in line with higher demand led to a further expansion in purchasing activity at the end of the third quarter. Whilst remaining modest and slower than the series trend, the rate of growth picked up for the second month in a row. Notably, input buying rose in all of the monitored sectors, except for manufacturing.



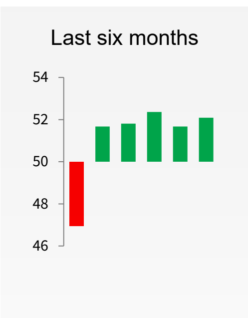
Suppliers' Delivery Times Index



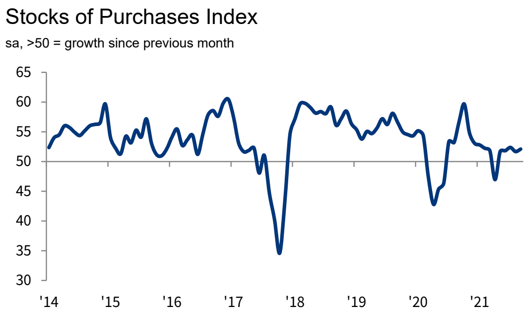
Kenyan firms often found that suppliers responded positively to requests for quicker deliveries during September, with some also citing improved road conditions and increased vendor capacity. As a result, overall input lead times improved sharply and to the greatest extent in almost a year.



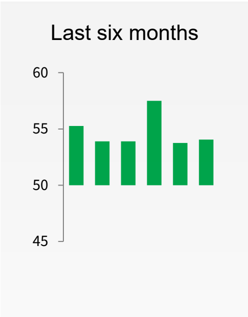
Stocks of Purchases Index



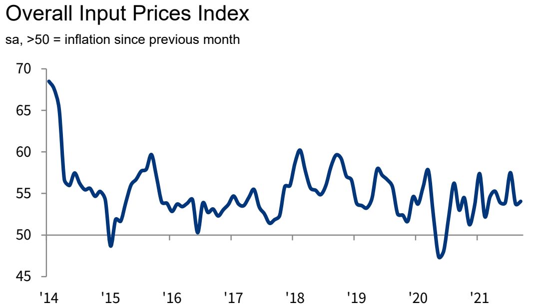
Stocks of purchases at private sector businesses increased further in September. As has been the case in recent months, however, the rate of expansion was only modest. At the sector level, inventories rose in construction, wholesale & retail and services.



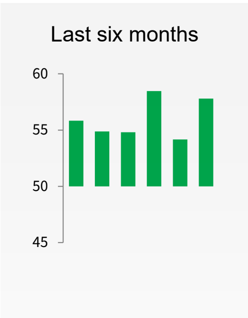
Overall Input Prices Index



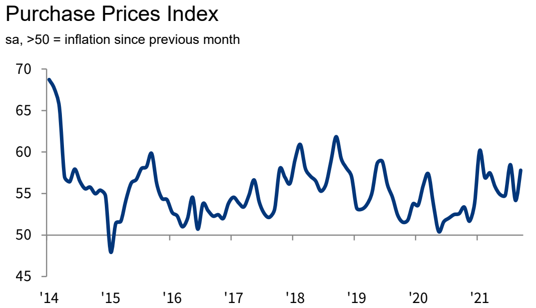
Input price pressures in the Kenyan private sector remained strong in September, as the seasonally adjusted Overall Input Prices Index ticked up fractionally from August and was firmly above the 50.0 neutral mark. Both purchase prices and staff costs rose, with the former seeing the much quicker rate of inflation. All five monitored sectors saw overall input costs increase during the month, led by wholesale & retail.



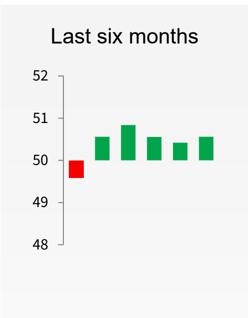
Purchase Prices Index



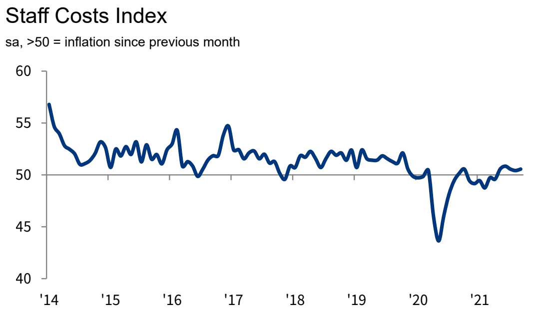
A regulatory rise in energy prices added to the cost of input goods in September, exacerbating the ongoing impact of supply shortages on purchase prices. Cost pressures rose sharply overall, with the rate of inflation accelerating from August but remaining slightly below July's level.



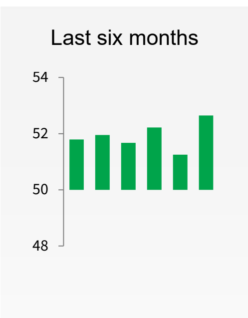
Staff Costs Index



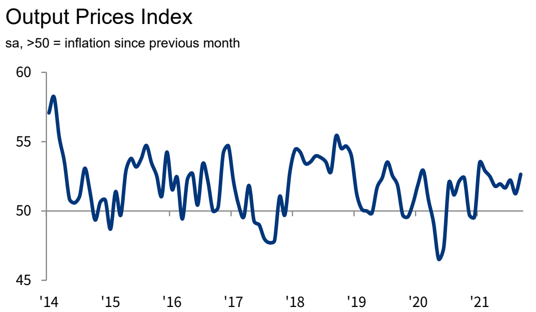
Salaries paid to private sector workers in Kenya rose again in the latest survey period. The rate of wage inflation ticked higher for the first time in three months, but remained slight overall. Where salaries rose, firms cited efforts to boost employee motivation and the extension of working hours.



Output Prices Index

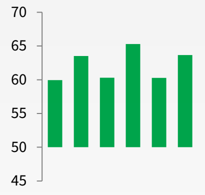


The markup in energy prices, and subsequent increase in cost pressures, led Kenyan companies to raise their selling prices during September. Whilst moderate, the rate of charge inflation quickened from August to a seven-month high. All five monitored areas of the private sector reported an increase in output charges, with agriculture registering the fastest uptick.



Future Output Index

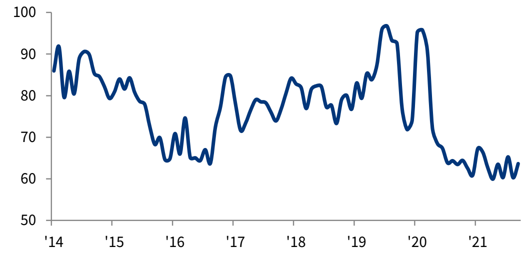
Last six months



Output forecasts among Kenyan businesses remained subdued in September, as the Future Output Index continued to post near to April's record low. Whilst plans for increased marketing, capital expenditure and branch openings drove positive expectations at several firms, around 72% of respondents projected that output would be unchanged from current levels in 12 months' time, amid uncertainty linked to COVID-19 and higher living costs.

Future Output Index

>50 = growth expected over next 12 months

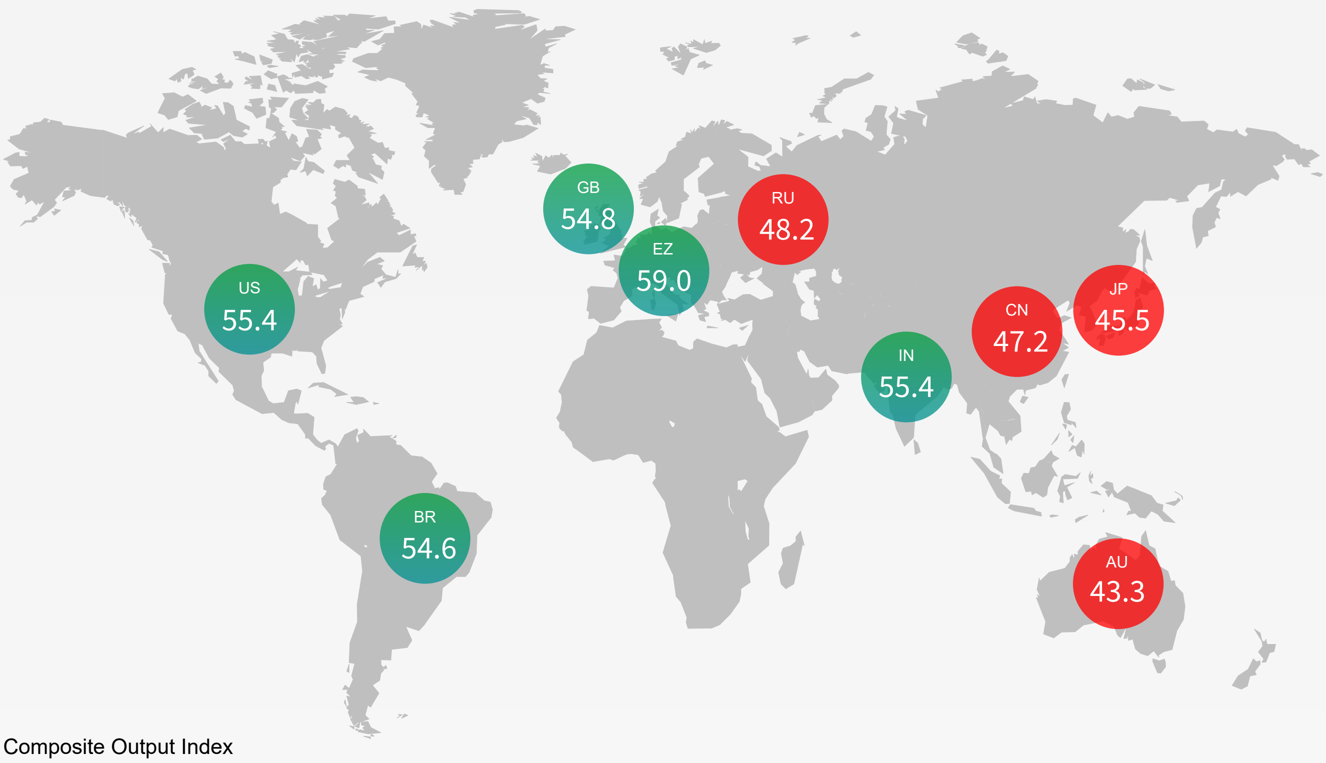


International PMI

Composite Output Index, Aug '21

sa, >50 = growth since previous month

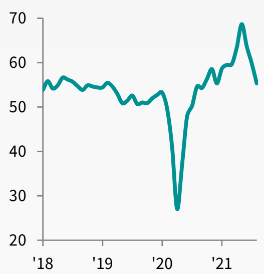
The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



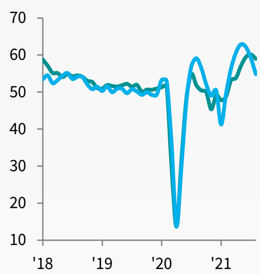
Composite Output Index

sa, >50 = growth since previous month

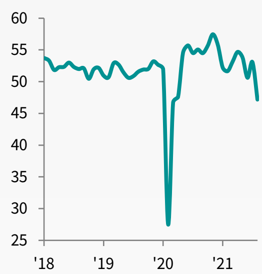
USA



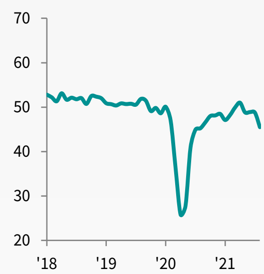
Eurozone / UK



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.

September data were collected 13-28 September 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.

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