

Stanbic Bank Kenya PMI™

Steeper downturn in economic conditions in June

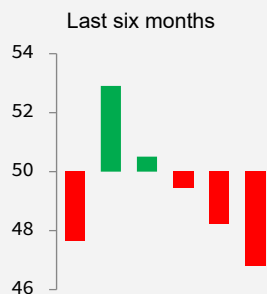
Key findings

Output and new orders fall further

Selling prices rise at record pace

Employment and purchasing drop fractionally

Kenya PMI



The Kenya PMI fell further into negative territory in June, as output and new orders continued to decline amid rising price pressures. Input costs increased at a severe rate, driven by higher fuel prices, supply shortages and a strengthening US dollar, leading to a record uptick in firms' selling charges. With demand falling, companies reported slight reductions in their employment and purchases.

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 posted below the 50.0 neutral mark for the third successive month in June, falling to 46.8 from 48.2 in May. The reading was the lowest seen since April 2021 and signalled a solid decline in the health of the Kenyan private sector.

The downturn was led by further contractions in both output and new orders at the end of the second quarter. In both cases, rates of decrease quickened from May. Firms commented that rising price pressures had weighed on client demand, while weaker cash flow and the upcoming elections were also noted as contributing factors.

The downturn in sales was largely concentrated on the manufacturing, construction and wholesale & retail sectors

in June. By contrast, services firms posted a marginal rise in new business.

Meanwhile, inflationary pressures remained marked at Kenyan companies in June, often reflecting a surge in fuel prices due to the Russia-Ukraine war. A lack of availability of other inputs, a stronger US dollar, higher taxation and increased wages also weighed on business costs, which rose at one of the fastest rates in the series history.

Kenyan firms widely passed higher costs on to their customers in order to protect profit margins. Indeed, output charges rose at a survey-record pace in June.

Weaker client orders led to a further slight reduction in purchasing activity in June, although inventories continued to rise due to stockpiling efforts. At the same time, staffing capacity was down fractionally, leading to a slight increase in backlogs of work.

Kenyan firms meanwhile saw an improvement in average lead times, but one that was only marginal overall. Efforts by vendors to increase their activity were sometimes offset by input shortages.

Finally, expectations for future activity improved for the first time in four months during June, after reaching a record low in May. That said, optimism remained weaker than in any month prior to April amid concerns about the impact of inflation in the economy.

PMI

sa, >50 = improvement since previous month



Output Index



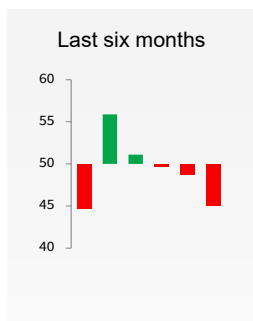
Kenyan firms continued to report a drop in output levels at the end of the second quarter. Moreover, the rate of decline accelerated for the third straight month and was sharp, shown by a further decrease in the seasonally adjusted Output Index to its lowest since April 2021. Surveyed businesses often commented on a scaling back of activity due to falling demand, higher prices, weaker cash flow and the upcoming elections.

Output Index

sa, >50 = growth since previous month



New Orders Index



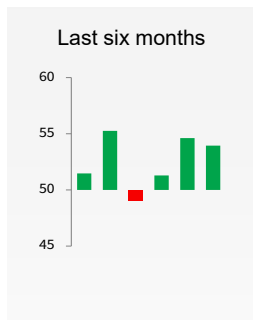
New order volumes registered in contraction territory for the third month running in June, as businesses continued to report a negative impact from inflationary pressures on fuel and other commodities. The pace at which new orders fell was marked and broadly in line with that recorded at the start of the year due to the Omicron wave of the pandemic. Steep downturns in sales were registered in manufacturing, construction and wholesale & retail, while services bucked the wider trend and posted a slight expansion.

New Orders Index

sa, >50 = growth since previous month



New Export Orders Index



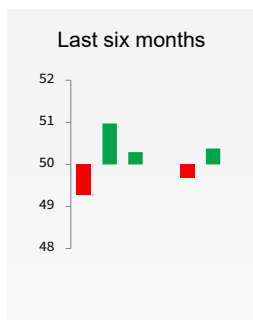
Export demand continued to outperform domestic sales at Kenyan companies in June, as the latest survey data signalled a further positive contribution from new foreign business. Where a rise was recorded, this was sometimes linked to improved marketing in other countries. That said, the rate of export growth softened slightly from May and was below the long-run trend.

New Export Orders Index

sa, >50 = growth since previous month



Backlogs of Work Index



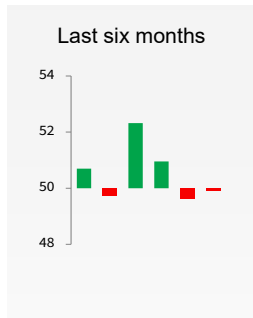
For the first time in three months, Kenyan businesses registered an increase in their work outstanding at the midpoint of the year. That said, the overall accumulation was only marginal. Firms that reported higher backlogs linked this to a reduction in staffing capacity and electricity shortfalls. Levels of incomplete work rose in the manufacturing, wholesale & retail and services categories, but fell in agriculture and construction.

Backlogs of Work Index

sa, >50 = growth since previous month



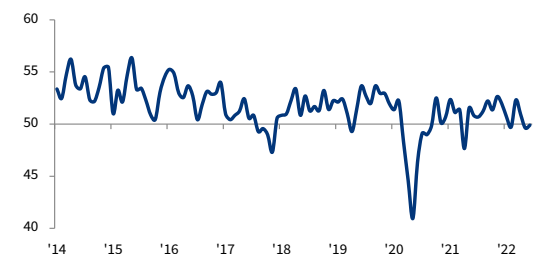
Employment Index



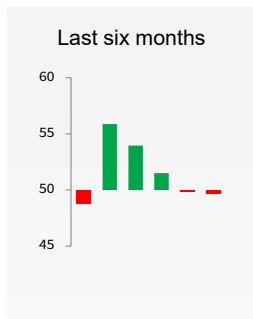
Employment in the Kenyan private sector was little-changed over June, shown by the seasonally adjusted index posting just beneath the 50.0 neutral mark. While a number of businesses reportedly lowered their workforce numbers due to weaker new orders, others hired additional staff to support sales and marketing.

Employment Index

sa, >50 = growth since previous month



Quantity of Purchases Index



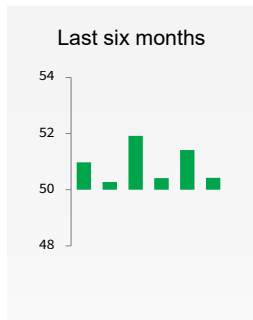
As was the case in May, Kenyan firms reported a fractional decrease in their purchasing activity at the end of the second quarter. Lower buying was generally linked to a reduction in demand, although a number of firms increased their purchases due to a rise in customer numbers. At the sector level, lower purchases were recorded in manufacturing, construction and wholesale & retail.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index



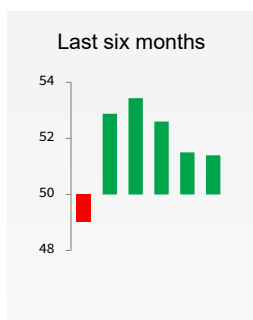
Delivery times faced by Kenyan companies shortened again in June, thereby stretching the run of improvement to 25 months. That said, the rate at which lead times decreased was softer than in May and one of the least marked in the current sequence. While some firms found that suppliers were able to deliver inputs more quickly to improve their revenues, others were constrained by commodity shortages.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index



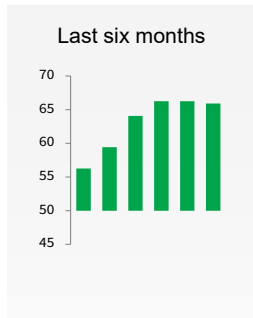
Stocks of purchases improved for the fifth successive month in June, although the rate of expansion was the slowest recorded in this period and only modest. Anecdotal evidence indicated that concerns of price rises and supply shortages led a number of firms to hold more inputs, although this was partly offset by lower demand. Inventories grew in all monitored sectors, except for manufacturing.

Stocks of Purchases Index

sa, >50 = growth since previous month



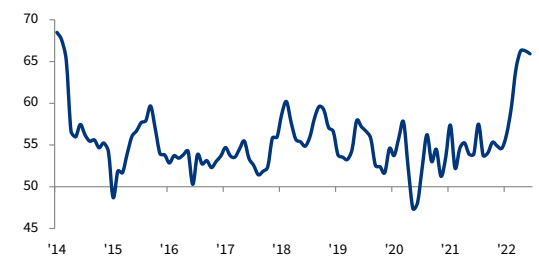
Overall Input Prices Index



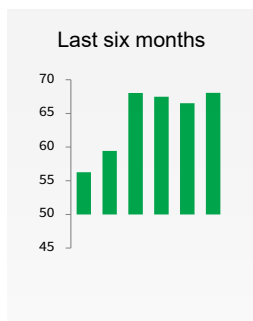
Input price inflation in the Kenyan economy remained considerable in June. Whilst showing signs of having peaked earlier in the second quarter, the overall increase in costs was still one of the fastest recorded in the survey's history (since January 2014). According to panellists, higher fuel prices was a key factor driving inflation, while purchasing and staff costs also rose. All five sectors registered a marked increase in input prices, led by wholesale & retail.

Overall Input Prices Index

sa, >50 = inflation since previous month



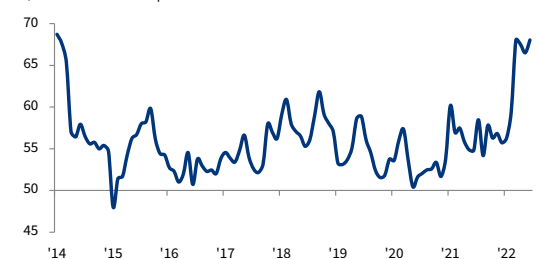
Purchase Prices Index



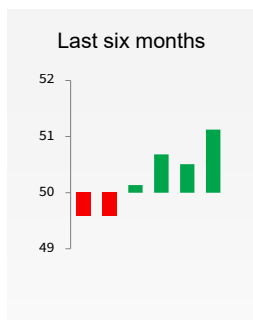
Purchasing prices surged again at the midpoint of the year, with the rate of inflation accelerating to the joint-quickest since the start of 2014 (level with March). Nearly 36% of panellists saw their purchase costs rise over the course of the month, with none registering a decline. Higher fuel prices, a stronger US dollar, input shortages and higher tax burdens were all cited as being behind the latest uptick.

Purchase Prices Index

sa, >50 = inflation since previous month



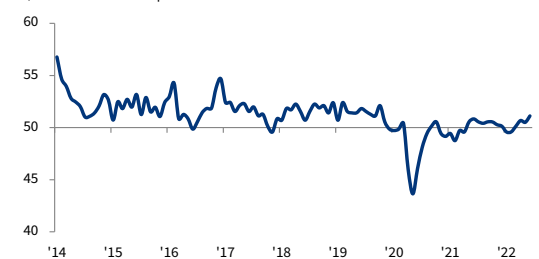
Staff Costs Index



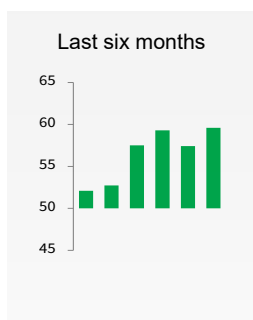
Staff wages at Kenyan firms increased in June, continuing the trend seen since March. Moreover, the latest rise was the sharpest recorded since October 2019, albeit only marginal and broadly aligned with the series average. Employee salaries were raised in the agriculture, manufacturing, construction, wholesale & retail and services sectors.

Staff Costs Index

sa, >50 = inflation since previous month



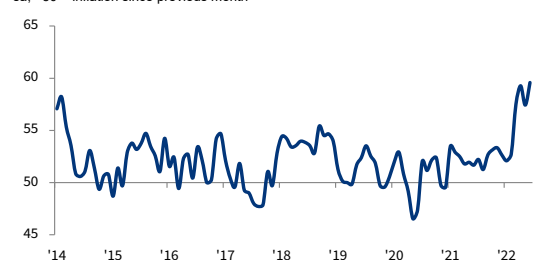
Output Prices Index



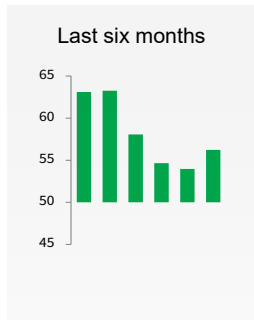
Output charges levied by Kenyan private sector companies rose at an unprecedented rate at the end of the second quarter of the year. The sharp increase was mainly linked by panellists to efforts to pass higher input costs on to their clients and avoid making losses. The upturn was driven by the wholesale & retail sector which registered by far the fastest rise in selling prices in June. That said, strong rates of inflation were also recorded across the other monitored industries.

Output Prices Index

sa, >50 = inflation since previous month



Future Output Index



After dropping to a survey-record low in May, expectations for future activity in the Kenyan private sector strengthened in June. The degree of positivity was the highest seen in the second quarter, but remained weaker than in any month prior to April. Some firms hoped to achieve higher output through new outlets, increased advertising and new products and services. However, optimism was often negatively impacted by the current downturn and concerns about inflation.

Future Output Index

>50 = growth expected over next 12 months

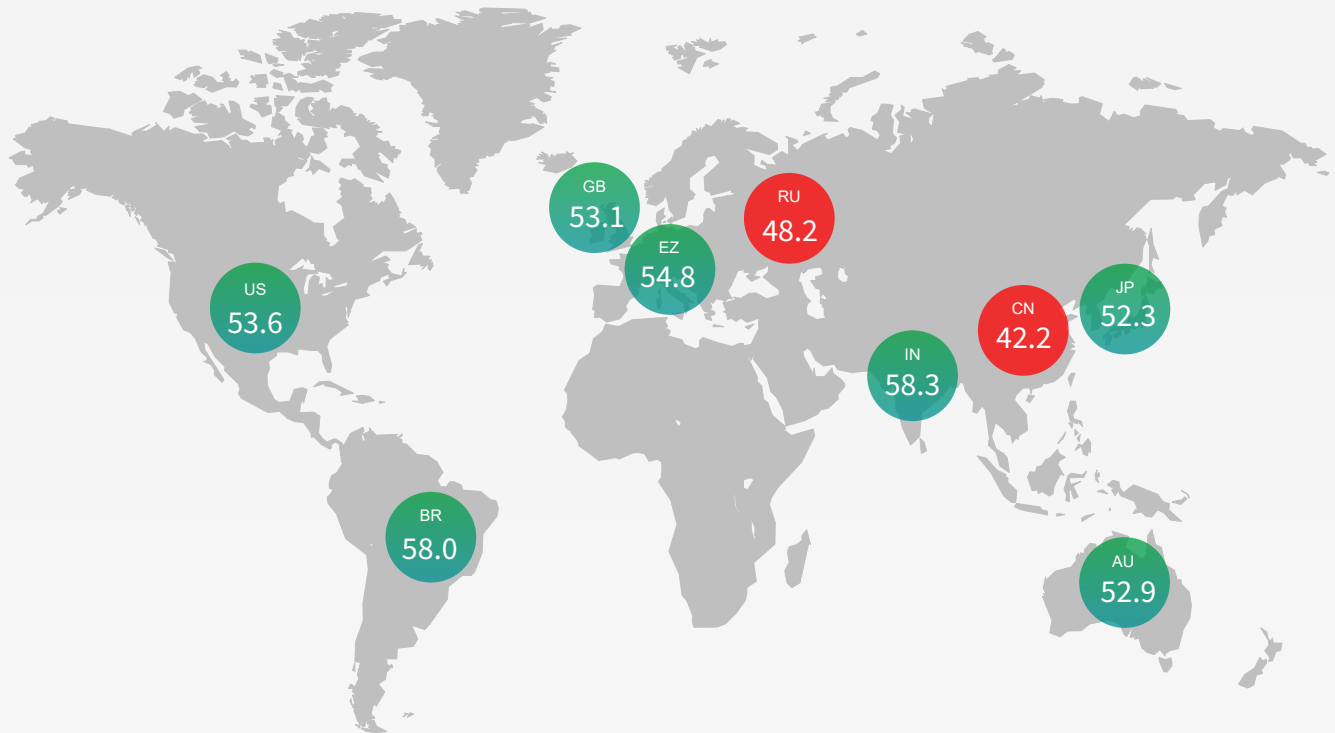


International PMI

Composite Output Index, May '22

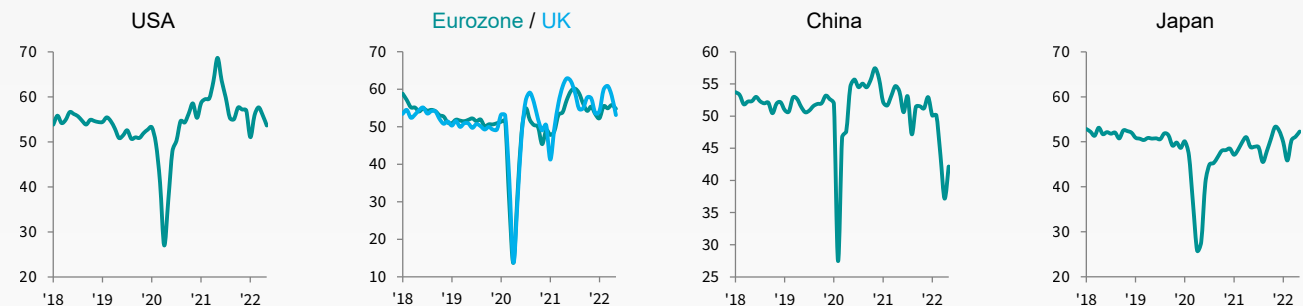
sa, >50 = growth since previous month

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



Methodology

The Stanbic Bank Kenya PMI™ is compiled by S&P Global 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 13-28 June 2022.

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

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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. 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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.