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Stanbic Bank Kenya PMI™

Kenyan economy rebounds in May as restrictions ease

Key findings

Output and new business expand after severe declines in April

Job numbers increase at quickest rate since January

Margins squeezed despite slower rise in input costs

Data were collected 12-26 May 2021.

Business conditions in the Kenyan private sector recovered partially in May, after tightened measures on travel and curfew led to a steep contraction in April. New business grew at the fastest rate in seven months, while output and employment both rose to the strongest degrees since January. Price margins were squeezed for the third month running as output charges rose at a slower rate than input prices, despite the latter increasing at the softest pace since February.

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.

After falling sharply below the 50.0 value in April, the headline PMI was back in growth territory in May. At 52.5, the index was up 11 points to its highest in four months, albeit signalling only a moderate improvement in operating conditions. Notably, the latest expansion was softer than the contraction recorded in April, suggesting that overall economic performance remained below the level seen before restrictions were reimposed.

Four sub-indices of the PMI rose above the 50.0 neutral mark in May, namely output, new orders, employment and stocks of purchases. Firstly, output grew at a solid rate as firms reported an easing of curfew hours and

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

travel restrictions between counties. This loosening of measures also supported a sharp rise in new orders that was the quickest since October 2020. There was notable strength on the exports side, as orders from foreign clients increased markedly.

Job creation returned in the latest survey period as a result of a strong increase in workloads. This contributed to a third consecutive fall in backlogs of work, albeit one that was only fractional.

Input purchasing also moved into growth territory in May, although spare capacity gained from the previous month helped suppliers to deliver inputs more quickly. Despite this, stock levels expanded only modestly.

Prices data indicated a further squeezing of profit margins. Despite some businesses recording higher charges, the overall rate of output charge inflation remained slower than that of input prices. Respondents often linked a rise in purchase prices to increased transport fees, which in turn was attributed to higher fuel costs. Staff expenses rose for the first time since October 2020, but overall cost inflation slowed to a three-month low.

Business expansion plans drove another robust forecast for the next 12 months of output in May. Confidence improved to a three-month high, with around 27% of companies expecting an overall upturn.

Comment

Kuria Kamau, Fixed Income and Currency Strategist at Stanbic Bank commented:

"As expected, the lifting of public health restrictions at the beginning of May resulted in a significant improvement in business activity in May. Fewer restrictions resulted in higher demand as indicated by the rise in new orders. Firms increased their stock of purchases and employment levels so as to increase their output levels to meet the rising demand. Higher input costs, however, resulted in lower profit margins for firms. Firms appear to be increasingly optimistic about the next 12 months as new COVID-19 case numbers continue to fall and vaccinations continue to rise. The future outlook for firms improved for the first time in 4 months."

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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.

May data were collected 12-26 May 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.

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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