News Release

Embargoed until 1030 EAT (0730 UTC) 4 June 2020

Stanbic Bank Kenya PMI™

Business activity remains in steep decline

Key findings

Output and new orders fall sharply in May

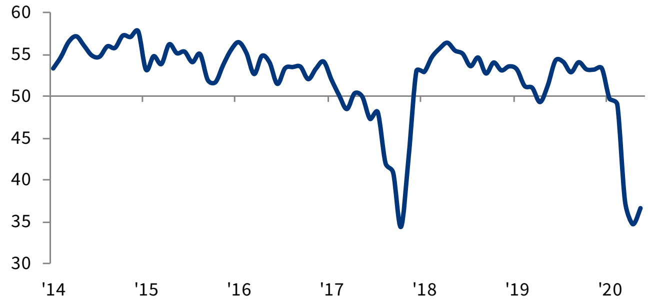
Employment declines at steepest rate on record

Input costs drop for first time since January 2015

Data were collected 12-27 May 2020.

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

The Kenyan private sector economy faced further sharp falls in levels of activity and demand during May, amid ongoing restrictions on travel during the coronavirus disease 2019 (COVID-19) pandemic.

Output declined at a steep pace, as companies reduced activity and customers stayed away to lower transmission of the virus. As a result, employment levels were reduced at a record pace, alongside a marked drop in input purchases.

Efforts to lower spending and salaries meanwhile led to an overall fall in input prices, the first seen in over five years. Subsequently, output prices were reduced as firms tried to salvage client sales.

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.

May saw the headline PMI rise to 36.7, from 34.8 in April, to signal a further steep decline in overall business conditions across the Kenyan private sector. Business conditions have worsened in each month of 2020 so far, with the latest deterioration marked by historical standards.

Driving the downturn was a considerable fall in output levels in May, as businesses reported lower activity due to weak sales. Demand levels were again impacted by travel restrictions around Nairobi and Mombasa, which meant some firms were unable to acquire inputs. At the same time, panellists mentioned that customers reduced spending due to a lack of cash and an unwillingness to travel for fear of catching COVID-19. Export sales were also down due to lockdowns in other countries.

Businesses subsequently made additional cuts to employment during May, with the latest drop in workforces sharp and the quickest ever seen in the series history. Firms linked this to lower demand and a worsening outlook, with the 12-month forecast for activity dropping to the weakest since August 2016.

Meanwhile, the impact of travel restrictions on supplier delivery times eased in May, with Kenyan firms seeing just a marginal rise in lead times overall. Vendors were partly helped by reduced traffic, while a further drop in input demand meant that suppliers were less busy compared to April.

Notably, efforts to cut purchases and employment costs led to a drop in overall input prices during May, the first time this has occurred since January 2015. Firms often noted reducing salaries due to a lack of new work, while energy costs also fell. As a result, output prices dropped solidly in May, marking the quickest decline since the series began in the start of 2014, as firms tried to secure customer sales and curb the negative impact of the pandemic.

Comment

Jibran Qureishi, Regional Economist E.A at Stanbic Bank commented:

"We still expect the epicentre of Covid-19 to be felt in Q2, with respect to economic activity. Business conditions have contracted for five consecutive months now. In fact, the employment sub-index fell by the sharpest level in May since data collection began. Consequently, the reduction in the workforce has reduced overall input prices for private sector firms. Furthermore, due to weak domestic demand conditions, firms have looked to reduce overall output prices too. Given the tough economic environment, exacerbated by Covid-19, higher costs passed onto consumers initially resulted in a decline in sales."

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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 12-27 May 2020.

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.