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# Stanbic Bank Kenya PMI™

## Output growth softens again in July, as inflationary pressures strengthen

### Key findings

Output and new order growth weaken to three-month lows

Tax changes push input costs higher

Business optimism improves to five-month high

Data were collected 12-28 July 2021.

Growth momentum in Kenya's private sector slowed again at the start of the third quarter of the year, as surveyed businesses reported weaker expansions in output, new orders, employment and purchasing. At the same time, cost inflationary pressures rose to a 16-month high as tax changes resulted in a sharp uptick in purchase prices.

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 index fell for a second straight month from 51.0 in June to 50.6 in July, to indicate only a marginal improvement in operating conditions across Kenya's private sector. Barring the sharp downturn in April, the rate of growth was the joint-weakest since conditions began to improve after the first wave of the pandemic.

The three biggest components of the PMI, the Output, New Orders and Employment indices, all fell to three-month lows, but remained above the 50.0 no-change mark to indicate further expansions.

Businesses that saw an increase in new order volumes often pointed to an improvement in cash flow and increased marketing activity. On the other hand, some firms reported losing customers due to the ongoing effect of the pandemic.

### PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

Underlying sector data also presented a mixed picture in July. Agriculture, construction and services firms registered growth of new business, whereas manufacturing and wholesale & retail companies saw a decline. Output trends also followed the same pattern, leading to only a modest expansion overall.

With sales growth slowing, the rate of job creation among Kenyan firms eased to the softest in three months. Firms also largely held off from making new purchases, as input buying rose only slightly and to a far lesser extent compared to June.

Cost pressures accelerated sharply at the start of the third quarter, as businesses found that tax changes led to a marked increase in the price of imported goods. Higher fuel costs and input shortages were also mentioned, with the resulting increase in input prices the quickest since March 2020. Amid efforts to maintain profit margins, output charges were also raised to a greater extent, albeit not as quickly as input costs.

On a positive note, business confidence improved to a five-month high in July, with nearly a third of businesses providing a positive forecast for output over the coming 12 months. Several firms cited plans to open new branches and increase their advertising. That said, the overall degree of optimism remained some way off the survey's long-run average (data collection began in January 2014).

## Comment

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

*"Economic activity increased marginally in July from the previous month. Domestic demand improved by the second slowest pace since the lifting of public health restrictions after the first wave of pandemic, with some firms reporting a drop in customer numbers. Firms in agriculture, construction and services witnessed an increase in demand and output while those in manufacturing and trade saw declines.*

*"To meet this marginal increase in demand, firms also increased their output slightly as evidenced by slight increases in staffing levels and the quantity of purchases. Both input and output price inflation accelerated due to an increase in import taxes, fuel costs and shortages in some raw materials. The 12 month outlook by firms rose to its highest level in 5 months but remains below its long term average."*

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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.

July data were collected 12-28 July 2021.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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](https://ihsmarkit.com/products/pmi.html).

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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](http://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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