

Embargoed until 1030 EAT (0730 UTC) 4 September 2019

Stanbic Bank Kenya PMI™

Output growth subsides in August despite sharp rise in new orders

Key findings

Marginal increase in output

New orders rise at steep pace

Export growth slows to 21-month low

Business conditions in the Kenyan private sector economy continued to improve solidly in August, but growth was limited due to only a slight increase in firms' output. New orders rose steeply, while there was a modest upturn in employment. Weaker input cost inflation helped companies raise selling prices at a reduced pace over the month.

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.

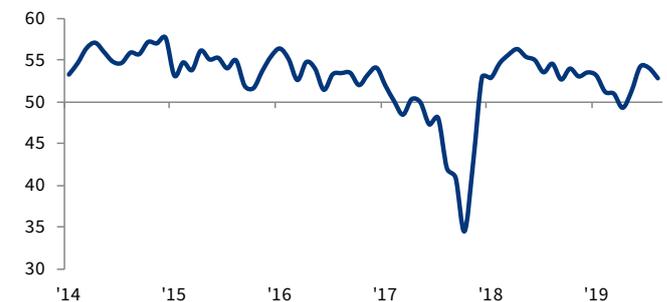
August saw the headline PMI drop to 52.9, from 54.1 in July, to signal a solid improvement in the health of the Kenyan private sector economy. It marked the fourth monthly improvement in a row, but was the softest since May.

Companies reported another sharp rise in new orders over the month. Increasing client numbers and larger purchases were the main reasons cited by panellists as driving up demand. The rate of growth slowed marginally from July, in part due to sales from abroad rising at the weakest rate in the current 21-month sequence of expansion.

More notable was a sharp slowdown in output growth in August. Latest data indicated only a slight rise in activity, which compared with a steep upturn during July. Strong

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

demand reportedly drove up output at many firms. However, others suffered from continuing cash flow issues in the country, which hampered businesses' ability to keep up with new orders and led to increased backlogs for the fourth month running. Output expectations were also weakened but remained strongly positive.

Employment growth was modest during August. Firms that increased their labour attributed this to higher demand. However, others reduced employment after citing plans to limit staff cost pressures.

On the flipside, input buying was up at the sharpest pace in 14 months. Stock levels also grew at a quickened pace, as some businesses raised inventories for new projects. Notably, some firms commented on difficulties acquiring inputs. Whilst deliveries slowed for some of these firms, overall lead times continued to shorten.

The slight easing in new order growth led businesses to raise selling charges at a softer pace in August. That said, it still marked the second-strongest rise in prices in the year-to-date.

Meanwhile, overall input price inflation ticked down to the weakest since April, although it was broadly in line with the series average. Cost pressures reportedly arose from higher taxes on some commodities and a stronger US dollar against the Kenyan shilling. Staff costs increased at the slowest rate in seven months.

Comment

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

"For the first time since May, firms have once again voiced concerns around cash flow issues. To ensure inclusivity in economic growth, urgent reforms ought to be conducted on improving accessibility to credit for companies, in addition to a consistent plan by the government to clear arrears owed to the private sector. Both these factors have restrained private sector activity. In fact, the interest rate capping law continues to strangle the private sector and if the law remains in place in its current form, it will only add to the plight of the private sector."

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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.

August 2019 data were collected 12-28 August 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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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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