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Stanbic Bank Kenya PMI™

Private sector downturn softens in June

Key findings

Output and new orders fall at weaker rates

Job losses continue, but at slowest pace since March

Input costs decrease further as wages cut

Data were collected 12-26 June 2020.

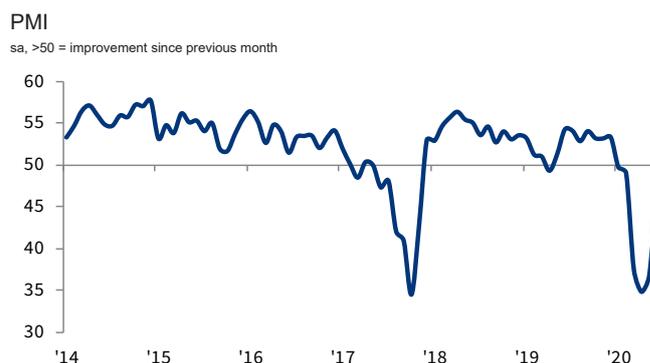
The Kenyan private sector economy registered a further deterioration in business conditions during June, latest PMI data showed, as output and new orders declined again amid the coronavirus disease 2019 (COVID-19) pandemic. However, the rate of downturn eased considerably from May, driven by relaxed curfew measures and a recovery in sales at several businesses.

Employment numbers meanwhile fell at the softest pace in three months, as purchasing activity also dropped at a much weaker rate. Firms saw the first upturn in new export orders since February, as trade with Europe strengthened. At the same time, overall cost pressures fell for a second month running due to further salary cuts.

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.

At 46.6 in June, the headline index recorded a notable improvement from 36.7 in May, to signal a far softer - but still solid - decline in business conditions at Kenyan firms. This continued the run of deterioration that began in January and accelerated due to COVID-19, but marked the weakest contraction in four months.

Both output and new orders fell at considerably slower rates in June, as the reduction in curfew hours helped many businesses to increase operating hours and reopen



Sources: Stanbic Bank, IHS Markit.

premises. Relaxed measures in Europe meanwhile led to a slight improvement in export demand that was the first since February. However, firms still saw a drop in customer demand overall due to a reluctance to travel.

This softening led to weaker declines in employment and input purchases at the end of the second quarter. Job numbers dropped at the softest pace since March, albeit one that was still solid. Meanwhile, higher sales at some businesses improved cash flow and enabled them to purchase more inputs, although demand was still lower than in May.

Lead times across the Kenyan private sector fell in June, as suppliers faced weaker capacity constraints and higher competition for deliveries. At the same time, a number of goods remained in short supply due to the pandemic, leading to higher purchase prices.

Efforts to lower costs led firms to cut wages for the third month running, leading to back-to-back falls in overall input costs for the first time in the series history. Selling charges dropped at a solid pace, albeit one that was weaker than in May.

Finally, the outlook for business activity worsened again in June, dropping to the weakest since August 2016. Overall confidence was linked to rising exports and plans to diversify products and expand company premises.

Comment

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

"Private sector activity fell at a slower rate in June, albeit from a marked level in April. A resumption in cargo flights in addition to the gradual re-opening of economies around the world, is underpinning external demand. However, the damage done by Covid-19 could last for the better part of the next 6 months, notwithstanding what official growth statistics may indicate. The impact from the loss of jobs and subsequent decline in consumption will probably be felt for a while."

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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.

June data were collected 12-26 June 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.

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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.

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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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