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Stanbic Bank Kenya PMI™

Business conditions improve solidly in October

Key findings

New business increases at steep pace

Activity levels rise marginally

Expectations for future output fall to ten-month low

Kenyan private sector companies saw a solid improvement in business conditions in October, as new orders rose at a sharp rate, albeit slightly softer than in September. However, cash circulation issues continued to restrain business activity, leading to further backlog accumulation. Input price inflation slowed to a two-year low, allowing firms to reduce their selling charges for the first time since April. Output expectations weakened to a ten-month low amid reduced optimism for the future.

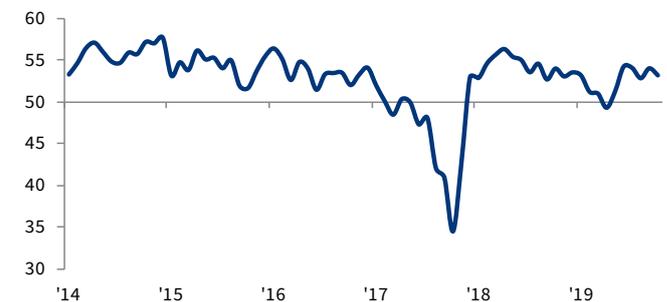
The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

The headline PMI dropped from 54.1 in September to 53.2 in October, nonetheless signalling a solid improvement in the health of the private sector economy. The reading was slightly above the average seen across the series (which began in January 2014).

New business received by Kenyan firms was up sharply during October, despite a slower rate of growth compared to September. Surveyed businesses were encouraged by a strong inflow of new clients, often related to referrals from previous customers. It was also noted that efforts to improve marketing strategies and service quality helped to increase demand. Sales to foreign clients meanwhile rose at a sharp, and faster, pace.

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

Despite this, output levels expanded only marginally, with panellists continuing to mention that cash flow issues had stopped them from meeting demand. As such, backlogs of work increased further, marking the sixth successive month of greater capacity pressures.

In order to ease this pressure, firms raised employment at a solid rate in October. Stocks of purchases also increased, although the rise was the weakest since April amid an easing in new order growth. With competition among suppliers remaining strong, lead times were again reduced solidly.

Firms meanwhile benefited from a fall in fuel prices, which brought the rate of purchase price inflation down to a 40-month low. However, higher commodity prices due to a lack of supply, as well as faster salary inflation, meant that overall costs rose at a moderate pace.

At the same time, selling prices were reduced for only the second time in nearly two years. This was due to a number of businesses offering discounts to customers. That said, charges were lowered only marginally.

Looking ahead, expectations for future activity fell notably in October, posting the weakest optimism in the year so far. Nevertheless, a majority of panellists still expect output to rise over the coming 12 months, amid hopes of continued sales growth.

Comment

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

"Private sector activity was softer in October as firms again lament what they term as 'cashflow' issues. We have in the recent past linked this to the combination of delayed payments of arrears owed to the private sector which was also compounded by the interest rate capping law. The imminent repeal of the interest rate cap is indeed a positive move and will embolden commercial banks to price credit risk again and more importantly for SMEs. That being said, other issues that have restrained aggregate demand continue to persist and ought to be addressed as well in order to bring down banking sector NPL levels and further supplement the improvement of private sector cashflows."

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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.

October 2019 data were collected 11-29 October 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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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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