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Stanbic Bank Kenya PMI™

Private sector activity descends further amid COVID-19

Key findings

Output contracts at record pace in April

New orders and exports also see historic downturns

Sharp drops in employment and wages

Data were collected 7-28 April 2020.

Kenyan businesses again saw activity decline sharply in April amid the coronavirus disease 2019 (COVID-19) pandemic. Output fell at a record pace as firms were hampered by falling demand, input shortages and lockdown restrictions. Workforces were cut, with businesses also lowering wages in an effort to keep costs subdued as revenues deteriorated.

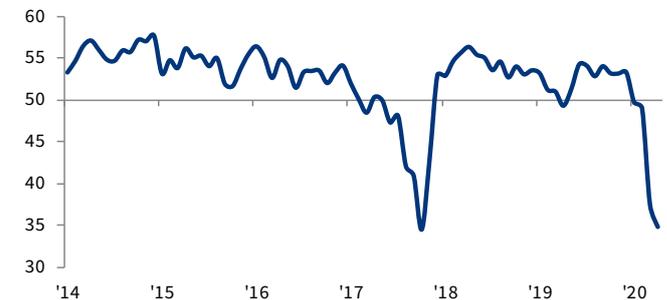
The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

At 34.8 in April, down from 37.5 in March, the headline index fell for the fourth successive month and signalled a severe decline in overall business conditions. In addition, several key sub-indices of the survey, such as output, new orders, exports and employment, all reached record lows. The headline figure was boosted by the suppliers' delivery times index, which also fell to a historic low but is inverted in the PMI calculation as longer deliveries normally infer a busier economy.

The contraction in output was sharp, linked by Kenyan firms to a steep drop in demand as customers were concerned about the spread of COVID-19. Sales to foreign clients were also substantially down, particularly with regard to European countries where lockdown measures were widespread.

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

Meanwhile, companies reported difficulties in obtaining inputs during April, mostly due to weaker supply of items and constraints on vendors amid curfew policies in Nairobi. Delivery times lengthened at a record pace, while stock levels were curtailed sharply as firms noted that the duration of the pandemic remained unknown.

This uncertainty led to a rapid weakening in business expectations for the next 12 months, with sentiment falling to the second-lowest in over three years. As a result, firms shed jobs at the fastest pace in the survey history, with wages also reduced amid efforts to lower total costs. Despite falling output and employment, backlogs eased for the second month running as inflows of new work decreased.

Weaker input demand meanwhile led to a softer uptick in raw material prices, although this was partly offset by shortages of goods such as foodstuffs and medicine. Nevertheless, the overall easing of input price inflation encouraged firms to reduce selling prices, amid hopes that this would improve customer spending.

Finally, despite lower expectations, Kenyan firms were still positive that the economy would grow over the coming year. Panellists widely cited that they would open new branches and increase spending on products, services and marketing once lockdown measures were lifted.

Comment

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

"Covid-19 associated headwinds continued to weigh down private sector economic activity in April. Most key sub-indices of the survey such as employment, exports, output and new orders have now fallen to historic lows. According to most firms, the weakness in private sector activity is emanating from subdued domestic and external demand conditions, in addition to the curfew restrictions in place. Its safe to say that, at least with anecdotal evidence available so far, the epicentre of the Covid-19 impact on economic activity will be in the second quarter of this year. However, as we have said before, the longer the impact of this shock, the more acute the impact on economic output will be. Thus, estimates on future economic growth are likely to be very dynamic."

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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.

April data were collected 7-28 April 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.

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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