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Stanbic Bank Kenya PMI™

New order growth weakens to six-month low

Key findings

Softest rise in new business since May

Output increases solidly

Input price inflation falls to 27-month low

Kenyan businesses registered a solid improvement in the health of the private sector in November. A steep increase in new work allowed firms to raise output at a faster pace. That said, the rate of demand growth was the softest since May. Employment levels continued to rise, with businesses also growing stock levels, albeit at the slowest rate in nine months. Output prices fell marginally, while cost inflationary pressures weakened to a 27-month low.

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 was unchanged at 53.2 in November, indicating a solid rate of growth in the Kenyan private sector that was slightly stronger than the average seen throughout the series (which began in January 2014).

Output levels improved at the quickest rate in four months, following only a slight increase during October. While cash flow issues have hindered business activity recently, fewer firms commented on this as reducing output in November. At the same time, increasing sales and good weather conditions helped to strengthen the uplift.

Conversely, new orders received by Kenyan firms grew at the slowest pace in six months. The increase was still



Sources: Stanbic Bank, IHS Markit.

sharp overall, with many companies finding that marketing and word-of-mouth continued to bring additional clients. Firms also highlighted a steep increase in new export orders, the fastest in 20 months, due to greater demand from European customers.

A rise in output requirements encouraged firms to increase workforce numbers for the seventh consecutive month in November. The rate of expansion was solid and broadly similar to October.

In addition, input holdings were increased through a sharp rise in purchasing activity. Nevertheless, the overall expansion in stocks was the weakest since February.

Despite higher demand, firms sought to lower selling prices for the second month in a row during November. That said, in line with October, the rate at which charges fell was marginal. According to panellists, the reduction was largely to attract new customers and increase market share.

At the same time, input costs rose at the softest pace since August 2017, as companies reported only a modest increase in purchase prices and a slight uptick in staffing costs. Higher purchase costs were mainly attributed to higher import costs and taxes.

Lastly, the outlook for activity in 12 months' time weakened markedly during November, as fewer panellists gave a positive forecast than those predicting no change. Overall, sentiment dropped to a 33-month low.

Comment

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

"The future output sub-index still indicates that firms are cautious on activity over the coming year. However, in comparison to most surveys since the beginning of this year, less panellists complained about cashflow issues this month. Of course, needless to say, the government should continue to clear pending arrears owed to the private sector in order to alleviate these cashflow constraints. Furthermore, as commercial banks begin to extend credit following the repeal of the interest rate capping law, the private sector will indeed be in a much better position than it currently is or has been for the past 2 and a half years. To recall, one also must acknowledge that the rise in arrears owed to the private sector has somewhat also contributed to sticky NPLs in the banking 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.

November data were collected 12-27 November 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.

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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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