New order growth improves to 13-month high in September

Key findings

Demand increases sharply from August
Output rises, but only modestly
Cost inflation slows to near two-year low

A sharper upturn in new business at Kenyan companies fuelled a stronger improvement in operating conditions during September. Sales growth accelerated to a 13-month high, leading firms to expand their output at a quicker, albeit modest pace. Workforce numbers also increased, as firms remained highly optimistic for future activity. At the same time, cost pressures weakened to a near two-year low, while output price inflation also eased.

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 reading rose from 52.9 in August to 54.1 in September, level with July’s figure and signalling a solid improvement in the health of the Kenyan private sector. This extended the current sequence of growth to five months.

Contributing to the uptick was an even sharper increase in new business in September. The rate of expansion climbed to the strongest for 13 months, with several firms reporting higher client numbers since August. Export demand also rose at a quicker pace, albeit still the second-slowest in nearly two years. Panellists noted greater trade with customers in Tanzania, Burundi and Congo, as well as markets such as the US and Europe.

Nonetheless, output at Kenyan firms rose only modestly during September, as many companies continued to struggle with cash flow problems. This led to an increase in outstanding business, as well as a further build-up of input stocks. Nevertheless, firms were able to raise purchasing activity at a swift pace.

Meanwhile, job numbers grew solidly over the course of the month, with latest data signalling the joint-quickest rise in employment since December 2016. Whilst current output growth was weak, panellists reportedly built up their workforces for future activity. Sentiment towards the 12-month outlook remained markedly high, despite being the least optimistic since May.

Price pressures faced by Kenyan firms eased in September. The rate of overall input cost inflation slowed to a near two-year low, as purchase costs increased only modestly from the previous month. Firms that saw input prices rise related this to higher taxation and fuel costs, as well as a marginal mark-up of salaries. However, a greater supply of agricultural goods meant that many commodities dropped in price.

As such, output charges increased only moderately, with the pace of inflation falling to a four-month low. Some panellists noted that a deterioration in the shilling exchange rate led them to raise prices of export goods from August.
Comment

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

"Private sector activity is showing signs of momentum, although panelists continue to highlight cash flow issues that they face. In addition to the current stock of arrears owed to the private sector, the interest rate capping law could also hold back firms from flourishing on a multi-month basis."

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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. September 2019 data were collected 12-26 September 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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