News Release

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Stanbic Bank Kenya PMI™

Kenyan new orders fall for first time in over two years

Key findings

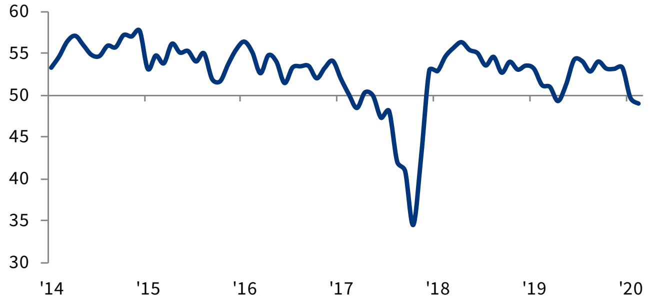
Weak money supply curtails demand

Output falls for second month in a row

Cost inflationary pressures reach six-month high

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

Kenya's private sector economy suffered another difficult month midway through the first quarter of 2020, with February PMI data signalling a second successive drop in business activity and the first fall in new orders for over two years.

Households continued to struggle with weak cash flow, causing a notable decline in demand for goods and services. Nevertheless, output prices were raised solidly as firms faced greater cost pressures from inflated raw material prices.

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 49.0 in February, the headline reading pointed to a second successive month of decline in the Kenyan private sector. The index dropped from 49.7 in January, and was the lowest recorded in over two years.

Contributing to the decline was a softening in new business at Kenyan firms, marking the first monthly fall since November 2017. Firms reportedly lost sales due to a lack of money held by domestic customers, amid ongoing cash flow issues in the economy. Foreign sales meanwhile rose at a much softer pace, which panellists sometimes linked to weaker exchange rates.

Firms subsequently reduced activity further during February, as latest data showed a solid drop in output that was only slightly less marked than in January. As well as impacting sales, businesses highlighted that weaker cash flow often stalled operations.

Consequently, input spending rose modestly, although stocks continued to grow as firms remained hopeful of a rebound in activity in the near future. In fact, confidence in the year-ahead outlook neared the highest on record.

This optimism, as well as efforts to lower backlogs, led to a quicker increase in employment at Kenyan companies in February. The rate of growth was the strongest since last November, albeit broadly similar to the series trend.

Cost pressures meanwhile accelerated to a six-month high, with companies reporting that prices of fuel and foodstuff rose in the latest survey period. Firms noted that shortages of raw materials also inflated total costs, linked to reduced imports from China due to the coronavirus outbreak. Supply chain pressures were not evident, however, with vendor lead times improving for the second month in a row.

Despite weaker demand, Kenyan firms raised output prices in February, in a bid to maintain profit margins as cost pressures increased. Moreover, the rate of charge inflation was solid and the fastest recorded since July 2019.

Comment

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

"Firms faced a shortage of raw materials owing to reduced imports from China due to the coronavirus outbreak over the past month. This has increased output prices as alternative import markets aren't as cheap as China. Unfortunately, at this point in time, it's difficult to assert whether we are at the beginning, middle or end with the coronavirus due to scant and inadequate data points. A scenario where the virus is contained in the next couple of months is probably the best case. However, in the event that there is an escalation into new geographies with the disruption potentially extending into the third quarter of 2020, the likelihood of a global recession then increases. Global supply chains will inevitably be impacted by this which will be detrimental not just for local prices but also for trade in general."

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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.

February data were collected 12-26 February 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.

About Stanbic Bank

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. It's 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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