News Release

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Stanbic Bank Kenya PMI™

Business activity falls amid weak demand growth

Key findings

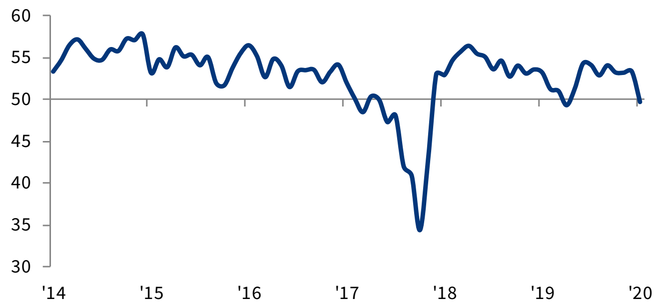
Output contracts at sharpest pace in over two years

New orders and employment growth slow

Selling charges rise at quickest rate in five months

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

Kenyan private sector business activity declined solidly at the start of the year, latest PMI data showed, amid the softest uplift in new orders since last April. Consequently, purchasing activity and employment growth slowed. Meanwhile, rising input costs led to a quicker increase in output 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.

January saw the headline PMI fall below the 50.0 threshold for the first time since last April, posting 49.7 to signal a slight decline in business conditions in the Kenyan private sector economy. This compared with a reading of 53.3 in December. The index was mainly brought lower by the output and new orders sub-indices, which both fell to the greatest extents since October 2017.

Overall activity levels contracted solidly at the start of the year, as firms reported that a lack of money at households led to much softer demand pressure. Poor weather conditions also curbed output at many businesses. Moreover, the rate of decline was the quickest in over two years.

While new orders increased in January, latest data indicated a much softer rate of growth than in December. Panellists widely linked this to weaker customer demand as a result of poor cash flow in the economy. The slowdown was chiefly domestic, as firms selling to international markets saw one of the sharpest increases in new export orders on record.

With activity falling, there was a further build-up of outstanding work during January. Firms responded with another round of job creation, albeit one that was the weakest since last May.

Input buying was also restrained at the start of the year, as softer demand growth led to a much weaker increase in purchases. Despite this, stock levels continued to grow sharply.

After some disruption from heavy rains in December, businesses saw a renewed improvement in delivery times in January. Firms noted that suppliers worked quickly to restore supply chains.

Meanwhile, selling prices were raised for the second consecutive month, linked to another solid rise in total input costs. Inflationary pressures mainly arose from higher prices for commodities, fuel and flowers. Concurrently, staff costs fell due to a lack of overtime pay.

Though activity fell in January, business confidence for future output soared to a near-record level. Firms commented that new products and projections of rising demand should lead to a return to growth.

Comment

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

"Despite the slow start to the year from the private sector, there are reasons to be optimistic for the year ahead. The weakness in private sector activity in January seems largely due to the heavy rainfall from the end of 2019 which has constrained domestic demand. However, business confidence for future output soared, which doesn't come as a surprise given some of the recent reforms such as the repeal of the interest rate capping law and ongoing clearance of private sector arrears which should underpin activity going forward. We also expect the agricultural sector to perform much better this year."

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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.

January data were collected 13-29 January 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. To learn more go to 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.