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Stanbic Bank Kenya PMI™

Strongest rise in new business since February

Key findings

Output expands for second month running

Employment growth up to highest since March

Input cost inflation softens to one-year low

Kenya's private sector ended 2022 on a high, according to the latest PMI data, as new business rose at the sharpest rate since February, leading to accelerated increases in output and employment. The boost to growth was helped by a softening of inflationary pressures, as firms saw costs increase to the smallest extent in a year. Businesses were nonetheless subdued about the year-ahead outlook amid continued worries about global economic conditions.

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 picked up to a three-month of 51.6 in December, rising from 50.9 in November and posting above the 50.0 neutral mark for the fourth month running. The index signalled a modest improvement in operating conditions, one that was broadly aligned with the average seen since the survey began in 2014.

Kenyan businesses pointed to a further rise in activity at the end of the year, signalling the first back-to-back expansions in 2022. The modest rate of growth was slightly faster than in November, linked by survey panellists to a range of factors including higher demand, favourable weather conditions and softer price pressures.

Likewise, new order inflows increased amid reports of improving demand conditions. Moreover, the rate of sales growth quickened to a ten-month high and was solid overall. Sectoral performances varied, with uplifts in agriculture, manufacturing and wholesale & retail contrasting with falls in construction and services. Export growth disappointed, dropping to a nine-month low.

Kenyan businesses made further additions to their staffing numbers in December, with the slight rate of job creation the fastest seen since March. Rising staff capacity allowed firms to deplete outstanding work for the second month in a row.

Companies also raised their purchasing activity at the end of

Stanbic Bank Kenya PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global.

Data were collected 6-21 December 2022.

Comment

Mulalo Madula, Economist at Standard Bank commented:

“December PMI paints a positive picture for the Kenyan economy, in line with the series average. It comes as no surprise to see activity expand, perhaps due to favourable weather conditions and softer price pressures before a challenging 2023. But the expansion was not broad based, with agriculture, manufacturing and wholesale and retail trade in expansionary territory. In contrast, the construction and service sectors experienced a decrease in output.

“Going forward, businesses report only modest positivity, with 89% of respondents anticipating no change in business activity over the next 12 months. As a result, inventory gains were moderate and concentrated in the agricultural sector, with declines recorded elsewhere. This outlook partly reflects the nature of the current global environment, in which a slowdown in exports is likely to slow business activity.

“On the positive side, inflationary pressures appear to be easing, with input costs and output prices rising at a slower pace. Moderate inflation is likely to be one of the few positive factors in the second half of 2023, with fewer supply chain disruptions, favourable weather conditions and lower energy prices. However, idiosyncratic factors, including taxes, are likely to dislocate inflation in the first half of the year.”

PMI™

by **S&P Global**

the year, with the solid upturn leading to a further (albeit slight) expansion of input stocks. Vendor performance improved for the fourth month running, although greater demand pressures on suppliers meant that lead times shortened only mildly.

Positive news was also found on the prices side in December, as Kenyan firms saw input costs rise at the slowest rate for 12 months. Despite further reports of currency weakness and higher VAT, some firms noted that improving supply conditions, lower wage costs and stabilising energy prices helped to soften inflation. Subsequently, companies raised their output prices to the smallest extent since August.

Despite improving business conditions, output expectations weakened again in December and were among the lowest on record. Only 11% of firms expect output to rise in 2023, with confidence remaining subdued amid concerns about the global economy.

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Survey methodology

The Stanbic Bank Kenya PMI™ is compiled by S&P Global 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. Data were first collected January 2014.

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.

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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