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Stanbic Bank Kenya PMI™

Business conditions decline at softer pace in March

Key findings

Output and new orders fall for second month running...

...but rates of decline soften from February, and jobs increase

Input cost inflation remains severe as exchange rate weakens

The Kenyan private sector economy continued to run in contraction territory in March, latest survey data showed, as business activity and new orders decreased for the second month running amid rising prices and cash flow problems. However, rate of declines lessened somewhat from the initial downturn in February, while businesses signalled renewed uplifts in employment and purchasing.

Nevertheless, inflationary pressures underlying the deterioration in economic conditions remained exceedingly sharp, with around 30% of businesses reporting an uptick in purchase prices linked to problems accessing US dollars and a worsening of exchange rates. The latest increase in costs sent output price inflation to a five-month high, while related mentions of imported goods shortages led firms to seek safety stockpiles.

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 49.2 in March, the headline index signalled a slight deterioration in business conditions at the end of the first quarter of the year, and the second monthly contraction in a row. However, the rate of deterioration lessened notably from February, when the index dropped to a six-month low of 46.6.

The softer decline in business conditions reflected weaker falls in both output and new orders during March. While many respondents continued to see demand fall due to high prices and a lack of money in circulation, others saw a recovery in customer orders, particularly from abroad.

Sector data signalled that the latest contractions in output and sales were centred on wholesale & retail companies. By contrast, manufacturing, agriculture, construction and services recorded expansions in both metrics.

At the same time, the latest data signalled renewed rises in employment and purchasing in March, although growth in

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sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global.

Data were collected 10-29 March 2023.

Comment

Mulalo Madula, Economist at Standard Bank commented:

"Although the pace of deterioration has slowed, Kenya saw business conditions continue to decline in March, as the PMI remains just below 50. Both output and new orders fell in March, particularly in wholesale and retail trade, due to lower demand, especially as price pressures have accelerated.

"Employment and purchases also increased slightly, while backlogs of work rose, prompted by agriculture, as some panellists noted that unfavourable weather conditions had reduced output. The World Meteorological Organization suggested that the La Niña weather pattern, that normally adversely affects East Africa, is slowly waning, with forecasts predicting a 90% chance of transitioning to ENSO-neutral and the possibility of El Niño gradually developing, reaching a significantly higher probability of around 55% in June-August which may keep growth in the large agriculture sub-sector volatile. Overall, confidence plunged to its lowest level in three months, but businesses remained optimistic about Kenya's business environment, especially in the manufacturing sector."

PMI™

by **S&P Global**

both cases was only mild. The rise in purchasing reflected some efforts to build inventories of inputs, as firms reported that difficulties accessing US dollars had led to a shortage of commodities and longer delivery times.

Weakness in the Kenyan shilling against the US dollar meanwhile drove another marked increase in purchasing costs. Around 30% of firms saw purchase prices rise since February, with increased taxes and fuel prices also cited. Overall cost inflation remained among the highest seen since the survey began in January 2014, leading firms to raise their output prices at the quickest rate in five months.

Finally, while the outlook for future business activity dropped to a three-month low in March, it remained strong and above the level seen throughout much of 2022. Firms often commented on plans to open new branches and increase capacity over the coming year, amid hopes that demand will begin to recover.

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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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