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Stanbic Bank Kenya PMI®

New orders nearly stabilise in January as inflationary pressures continue to fade

Key findings

Output and new orders fall slightly

Cost and charge inflation soften for third month in a row

First increase in employment since last August

Kenya's private sector economy moved closer to growth territory in January, according to the latest PMI® survey data. Business activity and new order volumes dropped only fractionally, while firms expanded their workforce numbers for the first time in five months.

The near stabilisation followed a continued slowdown in inflationary pressures, with both input cost and output price inflation at or near to their long-term averages – a notable turnaround from record highs last October. Nevertheless, sentiment regarding future output ticked down to an eight-month low, with just a tenth of businesses showing optimism for the year ahead.

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 rose to a five-month high of 49.8 in January, up from 48.8 in December, and was almost level with the 50.0 mark which signals a stabilisation. This was mainly due to slower contractions in activity and new orders, as well as a renewed uplift in staffing.

Business activity at Kenyan firms fell for the fifth month running in January, albeit at the slowest pace in this sequence and only slightly. The almost-stable trend was linked to a similar picture for new order volumes, which decreased at only a fractional pace. Weak client demand and cash flow problems continued to hit sales at many companies, whereas others noted improvements in order books and foreign sales.

The softer fall in new orders was closely linked to a softening of inflation at the start of the year. The latest survey data signalled that input prices rose at the slowest pace since December 2022, with inflation having cooled markedly from a record high last October and posting in line with the series average. Anecdotal evidence showed that a waning of fuel price pressures was a key factor, although firms continued to widely cite increases in

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sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global PMI.
Data were collected 11-29 January 2024.

Comment

Christopher Legilisho, Economist at Standard Bank commented:

"The Kenya Purchasing Managers Index (PMI) rose in January as business conditions for the private sector stepped closer to stability. Agriculture, construction and service sector companies reported increased activity. However, there were further declines in manufacturing and the wholesale and retail sectors, with firms remaining under pressure from insufficient cash flow. Still, jobs increased in January as demand conditions stabilized. New export orders grew for an eleventh straight month as demand from the UK and Germany picked up, presumably due to Kenya's weaker exchange rate.

"Furthermore, Kenyan businesses reported stable inventories, with slower price increases in January. Evidently, price pressures have eased; input price inflation is now at its lowest level in over a year. However, surveyed firms still face pressure from both high import costs and taxation. Moreover, survey results indicate that business confidence for the year ahead is still subdued."

PMI®

by **S&P Global**

import prices and tax burdens.

Subsequently, average prices charged by Kenyan companies rose to the softest degree in nearly a year-and-a-half. Where prices increased, firms noted a combination of higher costs and a stabilising demand environment.

Elsewhere, the latest survey data signalled a rise in employment numbers in January, the first monthly upturn since last August. The rate of job creation was only marginal, however, with comments mainly linking the rise to the addition of temporary employees. Backlogs of work also increased, but only fractionally.

Purchasing activity dropped for the fifth month in a row and at a faster pace than in December. Subsequently, inventories of inputs were largely unchanged after three successive months of growth. Lower buying meant that suppliers were able to deliver items more quickly, although the rate of improvement was only modest.

Future output expectations were subdued in January, ticking down to their lowest since May 2023. Notably, just 10% of businesses predicted a rise in output over the next year, citing efforts to increase projects, add services, boost marketing and open branches.

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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@spglobal.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. www.spglobal.com/marketintelligence/en/mi/products/pmi

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