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Stanbic Bank Kenya PMI™

PMI reaches 11-month high in January

Key findings

New business growth remains solid

Cost pressures quicken amid tax rises

Output expectations climb to highest since mid-2021

The Kenyan private sector recorded a further expansion at the beginning of the year, according to latest survey data, as rising demand levels continued to boost output and employment numbers. Most notably, the rate of growth in operating conditions picked up to the fastest since February 2022, leading to a strengthening of business confidence and increased stockpiling efforts.

More negatively, the latest data also pointed to a re-acceleration of inflationary pressures, as higher tax burdens and a further depreciation of the Kenyan shilling pushed purchase prices up sharply. Output charges rose at a faster rate accordingly, although inflation of both costs and charges remained well below the highs recorded in 2022.

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 index crept higher for the third consecutive month to 52.0 in January, from 51.6 in December, to signal a moderate improvement in the health of the private sector. The reading was the highest recorded in 11 months.

Central to the upturn was another solid increase in new business volumes, which rose at the quickest pace in just under a year. Firms that registered growth often linked this to greater marketing efforts. On the other hand, many businesses continued to struggle due to a lack of cash and weak household spending. For the second month running, construction was the only monitored sector to see a decline in sales, contrasting with rises in agriculture, manufacturing, services and wholesale & retail.

Kenyan firms subsequently increased their output levels in January, with the rate of expansion picking up to a four-month high. Employment also rose, though only marginally as some firms struggled to keep staff due to a lack of money. Limited hiring led to a rise in outstanding business for the first time since last October.

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sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global.

Data were collected 12-27 January 2023.

Comment

Mulalo Madula, Economist at Standard Bank commented:

“Kenya's private sector activity held up well into January, with new business rising for the fifth consecutive month, spurring higher output and, consequently, employment growth. Notably, the influx of new business was the strongest in eleven months, reflecting improved marketing efforts. Interestingly, domestic demand supported growth along with modest recovery in exports after exports plunged to a nine-month low in December. However, exports are likely to be boosted by floriculture exports, which typically increase in February to accommodate for the high demand for flowers during Valentine's Day. Moreover, in 2023, the sector will likely get another boost from a potentially stronger EUR.”

“However, persistently high inflation has raised concerns that price pressures will remain elevated and weigh on economic activity and consumption for some time to come. Wholesalers and retailers, on the other hand, were particularly optimistic about the year ahead, as January data showed a significant increase in business expectations for the next twelve months.”

PMI™

by **S&P Global**

Stronger demand growth provided a boost to business confidence in January. Optimism towards the 12-month outlook climbed to the highest level in a year-and-a-half, with firms often expecting to expand their operations amid higher sales. Efforts to build inventories in anticipation of higher new orders intensified, leading to a further increase in purchasing and a solid rise in stock levels.

High competition among vendors continued to drive a reduction in lead times, although some firms reported delays at ports, meaning the overall improvement was only modest.

Lastly, Kenyan firms saw a re-acceleration of cost pressures in January, notably due to a faster rise in purchasing costs. A further depreciation in the shilling against the US dollar and increased taxes were often cited by panellists. Overall input costs rose to the greatest degree in three months, leading to a sharp and faster rise in selling charges.

Contact

Mulalo Madula
 Economist
 Standard Bank
 Tel: +27 (0)11 415 4552
Mulalo.Madula@standardbank.co.za

Catherine Ngina Njoroge
 Marketing and Communications
 Stanbic Bank
 Tel: +254 722 664 992
NjorogeC@stanbic.com

David Owen
 Senior Economist
 S&P Global Market Intelligence
 T: +44 1491 461 002
david.owen@spglobal.com

Sabrina Mayeen
 Corporate Communications
 S&P Global Market Intelligence
 T: +44 7967 447 030
sabrina.mayeen@spglobal.com

If you prefer not to receive news releases from S&P Global, please email katherine.smith@spglobal.com. To read our privacy policy, click [here](#).

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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