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Stanbic Bank Kenya PMI™

Business downturn deepens in July

Key findings

New orders fall sharply amid protests and weak customer demand

Output contraction the sharpest in almost a year

Input costs rise at third-fastest rate in series history

Kenyan businesses suffered a marked fall in demand at the start of the third quarter of the year, latest PMI data showed, as customers continued to rein in spending amid steep inflation. Political protests accelerated the downturn, according to surveyed firms, leading to a sharp contraction in output that was the fastest since August last year.

Meanwhile, a deterioration in the exchange rate and reports of rising fuel prices and taxes culminated in another substantial rise in business costs in July, with the rate of input price inflation among the quickest since the survey began in 2014. Output prices subsequently increased to a sharper degree. Business optimism waned slightly, while jobs growth eased.

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 latest reading indicated a greater slump in operating conditions over July, with the pace of deterioration accelerating to the fastest in almost a year. At 45.5, the index was down from 47.8 in June, registering below the 50.0 neutral mark for the sixth month in a row.

Deteriorating operating conditions were driven by a sharp and accelerated fall in new business inflows, as Kenyan firms highlighted a drop in client demand due to the cost-of-living crisis. Alongside this, several firms noted that political demonstrations had adversely affected sales.

Four of the five monitored sectors recorded a decline in sales in July. Agriculture was the only category to post inside growth territory.

With overall sales falling rapidly, Kenyan businesses indicated a sharp drop in output over the course of July, which was the second-worst since 2017 when excluding lockdown-affected periods. Firms often noted that weak orders resulted in cash flow issues that limited activity.

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sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global PMI.
Data were collected 12-27 July 2023.

Comment

Christopher Legilisho, Economist at Standard Bank commented:

“July’s PMI headline trajectory comes as no surprise given events during the past month. Political protests, an increase in pump prices by approximately KES12.61 in July, the further tightening of financial conditions as well as a further depreciation of the shilling — all of which saw the private sector deteriorating for a sixth straight month. Notably, the survey results show that the July contraction in output was the deepest since August 2022.

“Inflation seems set to stay stickily high due to Kenyan businesses facing intractable input, output and wage price pressures. The survey noted input price inflation in July as being higher than in June, and also the third-highest since data collection began in 2014.

“Nevertheless, some positive indications spell economic resilience in the medium term. The agricultural sector rebounding has been supporting economic activity despite the construction, wholesale & retail and services sectors slowing. Export orders remain in expansionary territory, buoyed by the weaker shilling. However, new export order growth slowed considerably. Though employment in the private sector is still robust, momentum there too has cooled.”

Price pressures at Kenyan companies remained severe in July, amid reports of a sharp rise in input costs due to a decline in the shilling exchange rate. Higher fuel prices and increased tax burdens were also cited, while some firms reportedly upped their workers' salaries amid the cost-of-living crisis. Notably, the rise in overall input costs was one of the sharpest seen since data collection began in 2014, resulting in a robust and faster uplift in selling charges.

Heightened costs and weak demand contributed to a cooling of employment growth in July, with firms posting only a slight rise in workforce numbers. Concurrently, businesses cut their input purchases sharply, and ended a four-month run of inventory growth as stock levels were unchanged. Lead times on inputs continued to shorten, but the rate of improvement slowed from June and was only mild.

Regarding future output, only 14% of surveyed Kenyan firms forecast growth over the next 12 months, leading to a slight weakening in the overall level of confidence.

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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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