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Stanbic Bank Kenya PMI®

Inflationary pressures soften markedly in December

Key findings

Input prices and output charges rise at much softer rates

New orders decrease only slightly

Declines in output and employment ease

The latest Kenya PMI® findings signalled a strong move towards stability in private sector business conditions in December, helped by a considerable cooling of inflationary pressures. Rises in input costs and output prices were the softest since April, having slowed markedly from record highs in October. Subsequently, many companies saw a recovery in new work amid improved client spending, offsetting the impact of cost-of-living pressures. As such, new orders, output and employment all declined to lesser degrees.

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 moved three points higher in December, up to 48.8 from 45.8 in November, to signal a modest and softer decline in operating conditions across Kenya. Private sector conditions have now deteriorated for four months running, although the latest decline was the weakest in this sequence.

Output levels at Kenyan companies fell to a lesser extent at the end of the year, as firms highlighted a partial rebound in demand conditions. Similarly, new order inflows dropped at the softest pace in four months and only slightly. According to anecdotal evidence, customer turnout and purchasing power improved amid a softening in inflationary pressures, especially across the services sector. Firms were also supported by the sharpest increase in new export business in exactly two years.

On the flip side, contractions in output and new orders remained sharp in the manufacturing and construction sectors, as firms continued to signal cost-of-living pressures and weak demand conditions.

December survey data also highlighted a marked slowdown in input cost inflation across the private sector. After reaching a survey-record peak in October, the rate of inflation slowed for the second month running and by the greatest degree ever noted. While firms indicated that currency weakness and tax

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sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global PMI.
Data were collected 6-20 December 2023.

Comment

Christopher Legilisho, Economist at Standard Bank commented:

"The Purchasing Managers Index (PMI) improved in December, despite still difficult business conditions for the private sector. Service sector companies reported an uplift in activity while declines persisted particularly in manufacturing and construction sectors, as firms continued to signal cost-of-living pressures and weak demand conditions. That said, inflationary pressures are noted to have eased, amid better cash flow prospects for clients. The rate of job declines also softened compared to previous months with the agricultural sector seeing an increase in hiring."

"Furthermore, Kenyan businesses reported elevated inventories, with a slowdown in price increases in December. Firms indicated that input costs and purchase cost pressures were primarily due to higher taxes among other factors. There was notable reprieve from fuel and transport costs that moderated during the month. Still, business expectations for the year ahead remain quite weak based on the survey results from respondents."

PMI®

by **S&P Global**

burdens continued to lift overall input costs, the settling of fuel prices somewhat alleviated the rise.

In a similar fashion, average output charges rose to a much softer degree in December, albeit remaining sharp and faster than the long-run average. Sector data showed a cooling of inflationary pressures in all segments except agriculture, with manufacturers even reducing factory gate prices.

With cost pressures easing and the downturn in sales softening, purchasing activity at Kenyan firms was broadly stable in December, helping businesses to raise their inventories and deplete backlogs of work. Lead times on purchased items shortened for the third month running.

The drop in employment levels was also tempered at the end of the year, with the latest data indicating the softest fall since September. Agriculture was the only sector to see a rise in staffing.

Nonetheless, Kenyan businesses were less optimistic about future activity in December, with the degree of confidence slipping to a seven-month low. Expectations were also among the lowest seen on record, with just 11% of panellists predicting growth over 2024.

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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Stanbic Bank Kenya is a member of the Standard Bank Group, Africa's largest bank by assets. With a solid foundation in Kenya and history spanning over 110 years, Stanbic is one of the top banks operating in Kenya focused on fostering her socio-economic growth wide with a branch network across the country providing services to individuals, businesses and Commercial clients. Standard Bank Group which is the largest financial institution in Africa by Market capitalization, has on- the-ground representation in 20 African countries - making them one of the largest banking networks on the continent. Standard Bank Group's largest shareholder is Industrial and Commercial Bank of China (ICBC), the world's largest bank, with a 20.1% shareholding. Standard Bank Group has direct, on-the-ground representation in 20 African countries.

At Stanbic Bank, we are proudly Kenyan with a clear purpose which is Kenya is our Home, we drive her Growth. This informs everything we do as an organization as we are committed to the growth and development of Kenya, its people and industries. It is with this drive that Stanbic Bank Kenya continues to move forward with its purposeful strategy to drive Kenya's growth by actively seeking opportunities to partner with both Government and private Sector to unlock their potential and contribution to the economy.

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Its Corporate and Investment Banking division serves a wide range of requirements for banking, finance, trading, investment, risk management and advisory services. Corporate and Investment Banking delivers this comprehensive range of products and services relating to investment banking; global markets; and global transactional products and services. Stanbic Bank's Corporate and Investment Banking expertise is focused on industry sectors that are most relevant to emerging markets. It has strong offerings in oil, gas and renewables; power and infrastructure and agriculture.

With regard to Business and Commercial unit, Stanbic Bank Kenya offers banking and other financial services to medium-sized enterprises and high value small businesses. This unit serves the increasing need among Africa's small business and individual customers for banking products that can meet their shifting expectations and growing wealth.

Stanbic Bank is listed on the Nairobi Securities Exchange (NSE).
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