

Embargoed until 1030 EAT (0730 UTC) 3 March 2023

## Stanbic Bank Kenya PMI™

### Business conditions deteriorate in February as cost of living pressures hit sales

#### Key findings

Output and new orders fall sharply

Employment, purchasing and inventories each decrease

Input cost inflation accelerates to marked rate

The Kenya PMI pointed to a decline in business conditions in the second month of 2023, the first since August last year, as several key metrics fell into contraction territory. Output and new orders both recorded sharp falls, leading to renewed cuts in employment and purchasing. The sharp fall in sales came amid reports that cost-of-living pressures and cash flow problems had stunted customer spending.

At the same time, currency weakness and reports of increased tax burdens fed through to a sharper rise in input costs, and one that was among the fastest seen since the series began in 2014. While some firms passed these costs on to customers, the rate of charge inflation was broadly unchanged from January and much softer than that of input prices.

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.

For the first time in six months, the headline PMI registered below the 50.0 no-change mark in February, dropping to 46.6 from an 11-month high of 52.0 in January. The reading indicated a solid deterioration in operating conditions, driven by renewed contractions in many of the covered metrics.

Demand weakness was particularly clear in the latest survey data, as companies reported a sharp contraction in new order volumes following a solid upturn in January. Survey panellists frequently noted that customers had pared back spending due to high inflation and a lack of money in circulation. Firms also suffered from a marked fall in export sales, one of the fastest seen on record.

The downturn in sales led Kenyan companies to make renewed cuts to activity, employment and purchasing in February. Output fell sharply and for the first time in four months, while input purchases fell for the first time since last August. While job losses were only mild overall, they were the strongest seen since April 2021.

Supply chain performance was broadly stable in February,

Stanbic Bank Kenya PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global.

Data were collected 10-24 February 2023.

#### Comment

*Mulalo Madula, Economist at Standard Bank commented:*

*"After a stellar performance between September 2022 and January 2023, the Kenya PMI fell into contraction territory in February as cash flow issues and cost of living weighed on demand. With currency depreciation inducing higher import costs and reports of tax burdens, the increase in input costs and consequently output charges (although less than the increase in costs) is amongst the highest since the series began in 2014. But then, while the sales decline was broad based, agriculture is the only sector where sales increased. Notably, the decrease in activity was uneven across firms in various sectors, with 38% of panellists reporting a drop in activity compared with a quarter of respondents reporting an increase. But then, despite everything, businesses are still optimistic about the outlook for the next 12 months, with the future output index rising for the second month in a row."*

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ending a prior five-month run of improvement. Some firms mentioned shortages of items such as timber and foodstuffs, as well as delays at ports. The disruption contributed to a fall in stocks of purchases.

Cost pressures accelerated to a notable pace during February, the highest for five months and among the quickest on record. Purchase price inflation was the key driver, according to panellists, amid reports of increased taxes and higher import costs as the exchange rate against the US dollar worsened. Output charges rose accordingly, although the rate of inflation was broadly unchanged from January and much softer than the increase in costs.

In contrast to the general trend, business confidence towards future output strengthened markedly in February and was at its highest level in nearly three years.

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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](mailto: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](http://ihsmarkit.com/products/pmi.html)

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