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Stanbic Bank Kenya PMI®

Record inflationary pressures hit business conditions in October

Key findings

Input costs and output prices increase at record rates...

...leading to sharper falls in new orders and activity

Joint-fastest decline in employment since June 2020

Kenyan private sector firms faced unprecedented inflationary pressures in October, latest PMI® survey data showed, driven by a further rise in fuel prices and ongoing currency weakness. Input costs rose at the quickest pace since the survey began nearly a decade ago, leading companies to also increase selling prices at a record rate.

Consequently, the latest data signalled a worsening of the demand picture in October, as heightened prices eroded spending power and led to a marked fall in new business. Output levels were reduced accordingly, while firms also made their joint-fastest cut to workforces since the middle of 2020.

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.

At 46.2 in October, the headline PMI was down from 47.8 in September and indicative of a solid deterioration in the health of the private sector. The rate of decline was the second-fastest since August 2022 and close to the marked downturn seen in July.

Business conditions worsened amid a rapid pick-up of cost pressures across the private sector economy, with survey data signalling the strongest rise in input prices since data collection started in 2014. Around 46% of monitored firms reported that total expenses had increased from September, driven by a further uplift in fuel prices and associated transport costs. In addition, companies noted that ongoing currency weakness and increased tax burdens had added to costs.

In order to maintain sufficient margins, Kenyan companies also reported an unprecedented increase in selling prices in October, with the rate of inflation climbing above the previous high in mid-2022.

The uplift in charges had a strong impact on client demand and business activity. The latest survey data indicated a marked

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sa, >50 = improvement since previous month



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

Comment

Christopher Legilisho, Economist at Standard Bank commented:

"The Kenya Purchasing Managers' Index (PMI) deteriorated markedly in October. Output and new orders contracted across all sectors surveyed, with new orders falling the fastest in the construction, wholesale and retail sectors. Cost-of-living pressures and cashflow difficulties saw customer demand declining, while weaker output and lower workloads led to an increased rate of job cuts.

"Meanwhile, Kenyan businesses reported burgeoning inventories, and therefore raised their selling prices in October to protect their profit margins. Input prices and purchase price pressures faced by Kenyan businesses were attributed to a further increase in fuel prices and transport costs.

"Encouragingly, firms involved in new export orders remained robust, with greater demand from both Africa and Europe. However, business expectations for the next 12 months are quite weak."

and accelerated decline in new order volumes, which was broad-based across each of the five sub-sectors but steered by construction and wholesale & retail. Similarly, output levels contracted sharply and to a greater degree than in September.

With economic conditions appearing to toughen, Kenyan firms tightened spending on inputs and labour. Employment numbers were reduced at the joint-strongest rate since June 2020, following a renewed (but slight) fall in September. Purchasing activity also dropped, albeit only modestly.

Meanwhile, there was a slight improvement in vendor performance, after lead times had lengthened slightly in the previous month. Firms noted that this was due to cash flow concerns at vendors, leading them to make quicker deliveries in order to boost payments.

Finally, business expectations for the coming 12 months remained muted in October, with firms showing a modest degree of positivity that was little-changed from September. That said, optimism was still stronger than the record low in April. Hopes that sales and activity will pick up contributed to a renewed increase in firms' inventory holdings.

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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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