

Embargoed until 1030 EAT (0730 UTC) 3 November 2022

Stanbic Bank Kenya PMI™

Growth moderates in October as sharp inflationary pressures continue to hit spending

Key findings

Output falls as new order growth cools

Purchase prices rise at record pace

Confidence towards future activity picks up sharply

Kenyan private sector businesses saw only a mild improvement in operating conditions in October, latest PMI survey data showed, as ongoing concerns about the rising cost of living led to a softer expansion in new orders and a renewed drop in output. Despite this, employment continued to rise amid increased backlogs, while firms were the most upbeat about the outlook for activity since July 2021.

At the same time, inflationary pressures remained severe, as firms highlighted a record increase in purchasing costs from the previous month. In a bid to protect profit margins, output charges were raised at the quickest rate since June.

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 posted 50.2 to signal only a fractional improvement in operating conditions in October. The index was down from a seven-month high of 51.7 in September, when renewed growth was indicated due to the end of the national election period.

New order inflows rose for the second month running in October, following a five-month run of decline. However, the rate of growth slowed from September and was only slight, as panellists noted a weaker effect from customer sales rebounding following the election. Moreover, rising living costs dampened client spending in many cases, contributing to lower sales volumes in the construction, services and wholesale & retail sectors. Agriculture and manufacturing were the only areas to record growth.

Inflationary pressures negatively impacted business activity in October, as some respondents noted reduced capacity due to high running costs. Output fell for the seventh time in eight months, although only modestly.

Notably, the latest survey data signalled a record uptick in purchase costs during October, driven by rising fuel costs, a weaker currency and material shortages. Around 41% of

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sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global.

Data were collected 12-27 October 2022.

Comment

Mulalo Madula, Economist at Standard Bank commented:

"October's PMI continued to signal an improvement in business conditions, albeit with a loss of momentum compared to September. New orders, employment and purchasing growth recorded weaker expansions. Bar manufacturing, output contracted slightly for the seventh time in eight months. However, the 12-month output outlook improved to 15-month high.

"On the downside, inflationary pressures appear to be increasing. Input costs accelerated, underpinned by higher fuel prices, a weaker exchange rate, staff costs, and shortages of commodities such as timber and animal feed. If price pressures persist and firms continue to pass on a higher share of rising input cost burdens to output charges, demand may weaken in the short to medium term, slowing the overall rate of improvement in Kenya's business environment."

PMI™

by **S&P Global**

companies saw their purchase costs rise.

Fears that prices will continue to rise contributed to a sharp increase in stockpiles of inputs in October, helped by a further rise in purchasing. Meanwhile, lead times shortened due to strong competition among suppliers.

With output falling, backlogs of work rose for the fifth month running and at a faster rate. Employment numbers subsequently ticked higher, with the rate of job creation quickening slightly from September but staying mild overall. Staff costs rose at the slowest pace since March.

The record increase in purchase costs led companies to raise their output charges sharply in October. Moreover, the pace of inflation accelerated to a four-month high.

Finally, output expectations were up to their strongest for 15 months in October. Despite growth headwinds, companies were more confident of rising client numbers and business expansion plans coming to fruition.

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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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