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Stanbic Bank Kenya PMI™

Input prices rise at sharpest rate on record in May

Key findings

Weaker shilling and higher fuel prices drive historic rise in costs

Output and new orders continue to fall, albeit at softer rates

Staffing and inventories expand for the third month running

May PMI data signalled an unprecedented rise in input prices across the Kenyan private sector midway through the second quarter, as a depreciation of the shilling and rising fuel prices led to a record increase in purchase costs over the month. Selling prices subsequently rose at a faster rate, placing additional pressure on customer demand which fell for the fourth month running. Business activity declined, but firms continued to expand their staffing levels and accumulate stocks in case of future cash flow challenges.

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 registered below the 50.0 neutral mark for the fourth month running in May. However, at 49.4, the index was up from 47.2 in April and signalled the slowest deterioration in business conditions in the current run of contraction.

New business at Kenyan firms decreased for the fourth month in a row in May, albeit only modestly and to the least extent in this period. Almost a third of surveyed businesses reported a decline in sales, with comments often linking this to the cost-of-living crisis and a resulting lack of purchasing power at customers. On the flip side, a similar proportion of firms saw an upturn from the previous month, linked in part to a softening of inflationary pressures in April.

The latest data signalled a much quicker rise in business costs during May, however, one that was the sharpest recorded since the series began in 2014. The uptick was mostly driven by a historic rise in purchase prices, with 42% of respondents seeing an increase since April. According to anecdotal evidence, the uplift was mainly due to increases in both fuel and import prices, the latter driven by a sharp depreciation of the Kenyan shilling against the US dollar.

Combined with falling demand, the marked rise in input costs continued to weigh on business activity, which decreased for

Stanbic Bank Kenya PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global.
Data were collected 12-26 May 2023.

Comment

Mulalo Madula, Economist at Standard Bank commented:

“The Stanbic Bank Kenya PMI showed the private sector slumping further in May, with the headline index increasing but nevertheless remaining in contraction. Inflationary pressures meant weak demand; new orders declined, as did output in the manufacturing and wholesale and retail sectors. Input prices are now at their highest since the survey began in 2014 as the KES depreciated further, which increased import costs. This caused the greatest increase in output prices in seven months — but it was less than the concomitant increase in input prices. Still, as in recent months, and despite a further decline in new orders, export orders gained further momentum.

“Employment expanded at the fastest rate since November 2021; however, employment in the wholesale and retail sub-sector was down. Inventories managed to increase despite firms slowing purchases of inputs, implying that inventory was driven partly by fewer new orders. Positively, supplier shipping times were much tighter. Overall, firms in Kenya were modestly hopeful about the future, although confidence levels remained low by historical norms.”

PMI™

by **S&P Global**

the fourth month running. Sector data showed that the downturn was concentrated on manufacturing and wholesale & retail, with the latter category also facing the most pronounced inflationary pressures.

Higher cost inflation led companies to raise their selling charges to a sharper degree, and make additional cuts to purchasing activity. Despite this, inventories of inputs continued to grow modestly, as firms looked to keep unused items in case of further price rises and supply shortages. Stockpiling efforts were helped by a shortening of supplier delivery times for the second month running.

Hiring activity at Kenyan firms picked up during May, leading to a solid rise in employment numbers that was the fastest since November 2021. Businesses often cited efforts to improve client services. The increase contributed to a slightly faster rise in staff costs.

Finally, business expectations regarding the year ahead improved in May, after slipping to a survey-record low in April. However, the uptick in sentiment was only slight, with just 10% of respondents giving a positive forecast for output amid ongoing inflation concerns.

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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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