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Stanbic Bank Kenya PMI™

Output levels expand in November

Key findings

Firms see renewed increase in activity

New orders pick up for third month running

Inflationary pressures soften but remain sharp

Kenyan private sector firms saw a renewed expansion in business activity in November, latest survey data signalled, as new orders strengthened for the third month in a row. The upturn led to further increases in employment, purchasing and inventories, whilst vendor performance continued to improve. Although Kenyan companies again indicated steep price pressures, rates of inflation for both input costs and output charges eased to three-month lows.

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.

From 50.2 in October, the headline figure rose to 50.9 in November to signal a slight improvement in the private sector's health. Business conditions have strengthened in each of the past three months, following a five-month sequence of contraction.

The rise in the headline index was partly due to a renewed expansion in output levels midway through the final quarter of the year. Business activity increased slightly after a marginal decrease in October. Surveyed businesses mainly attributed the rise in output to improving new order inflows and favourable weather conditions.

New order volumes picked up for the third month running, and at a moderate pace that was quicker than in October. A number of panellists cited that new customers helped them to secure higher work inflows. New orders rose in four of the five sectors monitored by the survey and were unchanged in services.

In line with the trend for new orders, Kenyan firms reported increases in employment and purchasing for the third month in a row. The rise in staffing levels was broadly similar to those seen in the prior two months and only marginal, but nonetheless helped firms to reduce their backlogs for the first time since April. The rate of purchasing growth quickened slightly and was solid.

With purchases rising, Kenyan firms were able to expand their inventories in November. At the same time, vendor performance

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sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global.

Data were collected 11-28 November 2022.

Comment

Mulalo Madula, Economist at Standard Bank commented:

"The latest PMI data showed that business activity in Kenya continues to grow, albeit slowly, for the third consecutive month corroborating other data such as private sector credit growth. Firms registered a marginal increase in output amid an increase in new business from domestic and foreign customers and favourable weather conditions. Still, rising input and output prices alongside monetary policy tightening has not caused a negative demand shock in nominal terms. The second rainy season, the 'short rains', appears to be going better than previously forecast.

"A positive assessment of the 12-month outlook suggests that businesses expect improvement despite the expected challenging global economic environment. This has led businesses to increase purchasing activity almost as strongly as in October and build up inventories. Headcount also increased at its fastest pace since July as businesses prepare for another surge in demand."

improved modestly and for the third month running.

November data signalled another steep increase in input costs in the Kenyan private sector, amid reports of rising import costs due to a weaker exchange rate against the US dollar, as well as higher taxation and transport costs. However, a softer rise in purchase prices, and a renewed fall in staff wages, meant that the overall rate of cost inflation slowed to the weakest since August.

Subsequently, Kenyan firms raised their output charges at a sharp, but softer pace in November.

Finally, businesses remained positive regarding future output in November, amid plans for new branches, new products and greater marketing. The degree of optimism dropped sharply from October's 15-month high, however.

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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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