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Stanbic Bank Kenya PMI™

Downturn in economic conditions worsens in August amid election

Key findings

Output and new orders fall at sharper rates

Delivery times worsen for first time since May 2020

Inflationary pressures continue to soften

Data were collected 12-26 August 2022.

The Kenya PMI fell further into contraction territory in August, latest survey data showed, as disruption from the national election added to sustained declines in output and new orders. As a result, business confidence remained one of the weakest on record, leading to a renewed drop in employment. On the positive side, lower demand suppressed inflationary pressures, with costs and charges rising at the softest rates since January.

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.

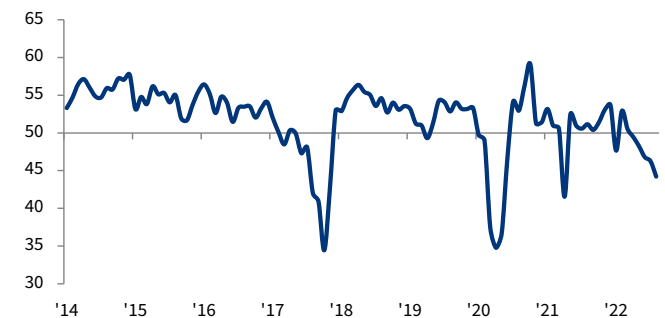
For the fifth consecutive month, the headline PMI registered below the 50.0 neutral mark in August, dropping to 44.2 from 46.3 in July. The reading was the lowest seen since the lockdown-hit period in April 2021.

According to surveyed businesses, the election had a notable toll on economic activity during August. Output fell steeply and at the quickest pace for 16 months, with the construction sector seeing the greatest decline.

New business inflows also fell at a sharp and accelerated pace, with the election, rapid inflation and resulting lack of cash flow reportedly leading to a sustained drop in client orders.

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global.

Election-linked disruption meant that some vendors were unable to deliver inputs, leading to the first (albeit marginal) lengthening of lead times since the first wave of the COVID-19 pandemic in early-2020. At the same time, businesses made fewer purchases of inputs due to deteriorating sales, while inventories were cut for the first time since January amid efforts to avoid dead stocks.

More positively, inflationary pressures continued to cool off in August. Both input costs and output charges rose to the least extent for seven months, although there were still numerous mentions of higher fuel prices, exchange rate pressures and a greater tax burden.

Meanwhile, firms were still relatively downbeat about their prospects. Only 10% of respondents gave a positive forecast for output over the next 12 months, amid fears that the inflation-driven downturn in the economy will continue. As such, the outlook was the third-worst on record behind those seen in April and May.

With sales dropping and the outlook remaining weak, staff numbers were lowered for the third time in the past four months in August. That said, the rate of job cuts was only marginal. Subsequently, backlogs of work rose for the third month running.

Comment

Mulalo Madula, Economist at Stanbic Bank commented:

"Kenya's private sector activity contracted for the fifth consecutive month in August amid election-related disruption. Notably, firms remain cautious on the outlook for output in the next 12-m. Furthermore, although the survey indicated that inflationary pressures eased somewhat in August, new orders fell for the fifth straight month due to political uncertainty and higher input prices. However, increased demand from Europe kept the new export business in expansionary territory.

"Looking ahead, the trajectory of underlying cost pressures could depend on the timing of the removal of fuel subsidies in addition to the upcoming short rain season, which will be key for food inflation."

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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.

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.

August data were collected 12-26 August 2022.

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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