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Stanbic Bank Kenya PMI®

Inflationary pressures continue to hit demand in November

Key findings

Cost and charge inflation remain close to record highs

New orders and output continue to fall markedly

Fastest drop in employment outside of initial COVID-19 lockdown

Business conditions in Kenya remained in a steep decline halfway through the final quarter of the year according to the latest PMI® survey data, amid sizeable falls in output, new orders and employment. Firms across the private sector noted that rapid inflation had again suppressed demand and created cash flow challenges, leading to further cuts in activity, staffing and purchasing.

Indeed, inflationary pressures on firms stayed near record levels during November, following October's historic uplift, as companies widely reported currency depreciation, higher taxes and increased fuel charges. The rise in input costs translated into another marked uplift in firms' output charges, which was also slightly softer than October's survey record.

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 45.8, dropping from 46.2 in October, the headline index pointed to a sharp decline in the performance of the Kenyan private sector in November. The reading marked the third contraction in as many months, and was among the weakest seen in the index's near decade-long history.

Driving the downturn in operating conditions was another historic increase in business costs during November. After reaching the highest level in the series history one month ago, the rate of input cost inflation remained marked and was the second-fastest on record, with firms largely relating this to a further depreciation in the shilling against the US dollar, higher taxes and greater fuel charges.

Likewise, output prices increased at a near-record pace in the latest survey period, as companies often passed on costs to clients to maintain their margins.

Rapid inflationary pressures on businesses and customers alike resulted in sustained contractions in activity and new

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sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global PMI.
Data were collected 9-28 November 2023.

Comment

Christopher Legilisho, Economist at Standard Bank commented:

"The Kenyan Purchasing Managers Index (PMI) deteriorated further in November, reflecting still difficult business conditions for the private sector. Besides the agricultural sector, output and new orders declined across all monitored sectors; the construction sector was the worst hit. Inflationary pressures and cashflow difficulties saw customer spending declining, and the rate of job losses increasing in the private sector because of weaker output and reduced workloads. This corroborates a recent statement by the Federation of Kenya Employers that Kenya has lost approximately 3% y/y (70,000) of the jobs in the formal private sector due to the rising cost of doing business.

"On the pricing front, Kenyan businesses reported increasing inventories, and therefore raised selling prices in November. Rising input prices and purchase price pressures are being attributed to further increases in fuel prices, electricity costs and taxes among other factors.

"Exporters continued to perform strongly, helping to offset weak domestic output, as demand from Europe and Asia was greater. Still, the business outlook for the next 12 months is quite weak based on the survey results from respondents."

PMI®

by **S&P Global**

business. The latest survey data indicated a sharp fall in new order volumes, one that was similar to October's and among the worst on record. Reports from survey members showed that customer spending had fallen due to increased prices and cash flow challenges.

Subsequently, output levels were pared back at a steep and accelerated rate. Contractions were seen in nearly all sectors, with agriculture the only broad category to record an expansion. By contrast, construction firms suffered the worst declines in new orders and output.

Reductions in output and new orders led to quicker falls in purchasing and employment at Kenyan firms in November. Most notably, staff numbers dropped at one of the sharpest rates on record, with stronger falls only registered during the first COVID-19 lockdown. Lower input purchases helped to shorten delivery times for the second month running, although the improvement was only slight.

Finally, business expectations for the coming year were subdued and dropped slightly to a four-month low. In total, just 17% of companies were confident of growth, linked to expansion plans and the launching of new products and services.

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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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