

Embargoed until 1030 EAT (0730 UTC) 4 April 2024

Stanbic Bank Kenya PMI®

Business conditions weaken slightly as output and new orders shrink

Key findings

Output returns to contraction, but employment rises

New orders fall only fractionally

Input and output price inflation continue to ease

The Stanbic Bank Kenya PMI® signalled a slight deterioration in operating conditions across the private sector in March, as order book volumes and output levels contracted. The downturn was a contrast to February, which saw an improvement in the private sector for the first time in six months.

Despite the overall decline, the survey data provided some positive signals for Kenyan businesses. Staffing and inventories showed further growth, indicating potential opportunities for expansion. Additionally, input cost inflation slowed to its lowest level in over three years, amid a recovery in the shilling. Savings were passed on to customers as output prices also rose at a slower pace.

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 in March, falling to 49.7 from 51.3 in February. The reading was the lowest recorded for three months and signalled a slight decline in operating conditions.

In March, business activity in the Kenyan private sector reversed its course after showing the best upturn in over a year during February. Output contracted modestly, which survey panellists attributed to lower new order intakes and cash flow problems. The decline in new orders signalled by the survey was only fractional, however, as firms reported an easing of price pressures that supported customer spending.

Indeed, price metrics pointed to a sustained slowdown in inflationary pressures at the end of the first quarter. Overall input costs rose at the slowest pace since February 2021, as a stronger exchange rate in the Kenyan shilling against the US dollar helped reduce import costs. Lower fuel prices were also cited, though some firms reported higher VAT payments.

The softer increase in input prices led to a weaker uptick in

Stanbic Bank Kenya PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global PMI.
Data were collected 12-26 March 2024.

Comment

Christopher Legilisho, Economist at Standard Bank commented:

“Private sector activity softened in March, offsetting the expansion during February. Output, new orders and purchasing activity contracted due to fewer sales and less readily available cash flow. Firms noted that, despite lower inflation, a stronger shilling against the USD in March, and increased marketing efforts, cost-of-living pressures are still subduing consumer demand.

“That said, positively, firms continued to hire and increase inventories because they foresee improved demand. Though off a low base, business expectations for 2024 recovered somewhat, led by wholesale and retail services firms; the index for future expectations had hit the weakest level on record in February.

“Also encouragingly, firms noted input, purchasing and output price pressures as easing due to fuel prices declining further, and a stronger shilling against the USD in March. Further, staff costs were stable for a second month in March.”

selling charges, the lowest since January 2022 and one that was below the long-run trend.

Kenyan firms meanwhile reduced their purchases of inputs in line with weaker sales. The rate of decrease was the quickest recorded since last November. Reduced buying contributed to shorter supplier delivery times as pressure on vendors relaxed. Concurrently, firms managed to build their inventories for the second month running, driven by hopes of improving customer demand.

For a similar reason, companies raised their employment numbers for the third month running during March. That said, job creation was marginal and the slowest in this growth sequence.

Expectations towards future output rose to a four-month high, following the lowest sentiment on record in February. Lower inflation trends boosted the demand outlook and supported expansion plans, with services and wholesale & retail firms being the most optimistic.

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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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