News Release

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Stanbic Bank Kenya PMI™

Business activity falls sharply in May, as inflation continues to weigh on demand

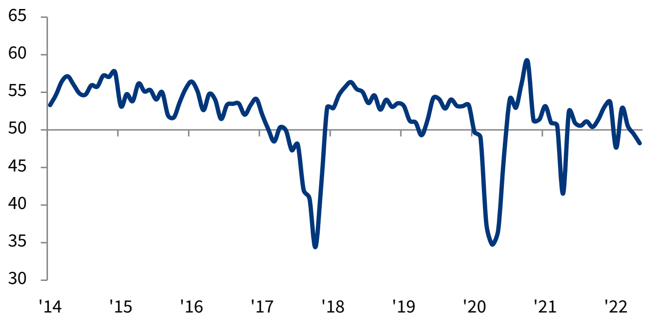
Key findings

Sharpest reduction in output since April 2021

Input price pressures remain at over eight-year high

Business confidence hits fresh record low

PMI
sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global.

Data were collected 12-27 May 2022.

Business conditions in Kenya deteriorated for a second month running in May, according to the latest PMI survey data, as inflationary pressures led to a further drop in customer demand and a reduction in output. Rising fuel prices, input shortages, and exchange rate weakness culminated in a marked uplift in input prices, with inflation remaining at April's over eight-year high. Selling prices rose sharply as a result, leading to a further decrease in new orders and bringing output forecasts down to a record low for the third month running.

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 PMI posted below the 50.0 mark for the second consecutive month in May, falling to 48.2 from 49.5 in April. The modest decline in business conditions reflected sustained falls in both output and new orders, as well as a renewed drop in employment.

Output levels decreased at a sharp pace across the Kenyan private sector in May, with the rate of contraction accelerating to a 13-month high. According to panellists, the reduction in activity was overwhelmingly due to inflationary pressures, which impacted both operating costs and customer demand.

New business dropped for the second month running in May, as firms saw clients rein in spending due to the higher cost of living. That said, the overall decline was modest and partly offset by a solid expansion in export sales.

Meanwhile, the rate of input cost inflation was unchanged from April's near-record high. Companies often reported rises in the cost of fuel and a range of items in short supply due to the war in Ukraine, while a strengthening US dollar added to import costs. This translated into a further uptick in output charges which, despite softening to a three-month low, was still historically sharp.

More positively, lower sales allowed a degree of spare capacity midway through the second quarter, leading to the first decline in outstanding work since January. With workloads falling, businesses also reported a slight fall in employment.

Purchasing activity was broadly unchanged in May, ending a three-month run of growth. Nevertheless, there was further evidence of firms stockpiling inputs to avoid shortages and price hikes. This was helped by a modest improvement in suppliers' delivery times.

Finally, business confidence dropped to a record low for the third straight month in May, amid increased uncertainty over supply chains, inflation, geopolitical tensions, and the resulting impact on sales in domestic markets.

Comment

Kuria Kamau, Fixed Income and Currency Strategist at Stanbic Bank commented:

"Economic activity in Kenya contracted for the second consecutive month in May due to inflationary pressures that resulted in a drop in customer demand and a reduction in firms' output. Input price inflation remained at an 8-year high driven by rising fuel prices, higher taxes, and input shortages. Due to higher input prices, firms were forced to scale back on output and employment levels.

"The higher input prices coupled with lower output by firms, resulted in a further increase in output prices. The increase in output prices, in turn, led to a reduction in domestic demand as clients cut back on spending due to the rising cost of living. Export demand, however, was more resilient as it grew at the fastest rate in 3 months. Business confidence fell to a new all-time low for the third consecutive month in May driven by uncertainty over supply chains, inflation, geopolitical tensions, and the upcoming elections."

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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.

May data were collected 12-27 May 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.

About Stanbic Bank

Stanbic Bank Kenya is a member of the Standard Bank Group, Africa's largest bank by assets.

Standard Bank Group reported total assets of R1,95 trillion (about USD143billion) at 31 December 2016, while its market capitalisation was R246 billion (about USD18 billion). The group's largest shareholder is Industrial and Commercial Bank of China (ICBC), the world's largest bank, with a 20.1% shareholding.

Standard Bank Group has direct, on-the-ground representation in 20 African countries. Standard Bank Group has 1 221 branches and 8 815 ATMs in Africa, making it one of the largest banking networks on the continent. It provides global connections backed by deep insights into the countries where it operates. In Kenya the bank has a network of 26 branches.

Stanbic Bank provides the full spectrum of financial services. It's Corporate and Investment Banking division serves a wide range of requirements for banking, finance, trading, investment, risk management and advisory services. Corporate and Investment Banking delivers this comprehensive range of products and services relating to: investment banking; global markets; and global transactional products and services.

Stanbic Bank's corporate and investment banking expertise is focused on industry sectors that are most relevant to emerging markets. It has strong offerings in mining and metals; oil, gas and renewables; power and infrastructure; agribusiness; telecommunications and media; and financial institutions.

The bank's personal and business banking unit offers banking and other financial services to individuals and small-to-medium enterprises. This unit serves the increasing need among Africa's small business and individual customers for banking products that can meet their shifting expectations and growing wealth.

Stanbic Bank is listed on the Nairobi Securities Exchange (NSE).

For further information log on to www.stanbicbank.co.ke.

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