News Release

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Stanbic Bank Kenya PMI™

Kenyan private sector economy contracts at faster rate in June

Key findings

Sharper declines in output and new orders

High inflation continues to limit purchasing power

Weak demand leads to better supplier performance

Stanbic Bank Kenya PMI

sa, >50 = improvement since previous month

Sources: Stanbic Bank, S&P Global PMI.
Data were collected 12-28 June 2023.

The latest Stanbic Bank Kenya PMI™ data signalled a stronger downturn in the Kenyan private sector midway through 2023. Output and new orders both declined at faster rates, while inflationary pressures remained elevated as the Kenyan shilling continued to depreciate. Input prices rose at the fourth-fastest rate on record. The currency weakness did, however, support exports, which grew further in June. Suppliers' delivery times improved again as vendors became more competitive to retain business as demand for inputs fell.

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 for the fifth month running in June. Falling to 47.8, from 49.4 in May, the latest figure signalled a sharper deterioration in business conditions, albeit one not as severe as those seen in February and April. On a quarterly basis, the second quarter was the weakest since the third quarter of 2022.

The main negative influences on the PMI in June came from new orders and output, which together account for 55% of the weight of the headline index. Both registered faster contractions in June, reversing slower falls in May. Faster suppliers' delivery times weighed on the headline figure to the greatest degree since September 2022, while employment and stocks of purchases both exerted weaker positive influences in June.

The volume of new business received by private sector companies fell for the fifth month running in June. Firms widely reported a lack of purchasing power among customers due to high inflation and cash shortages. The overall fall wholly reflected weak domestic markets, as new export business rose for the fourth month running. Moreover, the weak shilling translated into the fastest growth in export demand since December 2021.

The ongoing downturn in demand was reflected in a fifth successive contraction in output in June, and at a faster rate.

Comment

Mulalo Madula, Economist at Standard Bank commented:

"At the end of the second quarter, Kenya's private sector signalled a further and deeper downturn of business activity. According to the survey, output price inflation reached its highest level since October 22 as businesses tried to recover higher input costs. The pressure behind input cost was largely attributed to rising fuel prices and the effect of the weaker KES relative to the USD. As a result, new orders decreased for the fifth consecutive month, and output followed suit with the services and wholesale and retail sectors bearing the brunt of the slowdown.

"Positively, new export business has remained in expansionary territory for the fourth consecutive month thanks to a weaker KES. Additionally, employment has been increasing, with the agriculture sector showing the biggest growth followed by manufacturing.

"In the medium term, growth could be robust, but most of the Finance Bill 2023's proposals (which could raise both the cost of doing business and the cost of living) could stifle growth in private investment and consumption, which would weigh on the economy. Notably, firms have an improved outlook for the next 12 months, albeit remaining below average."

PMI™ by S&P Global

The services and wholesale & retail sectors registered the steepest declines in activity.

Price pressures remained severe in June, with average input prices rising at the fourth-steepest pace in the survey history on the back of May's record. Anecdotal evidence widely linked cost pressures to fuel and the impact of the weak shilling-US dollar exchange rate. Soaring costs led firms to raise their prices charged for goods and services at the fastest rate in eight months, and one of the highest on record.

Purchasing activity was cut in June as firms adjusted to weaker inflows of new orders. This contributed to a further reduction in average lead times, with suppliers competing for business. Input inventories rose for the fourth month running.

More positively, employment rose further in June as firms remained optimistic on growth. The 12-month outlook for activity improved on April and May, but remained weak in the context of historical survey data.

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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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About Stanbic Bank Kenya

Stanbic Bank Kenya is a member of the Standard Bank Group, Africa's largest bank by assets. With a solid foundation in Kenya and history spanning over 110 years, Stanbic is one of the top banks operating in Kenya focused on fostering her socio-economic growth wide with a branch network across the country providing services to individuals, businesses and Commercial clients. Standard Bank Group which is the largest financial institution in Africa by Market capitalization, has on- the-ground representation in 20 African countries - making them one of the largest banking networks on the continent. Standard Bank 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.

At Stanbic Bank, we are proudly Kenyan with a clear purpose which is Kenya is our Home, we drive her Growth. This informs everything we do as an organization as we are committed to the growth and development of Kenya, its people and industries. It is with this drive that Stanbic Bank Kenya continues to move forward with its purposeful strategy to drive Kenya's growth by actively seeking opportunities to partner with both Government and private Sector to unlock their potential and contribution to the economy.

Stanbic Bank Kenya provides the full spectrum of financial services. The Consumer and High Net-worth division Stanbic Bank continue to serve the people of Kenya with a range of personal banking products and solutions. Stanbic Bank also offers Wealth services and product offerings, including insurance, investment, fiduciary, bespoke banking and multi-generational wealth preservation solutions to high net worth individuals, retail, business, commercial, and corporate clients across the Bank's footprint.

Its 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 oil, gas and renewables; power and infrastructure and agriculture.

With regard to Business and Commercial unit, Stanbic Bank Kenya offers banking and other financial services to medium-sized enterprises and high value small businesses. 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).
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