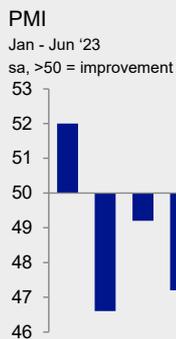


Stanbic Bank Kenya PMI™

Kenyan private sector economy contracts at faster rate in June

47.8

KENYA PMI
JUN '23



Sharper declines in output and new orders

High inflation continues to limit purchasing power

Weak demand leads to better supplier performance

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

Stanbic Bank Kenya PMI
sa, >50 = improvement since previous month



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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. 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.

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.”



Output and demand

Output

Private sector output in Kenya fell for the fifth month running in June. Having eased in May, the rate of decline accelerated at the mid-way point of 2023 and was comparable in strength to the sharp contractions posted in April and February. Companies reported tough trading conditions influenced by high inflation in the country and a lack of client spending power.

Sector data revealed the services and wholesale & retail sectors as key sources of weakness.

New orders

June data signalled another reduction in the volume of new business placed with Kenyan private sector firms. New orders have fallen every month since February, and the rate of decline quickened in the latest period. At five months, the current downturn in demand is the joint-longest in the survey history, albeit of a lesser severity than those seen in 2017, 2020 and 2022. Firms widely reported a lack of purchasing power in the economy due to high inflation and cash shortages.

New export orders

In contrast to weaker total new orders, the level of export business rose in June, reflecting the weak shilling. New export orders have increased for four successive months, and the latest increase was the fastest since December 2021.

Output Index

sa, >50 = growth since previous month



New Orders Index

sa, >50 = growth since previous month



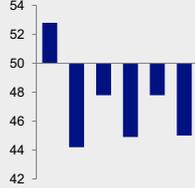
New Export Orders Index

sa, >50 = growth since previous month



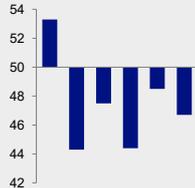
Output Index

Jan - Jun '23
sa, >50 = growth



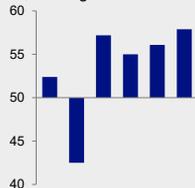
New Orders Index

Jan - Jun '23
sa, >50 = growth



New Export Orders Index

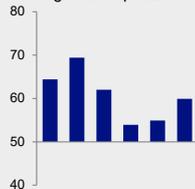
Jan - Jun '23
sa, >50 = growth



Business expectations

Future Output Index

Jan - Jun '23
>50 = growth expected



Private sector companies in Kenya were more optimistic about the forthcoming 12 months in June. Sentiment was linked to investment in new branches, marketing, entry to new export markets and new services. The overall strength of confidence remained relatively weak, however. The Future Output Index recovered further from April's record low, but was still well below its long-run trend level of 73.4.

By sector, confidence was strongest in agriculture and services, and weakest in construction.

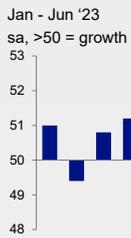
Future Output Index

>50 = growth expected over next 12 months

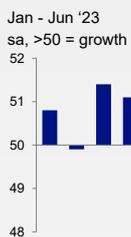


Employment and capacity

Employment Index



Backlogs of Work Index



Employment

The seasonally adjusted Employment Index remained above the no-change mark of 50.0 in June, signalling a fourth successive month of rising Kenyan private sector employment. Recruitment was linked to business expansions and efforts to improve service levels. The rate of job creation eased from May's 18-month high and was broadly in line with the long-run survey average.

The agriculture sector posted the fastest rise in staffing, followed by manufacturing.

Backlogs of work

Capacity pressures remained evident at Kenyan firms in June despite the sustained fall in new work, illustrated by an increase in backlogs of work for the fourth month running. That said, the rate of accumulation eased further and was only fractional. The latest rise in outstanding business was driven by the wholesale & retail, construction and services sectors.

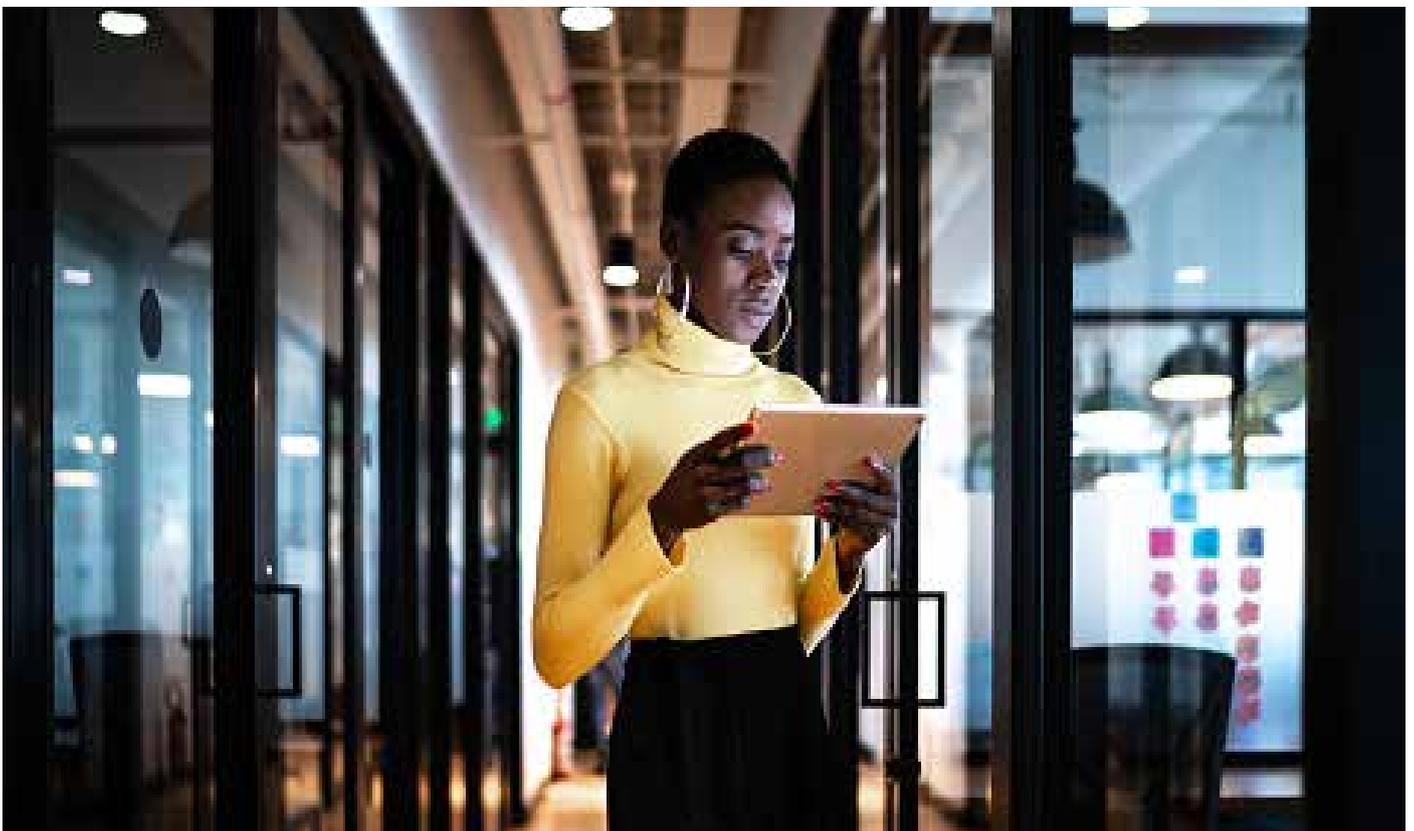
Employment Index

sa, >50 = growth since previous month



Backlogs of Work Index

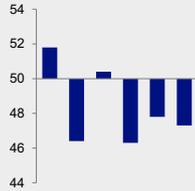
sa, >50 = growth since previous month



Purchasing and inventories

Quantity of Purchases Index

Jan - Jun '23
sa, >50 = growth



Quantity of purchases

With new work continuing to fall in June and prices remaining high, private sector firms adjusted their purchasing operations. The volume of inputs ordered fell for the fourth time in five months, at a moderate pace. Reduced purchasing was linked to low sales, sufficient inventory levels and high prices.

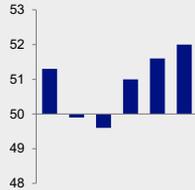
Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index

Jan - Jun '23
sa, >50 = faster times



Suppliers' delivery times

Supply chains for the Kenyan economy continued to improve in June. The seasonally adjusted Suppliers' Delivery Times Index remained above the no-change mark of 50.0 for a third successive month, signalling quicker lead times for inputs. Moreover, times improved to the greatest degree since September 2022. Companies reported that existing suppliers were motivated to perform better as less demand for inputs resulted in greater competition.

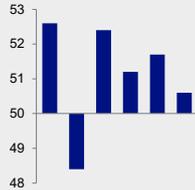
Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index

Jan - Jun '23
sa, >50 = growth



Stocks of purchases

The level of inputs held in stock in the Kenyan private sector economy rose for the fourth consecutive month in June. The overall increase occurred as output was cut during the month, despite a concurrent drop in purchases of new inputs. That said, the rate of growth in stocks of inputs slowed to a marginal pace.

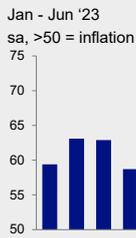
Stocks of Purchases Index

sa, >50 = growth since previous month

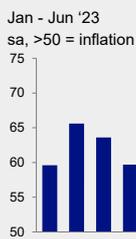


Prices

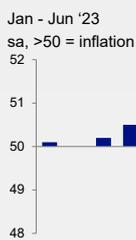
Input Prices Index



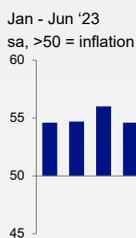
Purchase Prices Index



Staff Costs Index



Output Prices Index



Input prices

Overall cost pressures in the Kenyan private sector economy remained elevated in June, widely blamed on fuel prices and the impact of the weak shilling against the US dollar. The rate of input price inflation eased since May's survey record, but was still the fourth-highest registered since the series began in 2014. Input prices have risen on average every month since July 2020.

Cost pressures were most intense in manufacturing, followed by services and wholesale & retail.

Purchase prices

The rate of inflation of average purchase prices remained elevated in June despite easing from May's record. The seasonally adjusted Purchase Prices Index posted the ninth-highest level on record, with 35% of firms reporting increases since May. Manufacturers faced the steepest increases.

Staff costs

Average wages and salaries rose for the fourth month running in June. The rate of inflation remained modest overall, but was the highest registered since June 2022.

Labour cost pressures were strongest among service providers, and weakest in the agriculture sector.

Output prices

Kenyan firms continued to raise their prices for goods and services in June as they sought to recoup higher input costs. The rate of output price inflation rose to the strongest since October 2022 and was the ninth-highest in the survey history. Prices for manufactured goods rose notably.

Input Prices Index

sa, >50 = inflation since previous month



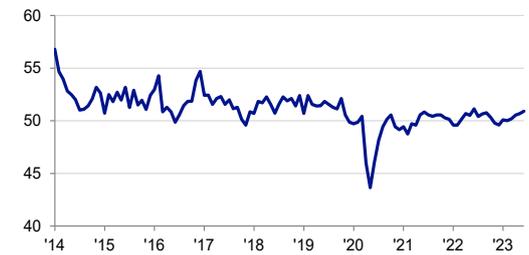
Purchase Prices Index

sa, >50 = inflation since previous month



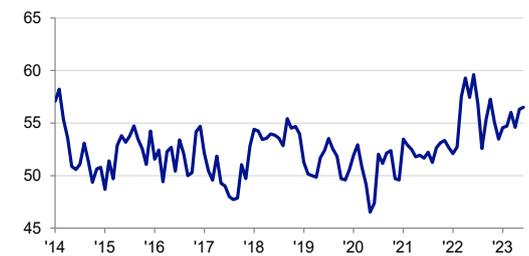
Staff Costs Index

sa, >50 = inflation since previous month



Output Prices Index

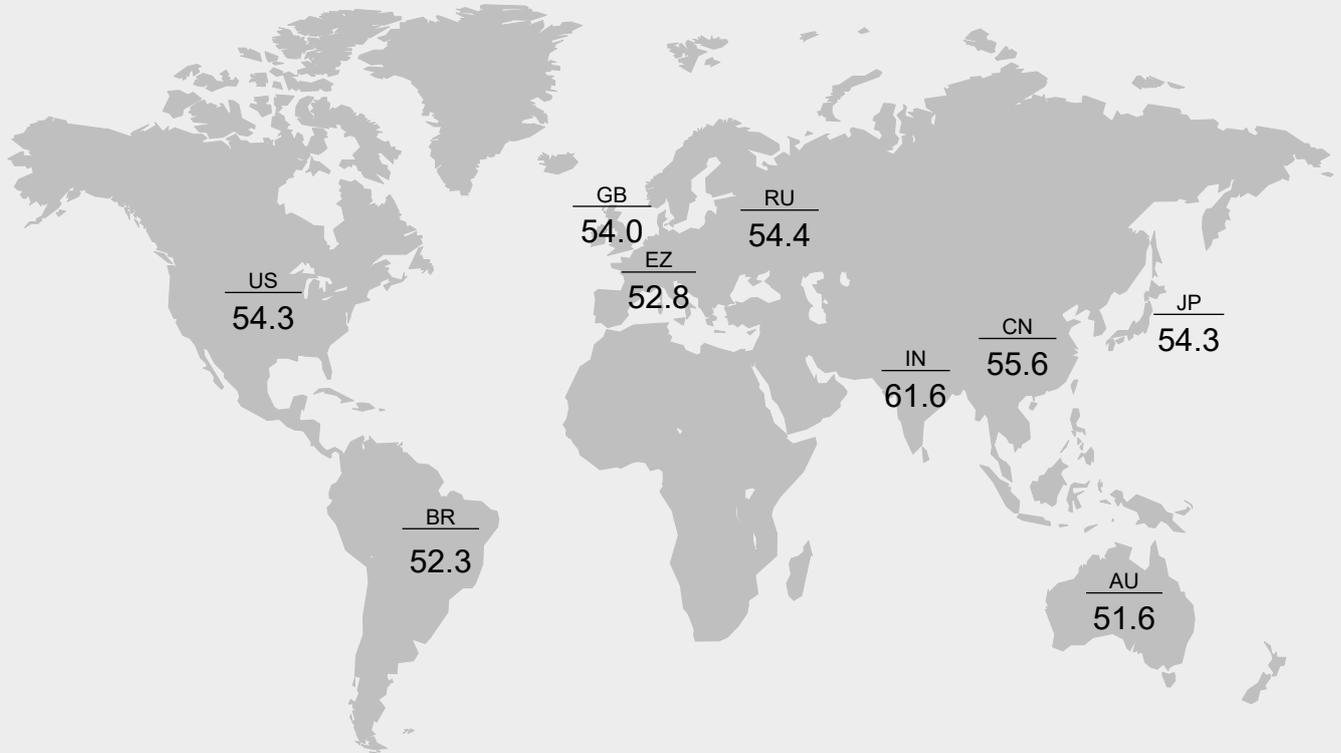
sa, >50 = inflation since previous month



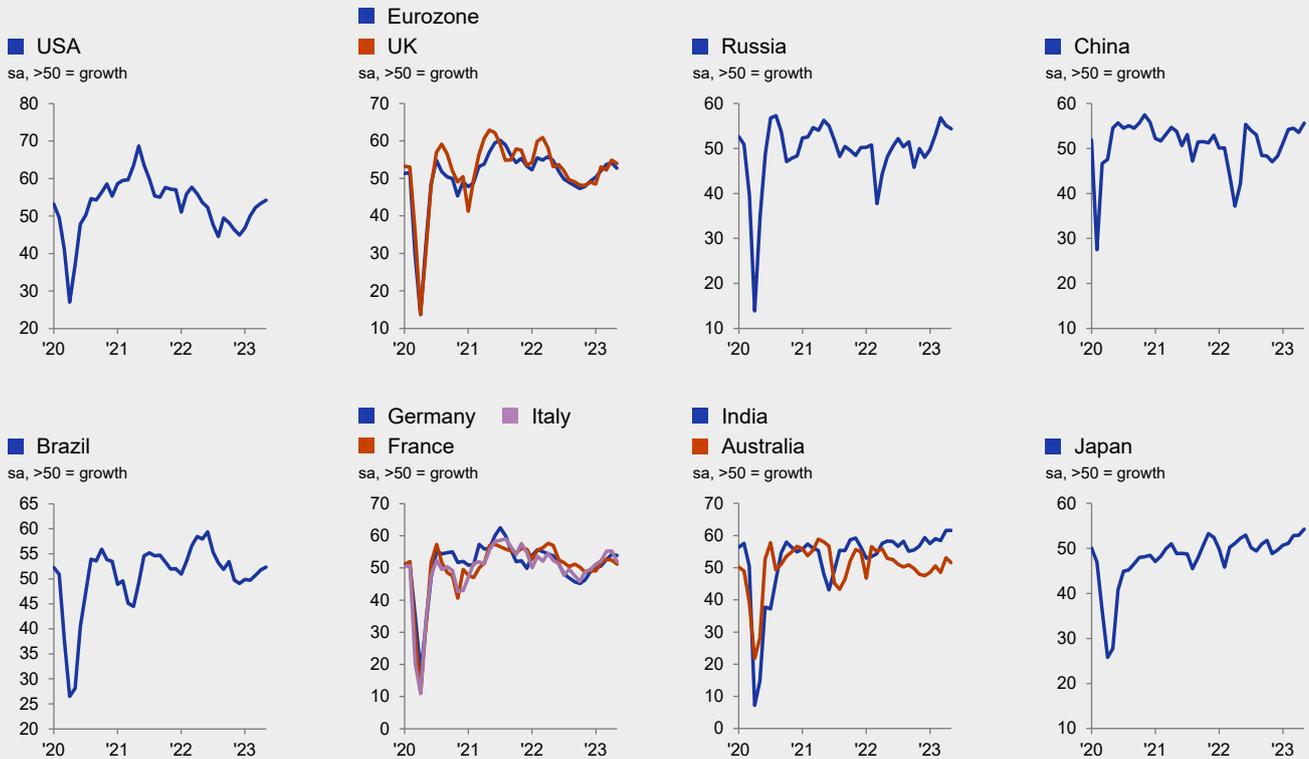
International PMI

Composite Output Index, May '23
sa, >50 = growth since previous month

The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



Composite Output Index



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.

Survey dates

Data were collected 12-28 June 2023.

Survey questions

Private sector

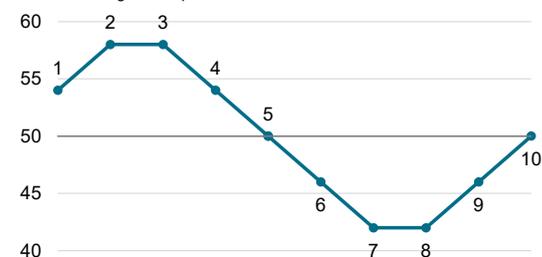
Output	Suppliers' Delivery Times
New Orders	Stocks Of Purchases
New Export Orders	Input Prices
Future Output	Purchase Prices
Employment	Staff Costs
Backlogs Of Work	Output Prices
Quantity Of Purchases	

Index calculation

$$\% \text{ "Higher"} + (\% \text{ "No change"})/2$$

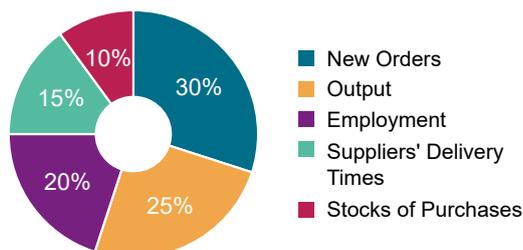
Index interpretation

50.0 = no change since previous month



- | | |
|--------------------------|----------------------------|
| 1 Growth | 6 Decline, from no change |
| 2 Growth, faster rate | 7 Decline, faster rate |
| 3 Growth, same rate | 8 Decline, same rate |
| 4 Growth, slower rate | 9 Decline, slower rate |
| 5 No change, from growth | 10 No change, from decline |

PMI component weights



Sector coverage

PMI data include responses from companies operating in sectors classified according to the following ISIC Rev.4 codes:

A Agriculture, Forestry and Fishing	K Financial and Insurance Activities
B Mining and Quarrying	M Professional, Scientific and Technical Activities
C Manufacturing	N Administrative and Support Service Activities
F Construction	P Education*
G Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	Q Human Health and Social Work Activities*
H Transportation and Storage	R Arts, Entertainment and Recreation
I Accommodation and Food Service Activities	S Other Service Activities
J Information and Communication	

*Private sector

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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).

<http://www.stanbicbank.co.ke>

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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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