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Stanbic Bank Kenya PMI[®]

Protests lead to steep decline in business activity

Key findings

Output and new orders fall rapidly

Backlogs of work build up and supplier lead times lengthen

Rates of inflation remain muted

Protests in Kenya caused disruption to the private sector in July, leading to a marked deterioration in business conditions. Political instability led to a reluctance among customers to commit to new orders, while the protests themselves in some cases blocked access to businesses and prevented them from opening. These factors caused steep reductions in both output and new orders, while there was evidence of delays completing outstanding business and receiving purchased items from suppliers.

Meanwhile, input costs increased for the second month running, feeding through to a further rise in selling prices. That said, rates of inflation remained much softer than seen during 2023.

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 dropped sharply in July to 43.1 from 47.2 in June, signalling a marked deterioration in business conditions in the Kenyan private sector at the start of the third quarter of the year. Operating conditions worsened for the second month running, and to the greatest extent since April 2021.

The deterioration in business conditions was due to rapid reductions in both output and new orders, in turn largely reflecting disruption caused by protests and political instability. A lack of money in circulation and cost of living pressures also contributed to declines in demand and business activity. In both cases, rates of contraction were the most pronounced since April 2021.

Business activity decreased across four of the five broad sectors covered, with the sharpest decline in agriculture. Manufacturing was the only category to post a rise in output.

Disruption from the protests impacted the ability of suppliers to deliver items to companies and the completion of projects by Kenyan firms themselves. As a result, suppliers' delivery times

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sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global PMI.
Data were collected 11-29 July 2024.

Comment

Christopher Legilisho, Economist at Standard Bank commented:

"The July PMI is a fair representation of business activity during the month. Private sector business activity deteriorated, reflecting ongoing demonstrations and unrest in parts of Kenya for some weeks now, discouraging output and new orders. Business operations were disrupted, and customers delayed spending decisions due to the uncertainty."

"With lower sales and orders across most sectors surveyed, purchasing quantities and inventories slipped for a second consecutive month."

"Furthermore, there was a slight increase in input prices, purchase prices, staffing costs and output prices, reflecting the higher cost of living and taxation. However, output price increases in agriculture, services and wholesale and retail trade were counterbalanced by declines in construction and manufacturing."

"Notwithstanding reduced overall activity, job levels expanded for a seventh month in a row as firms increased their capacity to address mounting backlogs which have been exacerbated by the protests. Business confidence about the coming year weakened to a level last seen in February and was still relatively fragile."

PMI[®]

by **S&P Global**

lengthened for the first time in ten months and backlogs of work accumulated to the greatest extent since March 2023.

Purchase prices increased for the second month running in July, reflecting high living costs and taxation. Although the pace of inflation quickened from that seen in June, the latest rise was still much weaker than those recorded during 2023. Meanwhile, staff costs increased marginally.

Output prices were also up modestly, and for the third successive month. While some firms increased charges in response to higher input costs, others lowered selling prices in a bid to boost sales.

Companies scaled back purchasing activity and stocks of inputs in July, but continued to raise employment. That said, the pace of job creation was only fractional and the slowest in the current seven-month sequence of rising staffing levels.

Business confidence dropped and was the second-lowest on record, only marginally above the series nadir posted in February. Those companies that remained optimistic about the outlook for business activity generally linked this to plans to open new branches.

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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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.

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