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Stanbic Bank Kenya PMI®

Inflationary pressures pick up in December

Key findings

Output prices rise at sharpest pace in 12 months

Cost inflation accelerates amid stronger purchases

Business activity grows for a third consecutive month

The Kenya PMI® indicated a build-up of price inflation at the end of 2024, as a sharp increase in input costs led private sector firms to raise selling prices at the quickest rate since December 2023. The pick-up in cost burdens came as sustained growth in new orders and business activity prompted the fastest expansion in input buying for over two years.

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 stood at 50.6 in December, indicating another marginal improvement in the health of the Kenyan private sector. The index dropped slightly from 50.9 in November, but was above the 50.0 neutral mark for the third month running.

The positive PMI reading was driven by three of its sub-components, as output, new orders and employment all expanded for the third straight month. Notably, this marked the first full quarter of private sector output growth since the final quarter of 2021.

Business output generally rose due to an increase in new order intakes, according to firms monitored by the survey. New orders grew moderately, with the upturn easing from November. Several panellists mentioned an improvement in purchasing power at customers, alongside new bookings and successful advertising campaigns.

Rising demand helped to sustain the current trend of input buying growth in December, with a rise in purchases registered for the fifth month in a row. Furthermore, the increase was the sharpest recorded since September 2022.

Stronger input demand encouraged suppliers to raise their fees, according to a number of surveyed firms. Currency weakness and heightened tax burdens were also commonly noted. Despite a slightly lower average wage bill, the rate of overall input price inflation accelerated to its quickest for 11 months.

Stanbic Bank Kenya PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, S&P Global PMI.
Data were collected 5-19 December 2024.

Comment

Christopher Legilisho, Economist at Standard Bank commented:

“The Kenyan Purchasing Managers Index (PMI) expanded further in December, albeit at a slightly weaker pace than November, reflecting the continued resilience of the private sector following a challenging year. Positively, this is the first quarter of expansion in output since Q4:21, suggesting that the private sector is showing signs of turning around with new orders and employment also in expansionary territory. The improvement is attributed to increased customer sales with an improvement in purchasing power. The PMI also signals healthy growth in purchasing plans in December with a drop in inventories as firms push to clear stocks in the construction and wholesale and retail sectors.

“Kenyan businesses reported increased pass-through of purchase prices, and therefore raised their selling prices in December to protect their profit margins. Rising input and purchase price pressures are attributed to a further increase in demand for commodities and higher taxes, mainly in the agriculture and manufacturing sectors.

“On the macroeconomic front, we end the year with relative stability, a stable exchange rate, inflation at levels last seen 17 years ago, and interest rates declining for government. On the downside, private sector confidence in the business outlook for the next 12 months is still quite weak.”

PMI®

by **S&P Global**

As a result, selling prices at Kenyan firms increased at a sharper pace in December. The latest uplift was the fastest seen in 2024. Sector data revealed that agriculture and manufacturing firms faced the strongest rates of both input and output price inflation at the end of the year.

Kenyan firms reduced their backlogs of work for the second time in three months, indicating spare capacity in the private sector despite sales growth. At the same time, optimism for higher activity in the next 12 months dropped to its second-lowest in the series history. Only 5% of surveyed firms expect output to rise, with these companies basing optimism on planned business expansion and new products and services.

With the outlook relatively weak, just the agriculture sector registered a rise in staffing in December. Total employment growth was only fractional. At the same time, businesses offloaded stocks to avoid wastage, leading to the first decline in inventories for five months.

Contact

Christopher Legilisho
 Economist
 Standard Bank
LegilishoC@stanbic.com

David Owen
 Senior Economist
 S&P Global Market Intelligence
 T: +44 1491 461 002
david.owen@spglobal.com

Sabrina Mayeen
 Corporate Communications
 S&P Global Market Intelligence
 T: +44 7967 447 030
sabrina.mayeen@spglobal.com

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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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