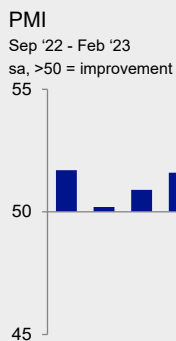


Stanbic Bank Kenya PMI™

Business conditions deteriorate in February as cost of living pressures hit sales

46.6

KENYA PMI
FEB '23



Output and new orders fall sharply

Employment, purchasing and inventories each decrease

Input cost inflation accelerates to marked rate

The Kenya PMI pointed to a decline in business conditions in the second month of 2023, the first since August last year, as several key metrics fell into contraction territory. Output and new orders both recorded sharp falls, leading to renewed cuts in employment and purchasing. The sharp fall in sales came amid reports that cost-of-living pressures and cash flow problems had stunted customer spending.

At the same time, currency weakness and reports of increased tax burdens fed through to a sharper rise in input costs, and one that was among the fastest seen since the series began in 2014. While some firms passed these costs on to customers, the rate of charge inflation was broadly unchanged from January and much softer than that of input prices.

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.

For the first time in six months, the headline PMI registered below the 50.0 no-change mark in February, dropping to 46.6 from an 11-month high of 52.0 in January. The reading indicated a solid deterioration in operating conditions, driven by renewed contractions in many of the covered metrics.

Demand weakness was particularly clear in the latest survey data, as companies reported a sharp contraction in new order volumes following a solid upturn in January. Survey panellists frequently noted that customers had pared back spending due to high inflation and a lack of money in circulation. Firms also suffered from a marked fall in export sales, one of the fastest seen on record.

The downturn in sales led Kenyan companies to make renewed cuts to activity, employment and purchasing

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



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in February. Output fell sharply and for the first time in four months, while input purchases fell for the first time since last August. While job losses were only mild overall, they were the strongest seen since April 2021.

Supply chain performance was broadly stable in February, ending a prior five-month run of improvement. Some firms mentioned shortages of items such as timber and foodstuffs, as well as delays at ports. The disruption contributed to a fall in stocks of purchases.

Cost pressures accelerated to a notable pace during February, the highest for

five months and among the quickest on record. Purchase price inflation was the key driver, according to panellists, amid reports of increased taxes and higher import costs as the exchange rate against the US dollar worsened. Output charges rose accordingly, although the rate of inflation was broadly unchanged from January and much softer than the increase in costs.

In contrast to the general trend, business confidence towards future output strengthened markedly in February and was at its highest level in nearly three years.

Comment

Mulalo Madula, Economist at Standard Bank commented:

"After a stellar performance between September 2022 and January 2023, the Kenya PMI fell into contraction territory in February as cash flow issues and cost of living weighed on demand. With currency depreciation inducing higher import costs and reports of tax burdens, the increase in input costs and consequently output charges (although less than the increase in costs) is amongst the highest since the series began in 2014. But then, while the sales decline was broad based, agriculture is the only sector where sales increased. Notably, the decrease in activity was uneven across firms in various sectors, with 38% of panellists reporting a drop in activity compared with a quarter of respondents reporting an increase. But then, despite everything, businesses are still optimistic about the outlook for the next 12 months, with the future output index rising for the second month in a row."



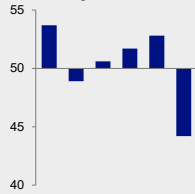
PMI™

by **S&P Global**

Output and demand

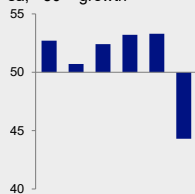
Output Index

Sep '22 - Feb '23
sa, >50 = growth



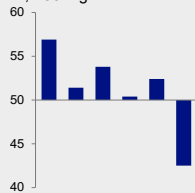
New Orders Index

Sep '22 - Feb '23
sa, >50 = growth



New Export Orders Index

Sep '22 - Feb '23
sa, >50 = growth



Output

Adjusted for seasonal factors, the Output Index indicated a sharp reduction in Kenyan business activity in February, thereby ending a three-month run of expansion. Around 38% of panellists reported that activity had decreased over the survey period, against a quarter of respondents that saw a rise. Panellists frequently mentioned that lower demand due to rising prices and a lack of cash flow had led to the drop in activity.

New orders

After recording growth for five months in a row, new business inflows fell at a marked pace in February, as customers reportedly cut their spending due to rapid inflation. A lack of money in circulation was also cited by survey respondents. Four of the five monitored sectors saw new orders decrease, with particularly sharp falls seen in manufacturing and wholesale & retail. Agriculture was the only sector where sales increased.

New export orders

Kenyan businesses registered a substantial drop in new export orders midway through the first quarter. In fact, the rate of decline was the fastest seen in the survey's history (since 2014) outside of the first COVID-19 lockdown. Respondents linked the fall to a number of factors, including increased taxes, adverse weather conditions and currency weakness.

Output Index

sa, >50 = growth since previous month



New Orders Index

sa, >50 = growth since previous month



New Export Orders Index

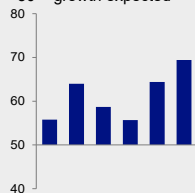
sa, >50 = growth since previous month



Business expectations

Future Output Index

Sep '22 - Feb '23
>50 = growth expected



Despite business activity falling sharply in February, Kenyan firms were more optimistic about their prospects for the coming year. The Future Output Index rose for the second consecutive month and was at its highest level since April 2020. Survey respondents continued to cite plans to expand their businesses through new branches, new products and services and increased advertising. Sector data signalled that the boost to confidence was largely driven by the construction and manufacturing categories.

Future Output Index

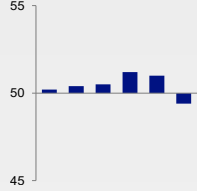
>50 = growth expected over next 12 months



Employment and capacity

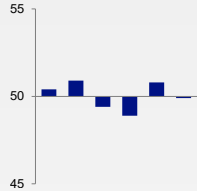
Employment Index

Sep '22 - Feb '23
sa, >50 = growth



Backlogs of Work Index

Sep '22 - Feb '23
sa, >50 = growth



Employment

Lower volumes of new work led companies to reduce their staffing levels midway through the first quarter. Employment fell for the first time in six months and, though mildly overall, at the fastest pace since April 2021. Some firms chose to not replace voluntary leavers, although others registered a rise in employment due to higher sales and branch openings. The decline in staffing was chiefly led by the agricultural sector.

Employment Index

sa, >50 = growth since previous month



Backlogs of work

Volumes of outstanding work at Kenyan businesses were largely unchanged in February, after increasing slightly for the first time in three months at the start of 2023. While some panellists indicated that backlogs had risen due to a cut in workforce numbers, others commented on spare capacity due to weaker demand. Services was the only category to see backlogs rise.

Backlogs of Work Index

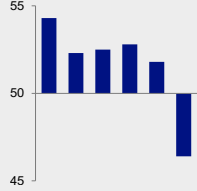
sa, >50 = growth since previous month



Purchasing and inventories

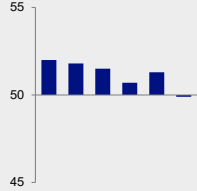
Quantity of Purchases Index

Sep '22 - Feb '23
sa, >50 = growth



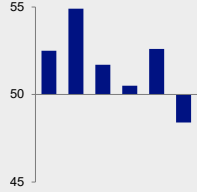
Suppliers' Delivery Times Index

Sep '22 - Feb '23
sa, >50 = faster times



Stocks of Purchases Index

Sep '22 - Feb '23
sa, >50 = growth



Quantity of purchases

Adjusted for seasonality, the Quantity of Purchases Index fell below the 50.0 neutral mark in February, signalling a reduction in input buying for the first time in six months in line with weaker sales volumes. The solid drop in purchases reflected decreases in four of the five monitored sectors, the exception being agriculture where purchasing levels were unchanged.

Suppliers' delivery times

Kenyan firms saw little change to supply side conditions over the course of February, shown by the seasonally adjusted Suppliers' Delivery Times Index registering fractionally below the 50.0 threshold. Some firms continued to record shorter delivery times as vendors competed for sales. On the other hand, there were reports that items such as timber and foodstuffs were in short supply, while some firms mentioned delays at ports.

Stocks of purchases

Stocks of purchased inputs at Kenyan firms decreased for the first time in six months in February. Moreover, whilst modest, the rate of contraction was the strongest recorded in nearly two years. Panellists often noted that lower demand levels had led them to reduce their stocks.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Stocks of Purchases Index

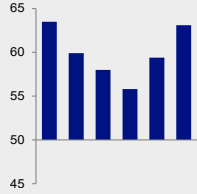
sa, >50 = growth since previous month



Prices

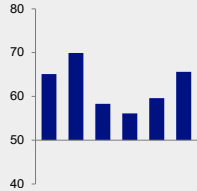
Input Prices Index

Sep '22 - Feb '23
sa, >50 = inflation



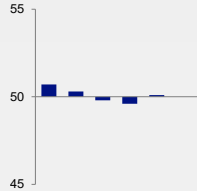
Purchase Prices Index

Sep '22 - Feb '23
sa, >50 = inflation



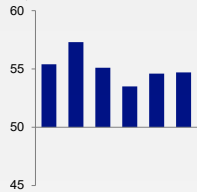
Staff Costs Index

Sep '22 - Feb '23
sa, >50 = inflation



Output Prices Index

Sep '22 - Feb '23
sa, >50 = inflation



Input prices

The seasonally adjusted Input Prices Index rose sharply for the second month running in February, pointing to a marked increase in overall cost burdens at Kenyan companies. Indeed, the rate of input cost inflation was one of the sharpest seen in the survey's history, with over a third (36%) of respondents seeing costs increase since the previous month. Construction firms saw the most pronounced rise in input prices in February.

Purchase prices

Higher cost inflation was chiefly driven by purchase prices over the latest survey period, which rose at a sharp and accelerated pace. Where an uptick in purchase prices was recorded, firms often commented that a weaker shilling against the US dollar and increased taxes had led to a rise in material prices. Some panellists also noted item shortages and higher transport costs.

Staff costs

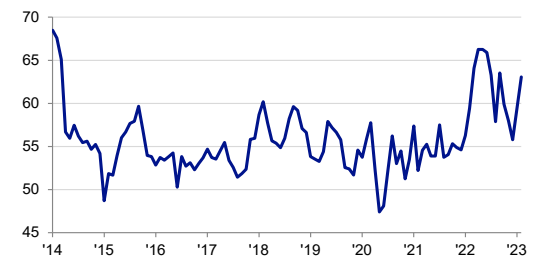
Adjusted for seasonal factors, the Staff Cost Index recorded at the 50.0 neutral mark during February, ticking slightly lower from January, to signal no change in salary costs at Kenyan firms. While some companies increased their wages due to the higher cost of living, this was offset by reductions elsewhere amid falling sales. That said, most respondents saw wages remain stable since the start of the year.

Output prices

Kenyan businesses reported a sharp increase in average prices charged in February, with the rate of inflation ticking up fractionally to a three-month high. Firms largely increased their charges due to higher purchase prices. All five sectors covered by the survey saw an uplift in selling prices, led by agriculture.

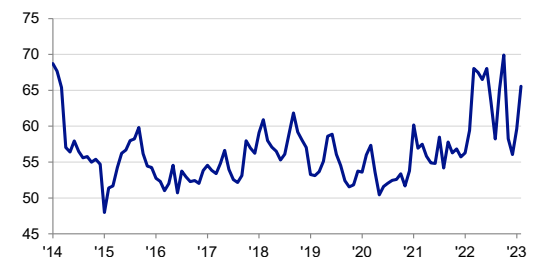
Input Prices Index

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

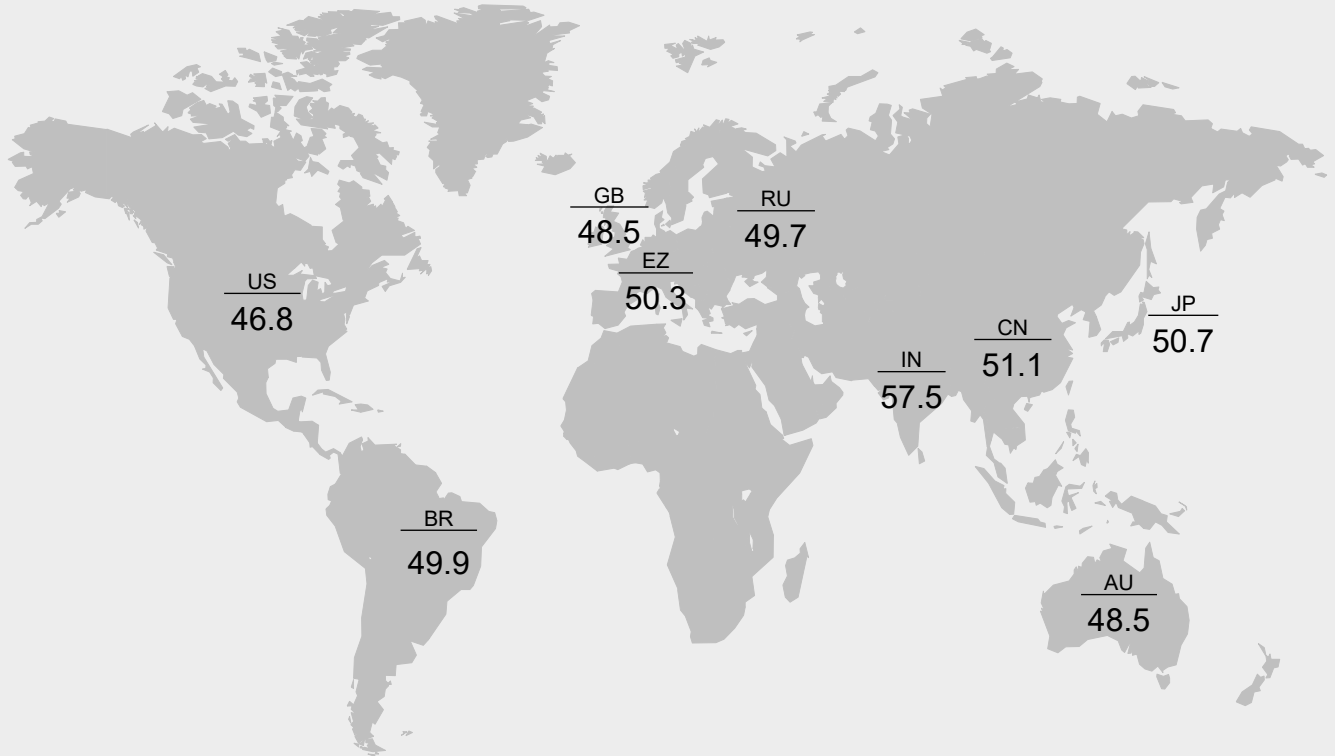
sa, >50 = inflation since previous month



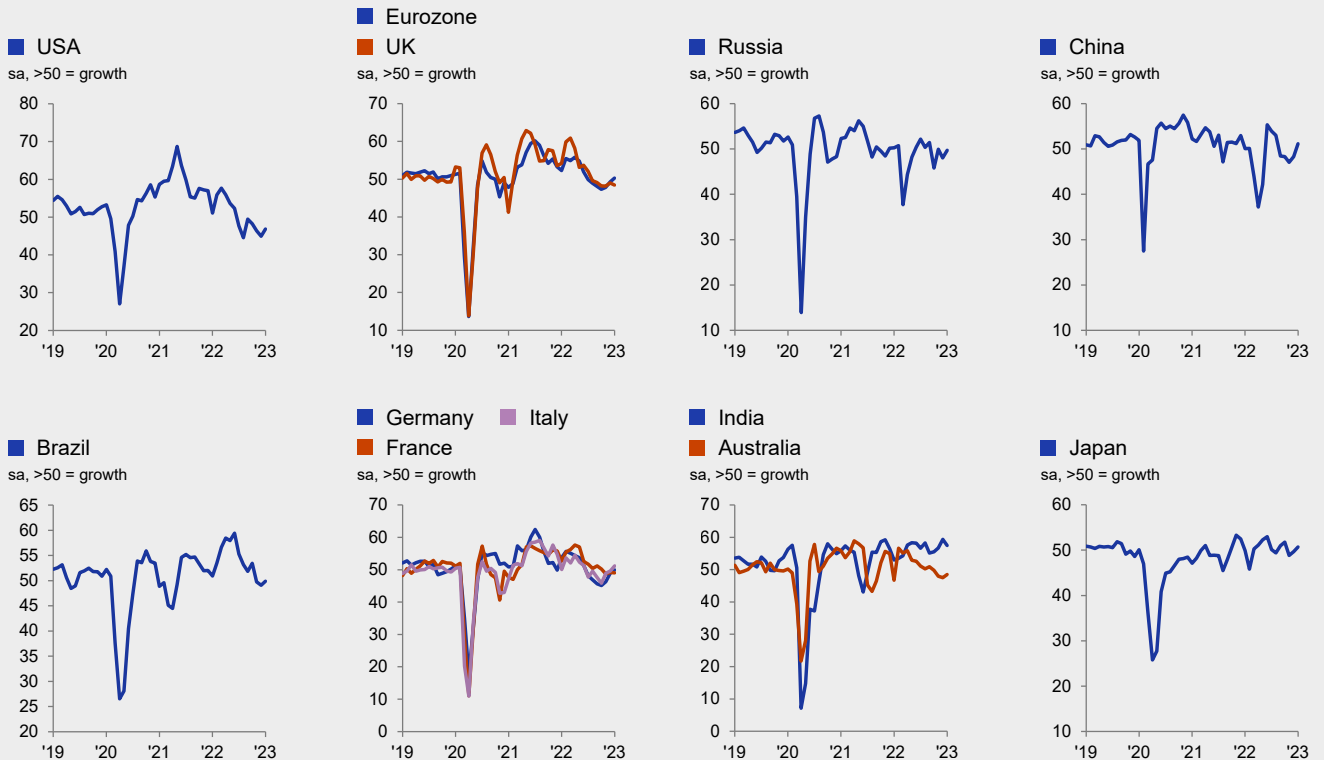
International PMI

Composite Output Index, Jan '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 10-24 February 2023.

Survey questions

Private sector

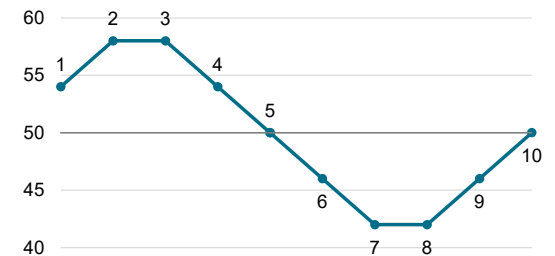
Output	Suppliers' Delivery Times
New Orders	Stocks Of Purchases
New Export Orders	Input Prices
Future Output	Purchase Prices
Employment	Staff Costs
Backlogs Of Work	Output Prices
Quantity Of Purchases	

Index calculation

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

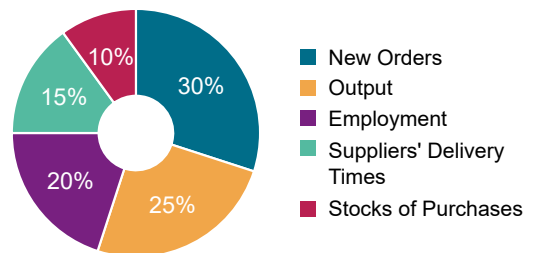
Index interpretation

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.

ihsmarket.com/products/pmi.html

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