News Release

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Stanbic Bank Kenya PMI™

Business conditions deteriorate rapidly as customer turnout declines

Key findings

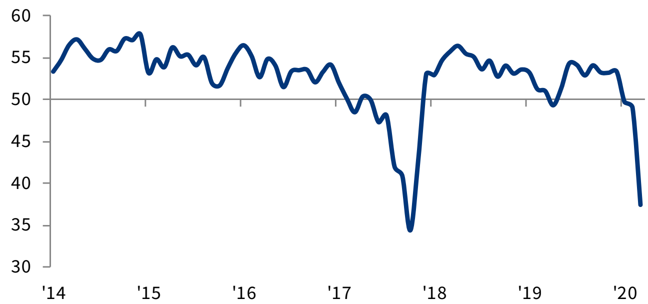
Firms suffer from pandemic-related fall in sales

Activity declines sharply, as job numbers also decrease

Reduced input supply drives up purchase costs

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

Kenyan firms saw a much sharper decline in operating conditions in March, according to latest PMI survey data. The downturn was widely due to the outbreak of coronavirus disease 2019 (COVID-19) in the country, which led to a large drop in consumer demand and client orders. Businesses consequently reduced activity and employment, while demand for inputs fell at the quickest pace since late-2017. However, shortages of raw materials contributed to a faster rise in overall input costs.

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.

Falling markedly in March, the headline PMI posted at 37.5, down from 49.0 in February. The reading signalled a sharp deterioration in business conditions and was the second-worst recorded in the survey's history.

Kenyan firms saw a marked drop in business activity during the month, which was widely linked to the impact of the COVID-19 pandemic on consumer demand. Many surveyed businesses noted that worries surrounding the virus meant that customers cancelled or reduced new orders, leading to a steep fall in total sales that was the second-sharpest on record.

New orders from foreign clients declined at a record pace in March as the pandemic led to a marked reduction in exports worldwide. Kenyan businesses particularly noted a drop in new orders from Europe.

As a result, employment was lowered for the first time in 11 months as companies reported less pressure on both current workload requirements and backlogs. Input buying was likewise reduced, leading to a solid decline in inventory levels.

Firms highlighted that many raw materials were in short supply in March due to the virus pandemic, with respondents receiving inputs from China most affected. These shortages placed greater pressure on purchase prices, which rose at the quickest pace since June 2019. While weaker input demand led to faster delivery times overall, reduced availability meant that the rate of improvement was only modest.

Selling charges meanwhile increased only slightly in March. Some firms raised prices to counteract falling sales revenues, but others reduced prices in an effort to revive consumer demand.

Looking ahead, the overall level of sentiment in the Kenyan private sector remained strong, despite the impact of the pandemic. Companies cited plans to widen products and services and open new branches, though some respondents noted these plans were on hold until after the virus has been brought under control.

Comment

Jibran Qureishi, Regional Economist E.A at Stanbic Bank commented:

"The sharp drop in the PMI doesn't really come as a surprise. The negative impact from Covid-19 is quite broad based and is likely to effect various sectors across the economy. However, the tourism and floriculture sector have been hit the hardest so far, admittedly due to global cross border travel restrictions and waning luxury spending in markets such as Europe.

"Sourcing raw materials from markets such as China has also been cumbersome. Yet, Chinese factories are likely to restart production as early as mid-April which may somewhat soften this negative impact. Arguably, there will be a notable impact on economic output this year as supply chains globally are disrupted and negative demand shocks are felt too. But of course timing will be everything. The longer the duration, the more acute or severe the impact will be."

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Methodology

The Stanbic Bank Kenya PMI™ is compiled by IHS Markit 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.

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.

March data were collected 12-27 March 2020.

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.

About Stanbic Bank

Stanbic Bank Kenya is a member of the Standard Bank Group, Africa's largest bank by assets.

Standard Bank Group reported total assets of R1,95 trillion (about USD143billion) at 31 December 2016, while its market capitalisation was R246 billion (about USD18 billion). The 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. Standard Bank Group has 1 221 branches and 8 815 ATMs in Africa, making it one of the largest banking networks on the continent. It provides global connections backed by deep insights into the countries where it operates. In Kenya the bank has a network of 26 branches.

Stanbic Bank provides the full spectrum of financial services. It's 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 mining and metals; oil, gas and renewables; power and infrastructure; agribusiness; telecommunications and media; and financial institutions.

The bank's personal and business banking unit offers banking and other financial services to individuals and small-to-medium enterprises. 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).

For further information log on to www.stanbicbank.co.ke.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.