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Kenya – Seasonal boost to business sentiment

- **A seasonal pick-up in activity drove Kenya's business sentiment up 6.1% m/m in December to 63.1**
- **Stronger orders and increased productivity helped to boost sentiment**
- **Kenyan firms remain cautious about the near-term outlook**

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All five BSI components rose in December

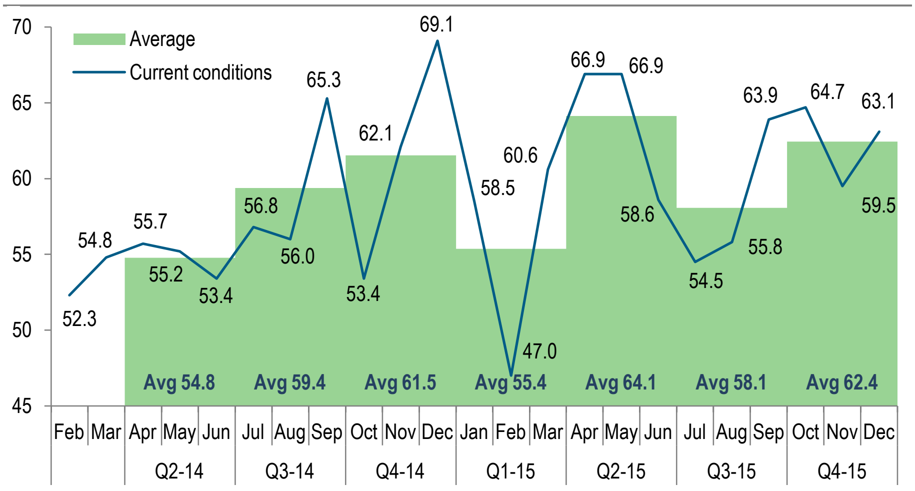
Business sentiment in Kenya, as measured by the Standard Chartered-MNI Business Sentiment Indicator (BSI), rose 6.1% m/m in December to 63.1, from 59.5 in November as Christmas provided a seasonal boost to activity. All five components of the BSI rose in December, and 14 of 15 current conditions indicators increased month on month. While business sentiment in December 2015 remained well below its level in the same month of 2014 (69.1), the Q4 average in 2015 is higher than that of Q4-2014; this suggests that activity is more robust generally. In Q4-2015 the BSI averaged 62.4 compared with 61.5 in 2014.

The rise in the headline indicator was driven by increases in all five of its components. A sharp rebound in order backlogs following a drop in November (15% weight in the headline indicator), plus strong seasonal rises in the production (25%), new orders (35%) employment (15%) and supplier delivery times (10%) readings helped to drive the move up in the indicator in December.

The results reflect Kenyan firms' concerns about a slowdown in the availability of credit in recent months while interest rates paid also rose to a series high, reflective of recent tightening by the Central Bank of Kenya (CBK). On the other hand, the impact of the KES exchange rate, a longstanding issue, improved in December to 37.8, its highest level since August 2015, perhaps as Kenyan businesses began to see some positive impact from recent exchange rate stabilisation. They expect the exchange rate to be less of a concern in the first few months of 2016.

Figure 1: Kenya BSI rises in December

Standard Chartered-MNI Kenya Business Sentiment Indicator



Source: MNI, Standard Chartered Research

Important disclosures can be found in the Disclosures Appendix

While companies are positive about current conditions, they are more cautious about the near-term outlook. 7 out of 15 future expectation indicators, which cover Kenyan companies' expectations for the next three months, fell m/m in December. This is in line with our own view that 2016 is likely to be a year of two halves for Kenya, with slower growth in the first half likely to give way to stronger growth in H2. Our forecast that growth momentum for 2016 as a whole will be stronger than 2015 should be a positive for business sentiment in the coming months; however, we think any escalation of security-related risks would be a key risk to business sentiment in 2016.

A quick recap of our BSI methodology

The Standard Chartered-MNI BSI for Kenya is a diffusion index, summarising in a single number how optimistic businesses feel about current and future economic conditions.

Each month, we poll c.200 businesses that represent different sectors of Kenya's economy

We partner with MNI, a well-known data provider that has long produced the Chicago PMI, among other indicators, to construct the Standard Chartered-MNI BSI. Each month, up to 200 formal-sector businesses, active in different segments of Kenya's economy, respond to questions on Kenya's current and future economic conditions. Although most of the respondents polled are Nairobi-based, with some in Mombasa, the businesses that they represent are active across Kenya.

While small and medium-sized enterprises (SMEs) are represented, so are corporates with a regional East Africa presence, both listed and unlisted. The responses of our panel of companies are collated to generate a single number that captures sentiment. The headline BSI (current conditions index) for Kenya is made up of a number of components, with different weights assigned: new orders (a 35% weight), production (25%), employment (15%), order backlogs (15%) and supplier delivery times (10%).

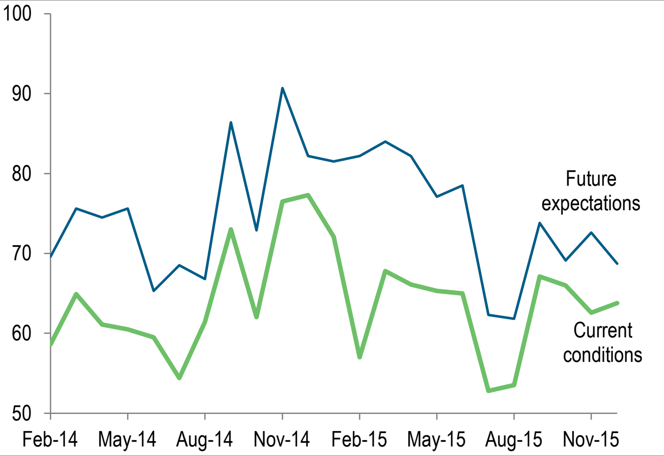
A headline BSI reading above 50 is typically consistent with economic expansion

Respondents are asked whether business activity has increased, decreased, or remained the same, compared with the previous month. They are also asked about their expectations over the next quarter. We use this information to calculate a diffusion indicator, by adding the percentage share of positive responses to half of the percentage of respondents reporting no change. An indicator above 50 shows an expansion. An indicator below 50 indicates a contraction. A result of 50 means no change.

Questions are asked on a number of key business metrics, including orders, production, pricing, inventories, credit availability and the impact of exchange-rate trends. These questions are provided at the end of this report (Figure 17). Data collation for Kenya was initiated in February 2014. The short survey history means that it is not yet possible to adjust for seasonality. Nonetheless, we can still observe how sentiment might be changing from month to month, based on our representative panel of companies. We believe that the receipt of timely information on economic performance can help a range of stakeholders, both in the private sector and in policy circles, with their economic decision-making.

Figure 2: Overall business conditions

Current conditions rose 1.9% m/m



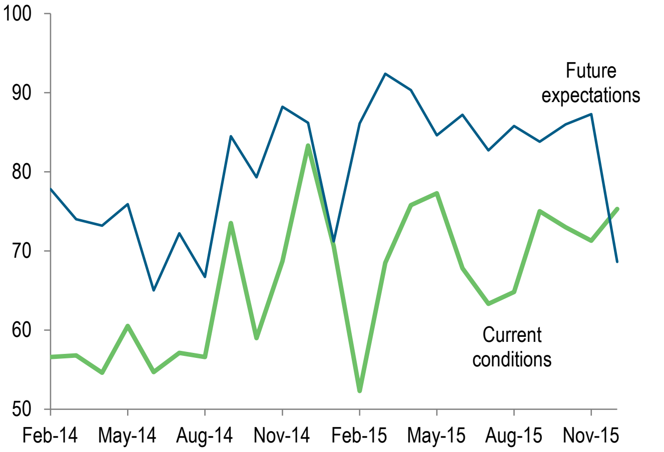
Source: MNI, Standard Chartered Research

Current conditions rose but future expectations fell

Overall business conditions increased slightly in December, up 1.9% m/m to 63.8. While the indicator is up, it remains below levels seen a year ago. Future expectations, however, fell by 5.4% m/m to their lowest level since August, as firms remain concerned about the near-term outlook.

Figure 3: Production

Current conditions rose 5.6% m/m



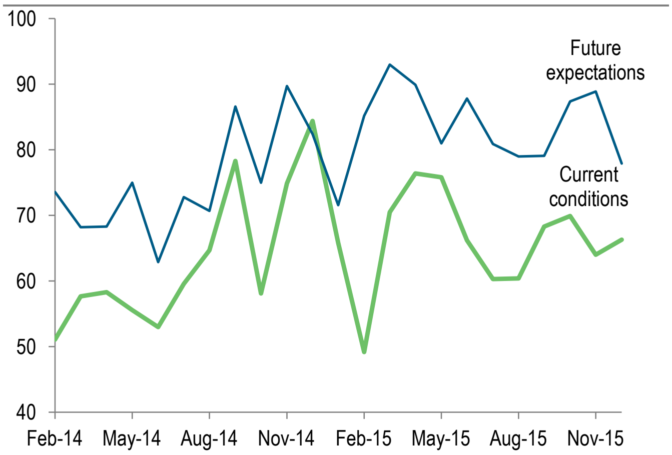
Source: MNI, Standard Chartered Research

Production future expectations slumped

Production accounts for 25% of the headline BSI indicator, so any changes here are important. Companies reported increased production in December, likely in response to higher orders over the Christmas period. However, future expectations slumped in December, falling 21.4% m/m. This may indicate weaker demand expectations and therefore lower production in the coming months following the December peak.

Figure 4: New orders

Current conditions rose 3.6% m/m



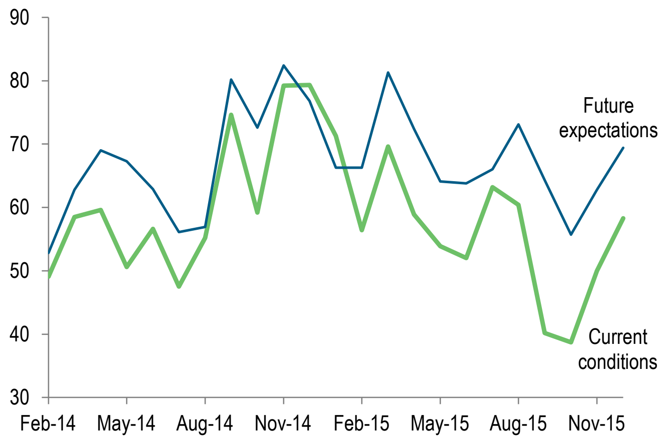
Source: MNI, Standard Chartered Research

Current conditions up, future expectations down

In December, Kenyan firms reported slightly increased demand for their goods, while future expectations for new orders fell sharply by 12.4% to their lowest level in 2015. Firms expect that new orders will likely soften in the coming months, following a year-end rise.

Figure 5: Export orders

Current conditions rose 16.6% m/m



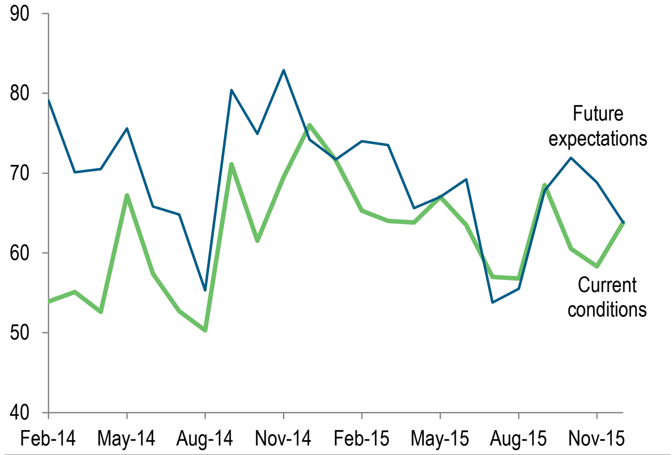
Source: MNI, Standard Chartered Research

Export orders increased all round

Both current conditions and future expectations for export orders rose in December. The current conditions reading rose to 58.7, the first time it has moved markedly above the 50 level since August 2015. Future expectations also rose rapidly, to 69.4, again the highest level since August. While Kenyan businesses have not reported any improved export demand from a weaker exchange rate in recent months, some lagged positive impact may be now in play.

Figure 6: Productive capacity

Current conditions rose 9.4% m/m



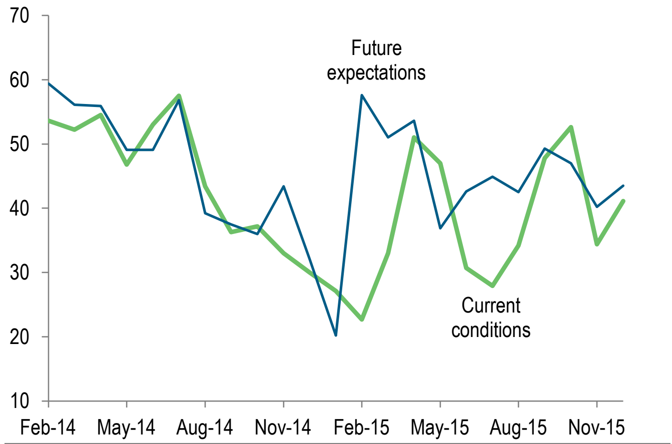
Source: MNI, Standard Chartered Research

Rising productive capacity for now

There was a clear divergence in current conditions for productive capacity and future expectations in December. Current conditions rose 9.4% m/m to their highest level since September. On the other hand, future expectations fell 7.3% m/m to their lowest level since August. While firms expanded capacity to meet higher new orders in December, expectations of a fall in demand in the new year have made them less likely to increase productive capacity in the coming months.

Figure 7: Order backlogs

Current conditions rose 19.5% m/m



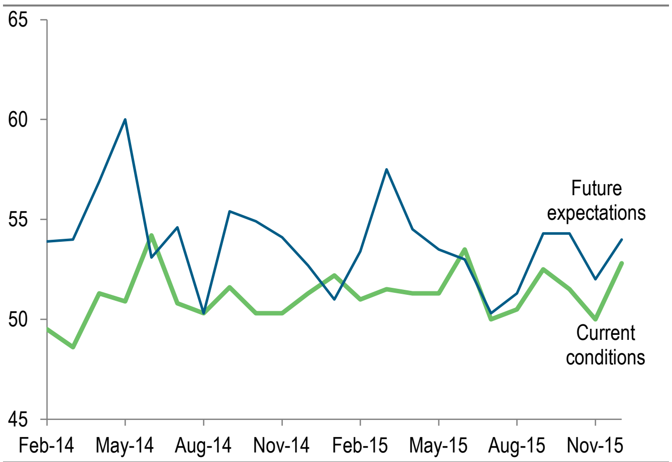
Source: MNI, Standard Chartered Research

Up, but still negative

Order backlogs rose a rapid 19.5% m/m in December, but remain low at 41.1. Future expectations also rose slightly to 43.5 in December from 40.2 in November.

Figure 8: Employment

Current conditions rose 5.6% m/m



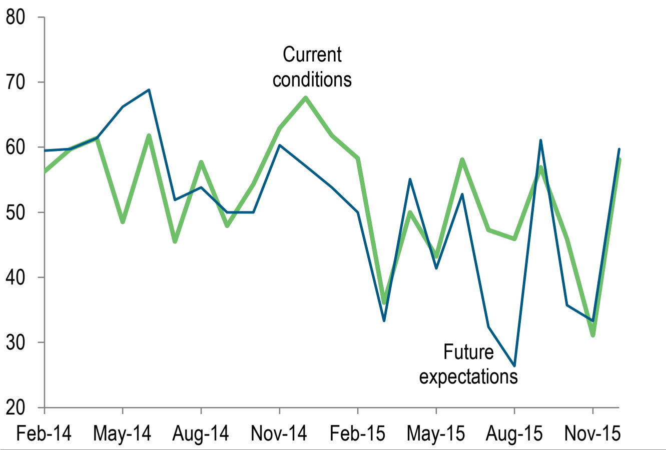
Source: MNI, Standard Chartered Research

Employment intentions improved

Employment current conditions rose to their highest level since June 2015 in December, to 52.8. Future expectations also increased to 54.0, having remained roughly stable in recent months. The reading has changed little over the course of our indicator. With the orders future expectations indicators looking less positive, employment expectations are unlikely to rise meaningfully just yet.

Figure 9: Inventories

Current conditions surged 86.8% m/m



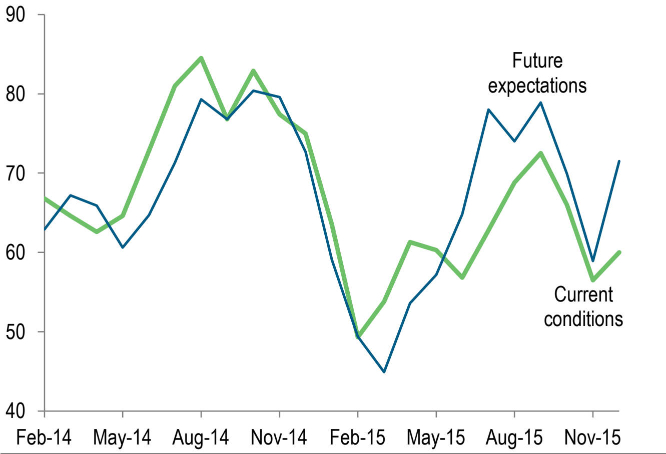
Source: MNI, Standard Chartered Research

Inventories surged in December

The inventories reading has been volatile in recent months. Following a sharp fall in November, both the current conditions and future expectations indicators surged in December, bringing the indicator back to the levels seen during the first half of 2015.

Figure 10: Input prices

Current conditions rose 6.2% m/m



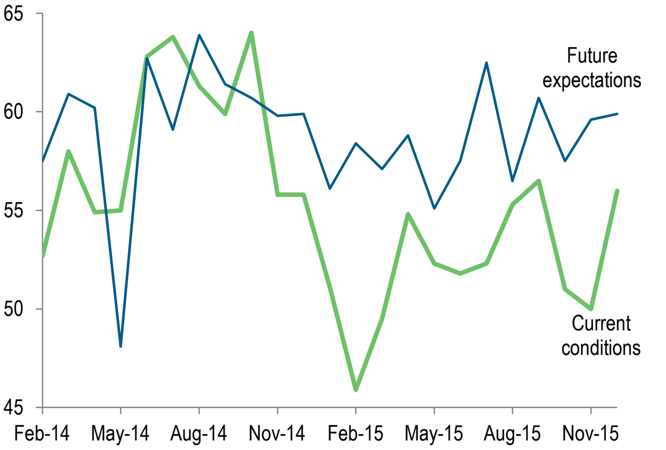
Source: MNI, Standard Chartered Research

Input prices increased

Current conditions for input prices rose 6.2% m/m in December, and future expectations rose even more sharply by 21.4%. Lower fuel and food prices have been a positive for Kenyan prices in 2015, but the rise in the indicator may reflect ongoing feed-through from a weaker exchange rate.

Figure 11: Prices received

Current conditions rose 12.0% m/m



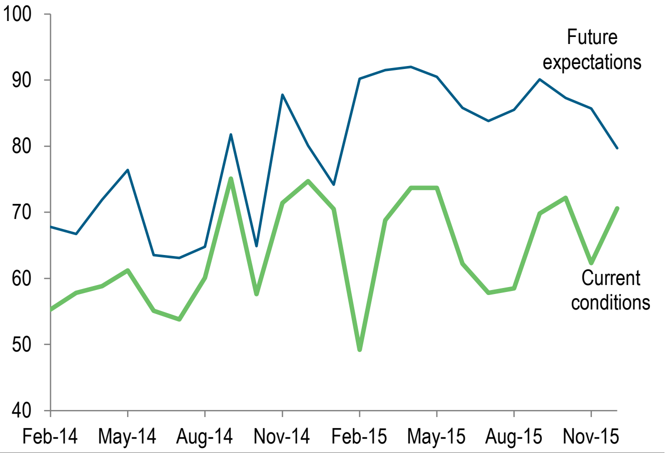
Source: MNI, Standard Chartered Research

Kenyan firms are charging consumers more

Current conditions rebounded in December, up 12.0% m/m to 56.0, suggesting that Kenyan firms passed on some of the higher prices paid for their inputs to consumers in December. Future expectations were largely unchanged, up just 0.5% m/m in December, perhaps a reflection of expectations for weaker orders and lower pricing power in the coming months.

Figure 12: Financial position of your company

Current conditions rose 13.3% m/m



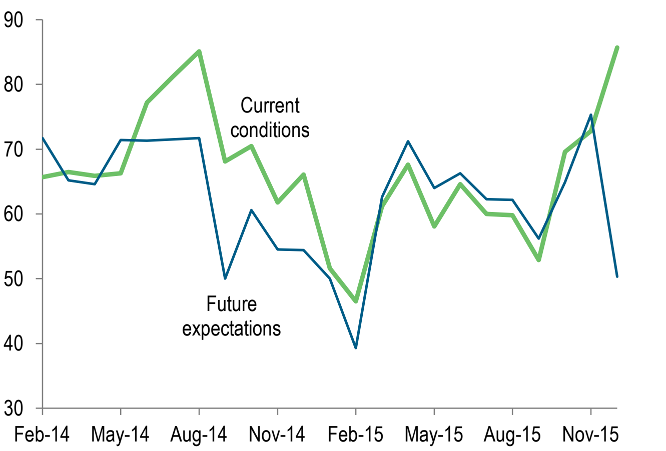
Source: MNI, Standard Chartered Research

Financial positions are expected to deteriorate

In December, financial positions improved somewhat as new orders, export orders and higher production and productivity were a positive for Kenyan businesses. However, future expectations continued to fall and reached their lowest level since January 2015. This is supported by a drop in future expectations indicators across the board.

Figure 13: Interest rates paid

Current conditions rose 17.7% m/m



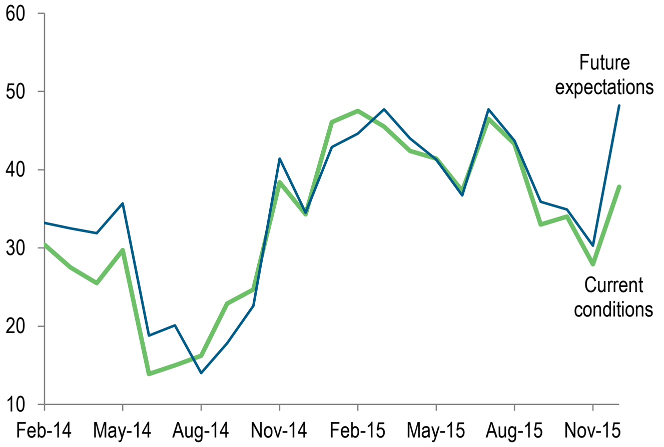
Source: MNI, Standard Chartered Research

Interest rates paid reached a series high

Current conditions for interest rates paid reached a series high in December of 85.7. Although the CBK left policy rates unchanged at 11.5% in November, the monetary policy cycle earlier in the year is likely still feeding through into interest rates paid. Interestingly, future expectations slumped in December to 50.3, but we do expect monetary policy to remain tight in the coming months.

Figure 14: Effect of the KES exchange rate

Current conditions rose 35.5% m/m



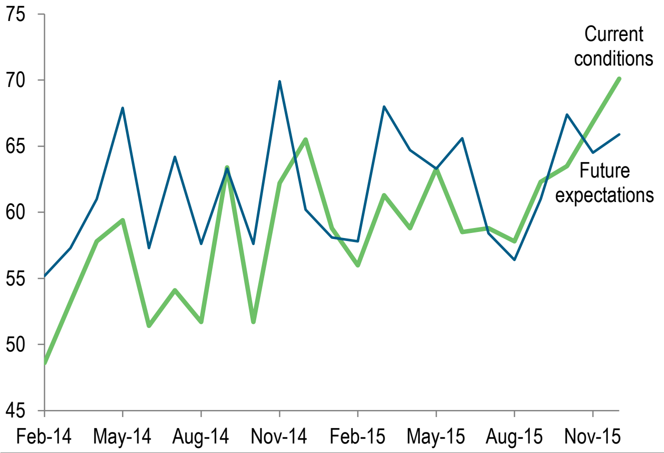
Source: MNI, Standard Chartered Research

Firms are less concerned about the exchange rate

Kenyan businesses surveyed have been concerned about the impact of the Kenyan shilling (KES) exchange rate on their businesses since our series began in early 2014. In December, Kenyan firms reported being less concerned about the currency and its impact on their businesses. Both current conditions and future expectations rose – future expectations increased to a new series high of 48.2, but remained below the breakeven 50 level. Expectations indicate that recent KES stability might be maintained in the coming months.

Figure 15: Supplier delivery times

Current conditions rose 4.9% m/m



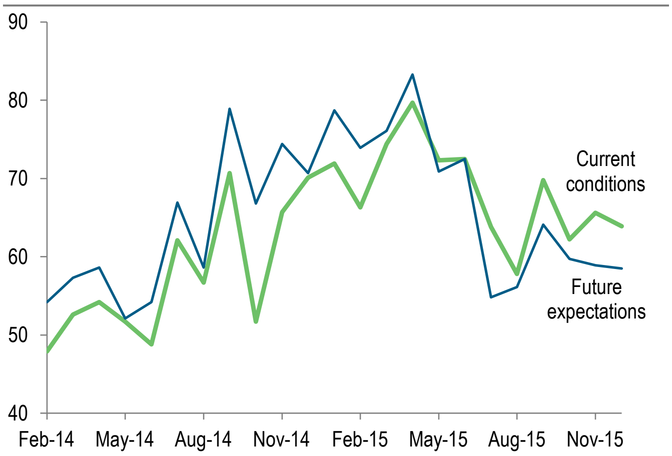
Source: MNI, Standard Chartered Research

Supplier delivery times rose

Both current conditions and future expectations for supplier delivery times increased in December. Current conditions reached their second consecutive series high at 70.1. Future expectations also rose, albeit more softly.

Figure 16: Availability of credit

Current conditions fell 2.6% m/m



Source: MNI, Standard Chartered Research

Availability of credit was constrained further

Kenyan firms reported that availability of credit fell in December. Current conditions fell to 63.9 while future expectations also dropped to 58.5. Kenyan businesses' outlook on the availability of credit is little changed – they still expect it to fall in the near term.

Figure 17: Understanding the questions

In order to aid comprehension of the survey, we reproduce the questions asked of respondents below

Productive capacity	Compared with a month ago, is the productive capacity of your company higher, the same or lower? Questions will also address the three-month outlook.
Production	Questions address what is happening to actual production – higher, the same, or lower? What about the three-month outlook?
Interest rates paid	How do the interest rates that you pay compare with a year ago? How do you expect the interest rate you pay to change in three months' time?
New orders	Compared with a month ago, are new orders higher, the same or lower? Do you think that new orders will be higher, the same or lower in three months?
New export orders	Compared with a month ago, are new export orders higher, the same or lower? Do you think new export orders in three months' time will be the same, higher or lower?
Exchange rate	Compared with a month ago, how is the FX rate affecting your business – helping, no impact or hurting? How do you think it will be affecting your business in three months' time?
Suppliers' delivery times	Compared with a month ago, are your suppliers' delivery times (of raw materials, consumables, etc.) higher, the same or lower? Do you think your suppliers' delivery times (of raw materials, consumables, etc.) in three months' time will be higher, the same or lower?
Number of employees	Compared with a month ago, is the number of your employees not enough, just right or too many? What do you expect it to be in three months' time?
Financial position of your company	An assessment of whether this is better, the same or worse.
Order backlogs	(For agricultural companies, there are no questions about order backlogs.)
Input prices	How do they compare with a month ago? Where are they expected to be in three months' time?
Prices you charge for your products	How do they compare with a month ago? Where are they expected to be in three months' time?
Availability of credit	Is it better, the same or worse than a year ago? Do you expect the availability of credit in three months to be better, the same or worse?
Inventory of finished goods	(For agricultural companies, there are no questions about inventories of finished goods.)
Overall business conditions	Are these improving, the same or worsening? What do you expect over the next quarter?

Source: Standard Chartered Global Research, MNI

A selection of comments from the Kenya panel of businesses

There was demand for sugar after effective control of sugar imports

We are serving more customers than the last month

Interest rates are higher due to tight monetary policy

Banks have raised their basic lending rates

Very high interest rates incurred on our overdrafts

We have more orders from local and international clients

Road infrastructure has improved so supplier delivery times have eased

We have plans to hire more qualified and experienced employees

We have contracted more employees in various departments

There was better utilisation of financial resources

We have cleared most of our debts

There is shortage of suppliers in the market

Raw materials are very expensive

Electricity prices are very high

Shilling has fluctuated a lot

There are many requirements for availing loan now and procedures are lengthy

Banks appear restrictive in giving credit

Source: MNI, Standard Chartered Research

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