

# press release

## Kenya business sentiment remains strong, boosted by robust external demand

- **BSI down 1.4% m/m to 63.0 in May due to a drop in production**
- **The employment indicator reached its highest level since June 2014 as firms increased hiring**
- **Firms also reported falling prices and expectations of lower interest rates (survey prior to CBK easing)**

**2<sup>nd</sup> June 2016 Nairobi, Kenya** – The overall business sentiment in Kenya remained robust despite a slight drop in May. The headline indicator fell 1.4% month-on-month to 63.0, entirely due to a 10.6% drop in production. As production accounts for 25% of the headline, any change in the reading is important for driving trends in the headline indicator. The rest of the components of the headline – new orders, order backlogs, employment and supplier delivery times – all saw modest increases.

“The fall in the headline conceals the strength of sentiment in May, in our view, with the three-month average increasing to 61.7 from 59.7 in Q1. Employment rose to its highest level since June 2014. Export orders rose a robust 14.8% m/m to their highest level since January as firms reported a pick-up in overseas demand. Indicators of financial strength were also positive – input prices are expected to decline on still-soft oil prices, and firms expect interest rates to fall further. Kenyan firms also continued to report an improvement in credit availability after a more challenging H2-2015 – this should support sentiment going forward,” Razia Khan Standard Chartered’s Chief Economist for Africa commented.

The drop in the production indicator is slightly curious given the increase in both current conditions and future expectations for the two orders indicators (export orders and new orders). The fall likely reflects that April was the second-highest reading for production since our series began. The production indicator remains on an upward trend, and the momentum is positive despite the decline in the reading. The three-month average for production was 75.4 in May, up from 73.9 in April.

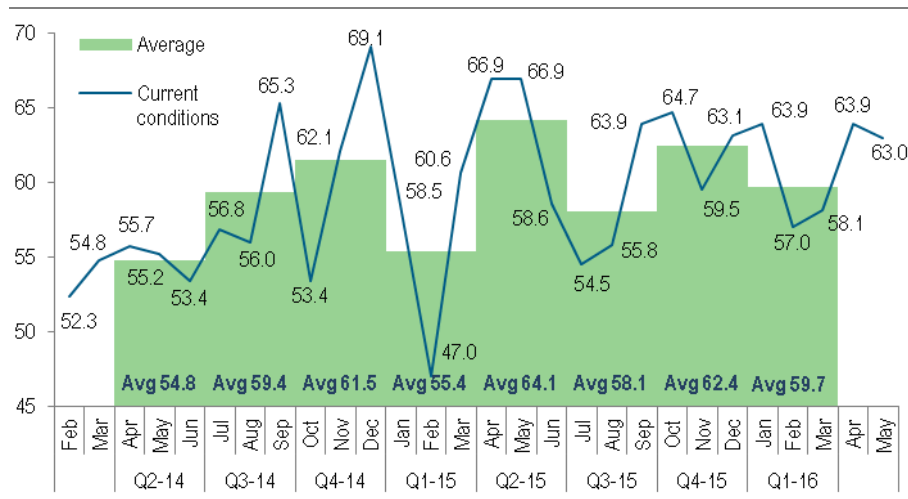
A reading of 63.0 in May suggests that Kenyan firms are still positive about current conditions; a reading above the breakeven 50 level indicates positive sentiment, and that more Kenyan firms are reporting a pick-up in activity than those reporting a slowdown.

We think employment is unlikely to pick up unless businesses see a more sustained uptick in activity. The employment indicator is at its highest level

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since June 2014 as firms reported that they needed more staff, perhaps reflecting expectations that demand will pick up.

**Figure 1** **Figure 1: Our Kenya BSI dropped in May**  
*Standard Chartered-MNI Kenya Business Sentiment Indicator*



Source: MNI, Standard Chartered Research

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**ENDS**

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## NOTES TO EDITORS:

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##### **2 Markets: Kenya, Nigeria**

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