

THIRD EDITION

1. INTRODUCTION:

Welcome to the Third Edition of the Kenya Manufacturing Barometer. The Manufacturing Barometer elucidates the current outlook of the manufacturing sector.

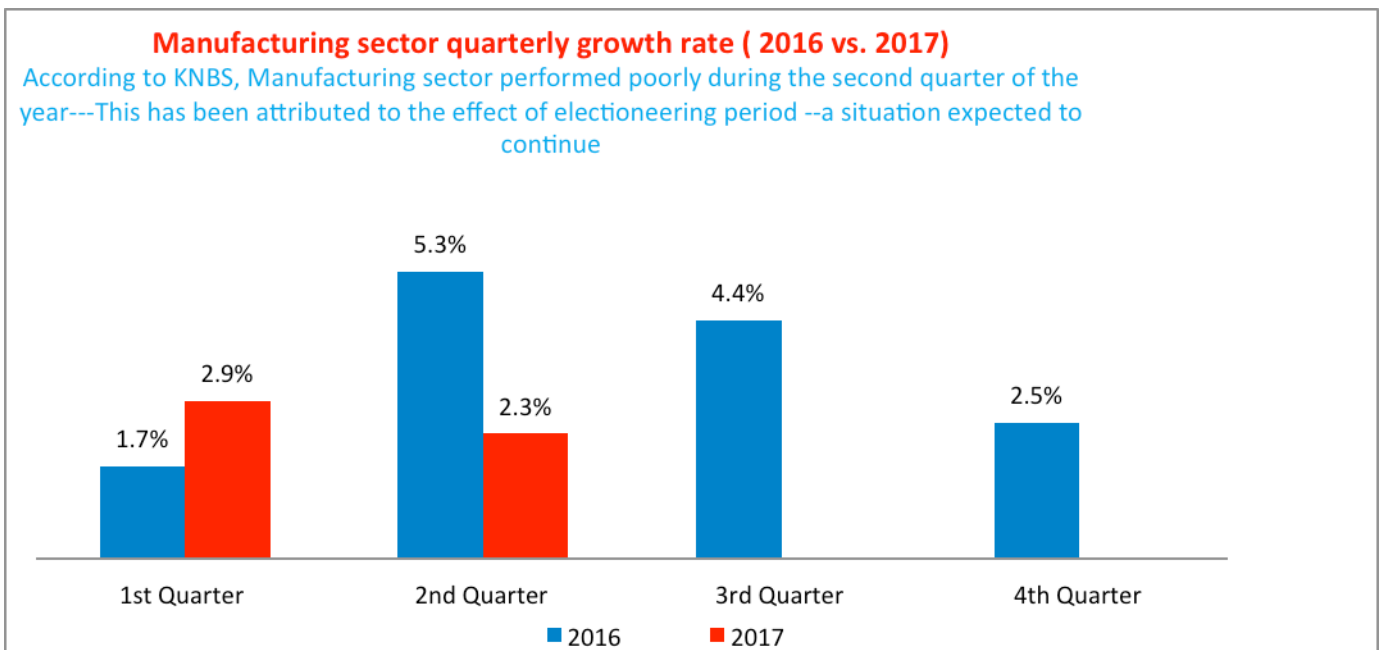
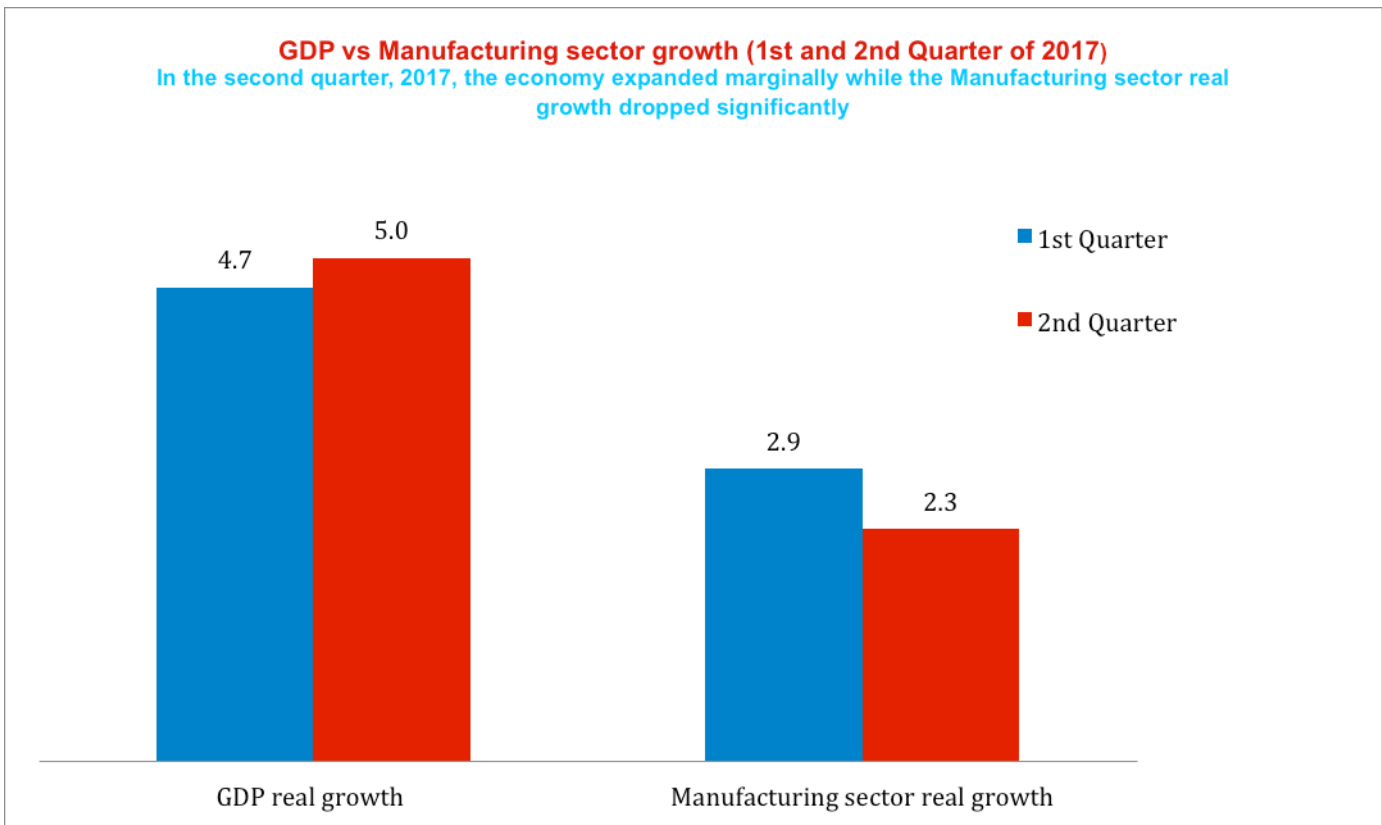
It highlights the performance of the sector in the last quarter and presents the factors that are perceived to impact businesses over the next few months. Information is gathered from members of the Kenya Association of Manufacturers.

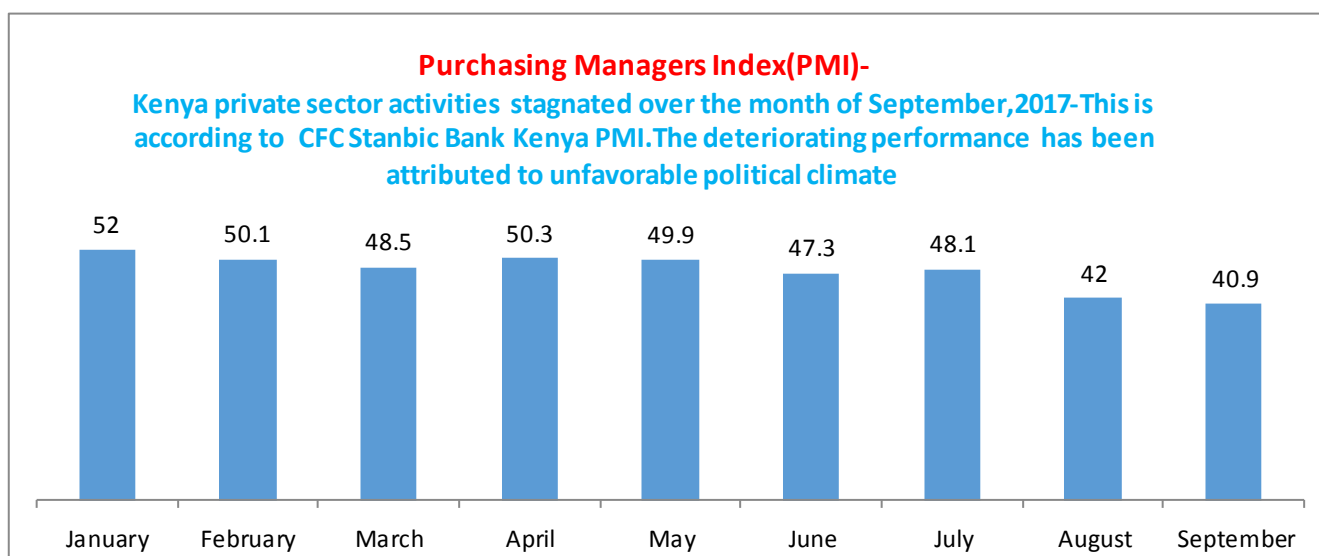
Our constituents form the core of value addition chains in Kenya's industrial sector and are therefore conversant with the sector's trends. A questionnaire was used to collect factual data that informs the outcomes in the barometer.

2. KEY HIGHLIGHTS

- **A marginal surge in optimism about the Kenya Economic prospects** - Optimism among Kenya Industrial manufacturing players has improved, however marginally from 13% in the last quarter to 14% for the quarter review. Nevertheless, 52% say the economy prospects remain uncertain.
- **Lower forecast for own-company revenue growth ahead** - Looking ahead, 64 per cent of industrial manufacturers forecast zero or negative revenue growth in the next 6 months while 2 percent expect positive revenue growth.
- **Low new orders is expected in the next few months** - Pertaining, trend of new orders, 56 percent forecast declining prospects.
- **Hiring plans move significantly to negative** - Looking ahead, 22 percent of industrial manufacturers plan to have new employees in the workforces over the next 6 months. 31 percent plan about the same number of employees, while majority (47 percent) will be in the reduction mode. Those looking at new recruiting (39 percent) will be employing sales/marketing experts
- **Headwinds: Low demand of manufactured goods, increased competition from cheap imports, pressure from increased wages and legislative/regulatory pressure** - Comparable underlying barriers to own company growth over the next 6 months is reflected in the four top headwinds: Lack of demand (59%), legislative/regulatory pressures (58%), competition from cheap imports (63%) and pressure from increased wages (33%).

3. ECONOMIC CLIMATE FOR THE MANUFACTURING SECTOR





The Purchasing Manager's Index (PMI) is an indicator of the economic health of manufacturing sector. The PMI is based on five major indicators:

- New orders
- Inventory levels
- Production
- Supplier deliveries
- The employment environment

Overall contraction in private sector activity has been attributed to a reduced consumer demand due to financial constraints. The trend is expected to continue due to the political uncertainty ahead while reduced accessibility to credit will continue to subdue domestic demand.

4. KEY INDICATORS FOR THE BUSINESS OUTLOOK

A quarter – over – quarter comparison of the survey's key indicators shows how the last 6 months has changed. The change column indicates the movement of opinion of those surveyed over the past 6 months.

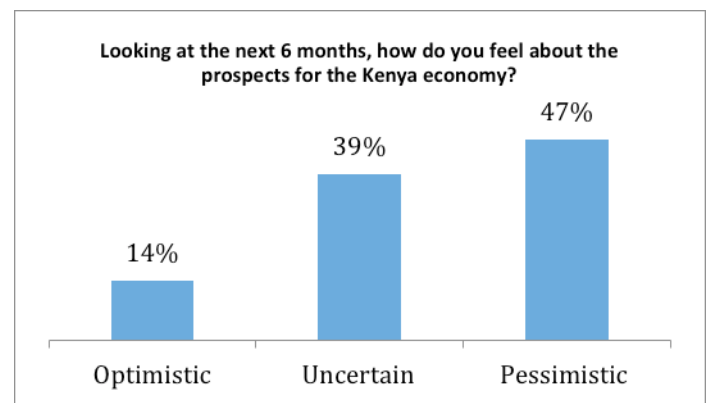
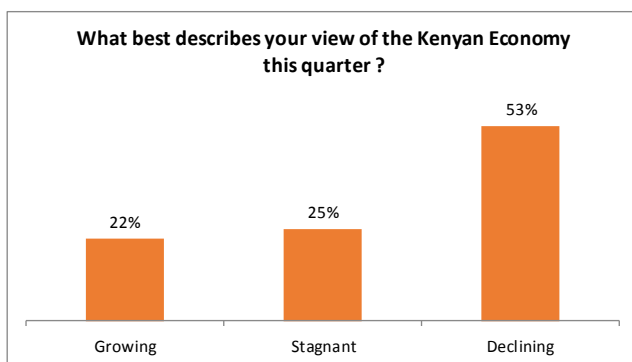
Indicator	Q2'17	Q3'17	Change
Optimistic about Kenya Economy	13%	14%	↑
Expect positive revenue growth	15%	11%	↓
Planning major new investment	45%	33%	↓
Planning to hire	25%	22%	↓
Expected barrier to growth			
• Monetary exchange rate	9%	22%	↑
• Poor demand	58%	59%	↑

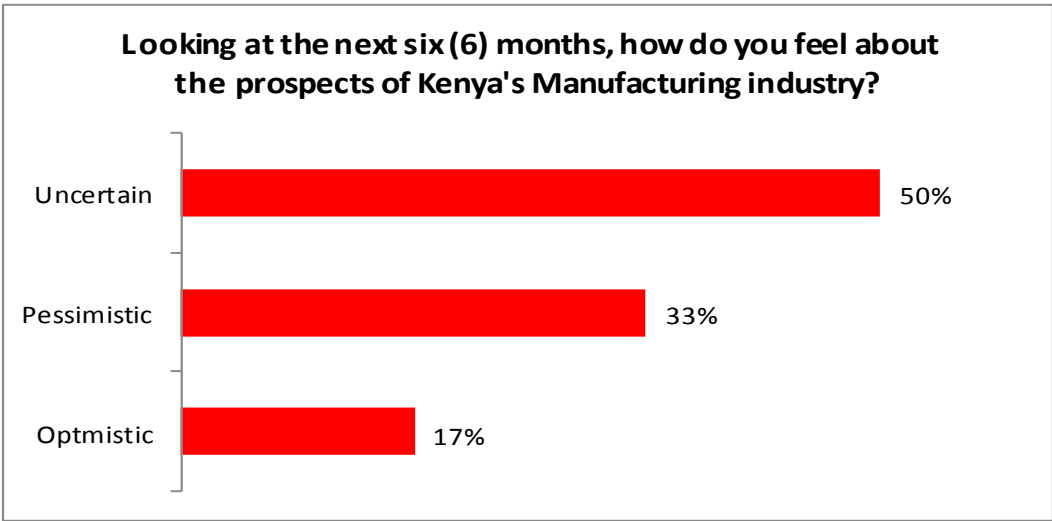
• Legislative /regulatory pressures	55%	58%	↑
• Competition from cheap imports	52%	63%	↑
• Oil/Energy prices	11%	15%	↑
• Inadequate qualified worker force	10%	17%	↑
• Pressure for increased wages	30%	33%	↑
• High prices of Raw materials	45%	56%	↑
• Capital constraints	20%	22%	↑
• Political climate in the country	55%	56%	↑
• Decreasing profitability	54%	44%	↓
• Taxation policies	35%	31%	↓

5. ECONOMIC AND INDUSTRY VIEWS

View of the Kenya economy in this quarter – 53 per cent of Kenya industrial manufacturers surveyed believe that Kenya’s Economy has been declining. Only 22 per cent believed it has been growing while 25 per cent saw no change from second quarter 2017

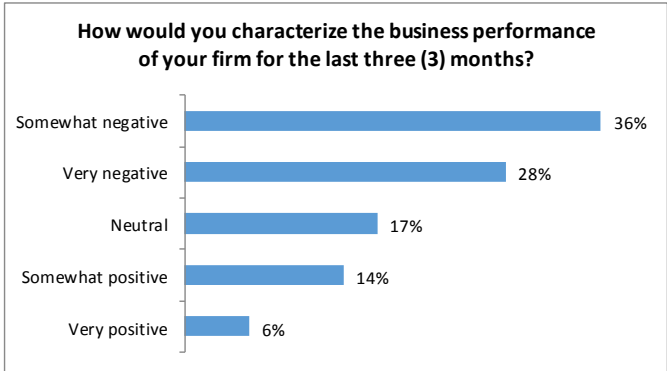
View of the Kenya economy in the next 6 months – Looking ahead, majority (47%) of industrial manufacturers surveyed are pessimistic of Kenya’s economy for the next 6 months. 14 per cent were optimistic while 39 per cent were less optimistic



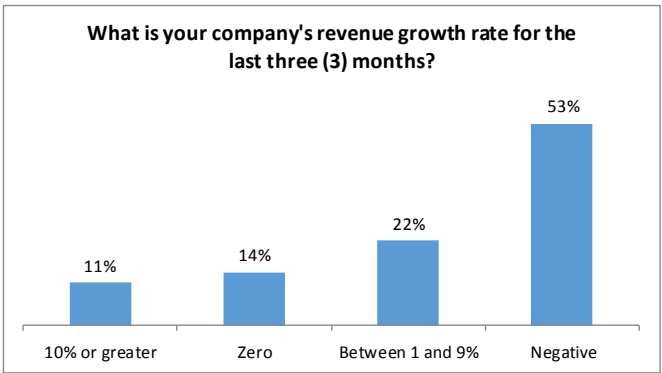


6. OWN-COMPANY PEFROMANCE

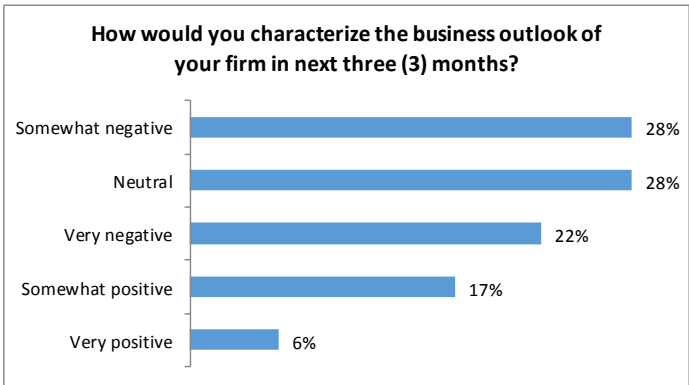
Company outlook in past 3 months - The estimated industrial growth rate for the past 3 months was negative according to 36 per cent of the surveyed industrial manufacturers. However, 14 per cent indicated a positive trend



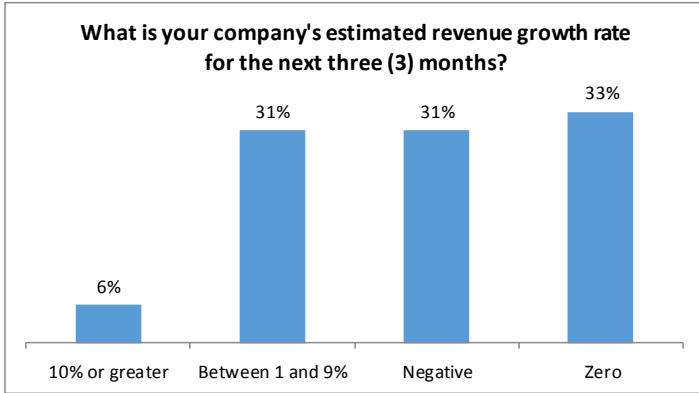
Company Revenue growth in the past 3 months - Composite average growth estimate for own-company revenue for the last three (3) months remained on the negative side. 22 per cent of the industrial manufacturers surveyed indicated have earned between 1 percent to 9 per cent, while 11 per cent reported a revenue growth of over 10%



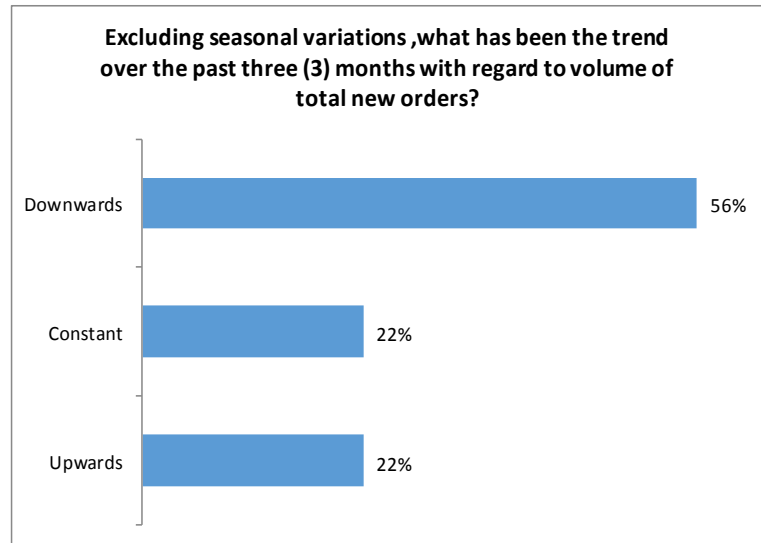
Company outlook in next three months - Looking forward, 56 per cent of the industrial manufacturers remain pessimistic on the business outlook. Perhaps due to impact of the election period as underscored by some of the surveyed manufacturers.



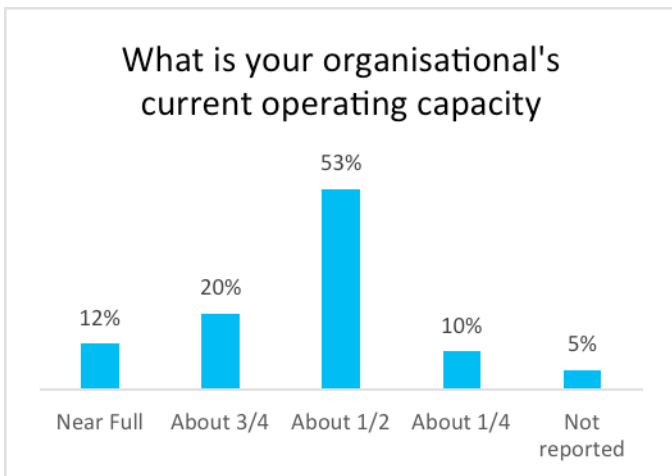
Company expected revenue growth in the next 3 months - Estimated own-company revenue growth is expected to be constant (33 per cent) or negative (31 per cent) as outlined by industrial manufacturers surveyed. 6 per cent remain positive on own company revenue growth.



Inventory Movement - Inventory was constant for 56 per cent of Kenya Industrial manufacturers in the previous quarter. Inventory levels were up and down at 18% and 26% respectively.



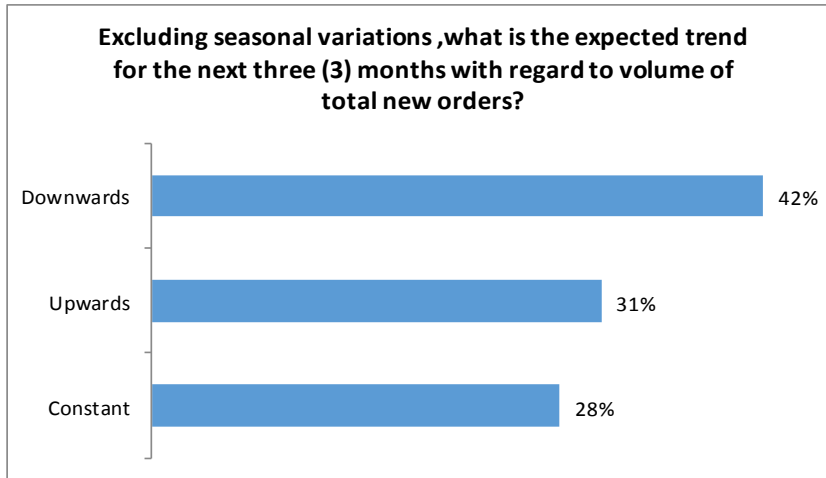
Level of operating capacity - This is an estimate of the current level of permanent staffing and operation compared with what is need for full capacity output. In the just ended quarter, 53% of the surveyed industrial manufacturers operated at half the capacity, with 12 percent noting to be at or near full capacity



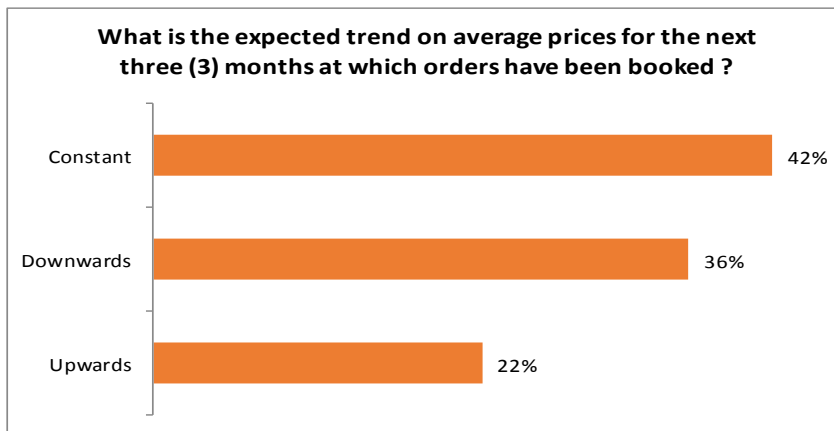
7. BUSINESS OUTLOOK, NEXT FEW MONTHS

Changes in orders and prices

Trends in volumes of total new order in past three(3) months - Vast (56 %) industrial manufacturers expressed downward trend in volume of total new orders while 22 percent highlighted upward trend of the same.

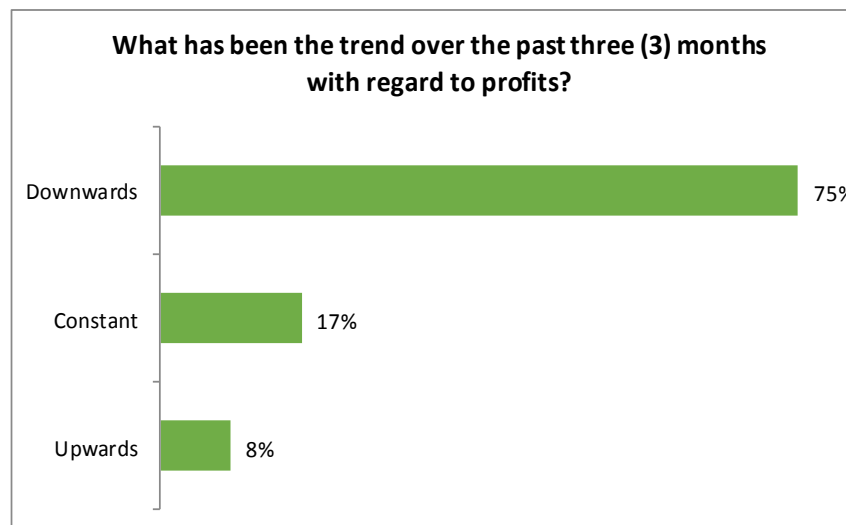


Expected trend for the next 3 months for volume of total new order - According to the majority (42%) of industrial manufacturers surveyed, they expect a decline in new orders. 31 per cent anticipates an upward trend in volumes of new orders while 28% were hopeful that the trend will remain constant for the next three months

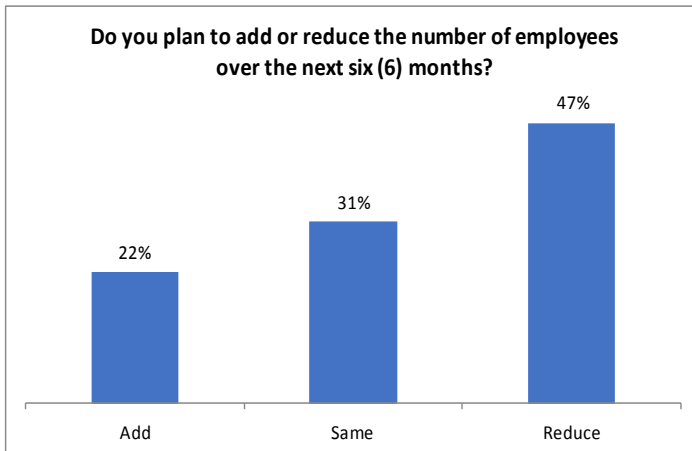


Expected Trend on average prices for the next three months for orders booked - Average prices will remain for the next three months according to 42% of industrial manufacturers surveyed. 36% anticipate a downward trend on average price on order places while 22% remain hopeful on upward trend on the same.

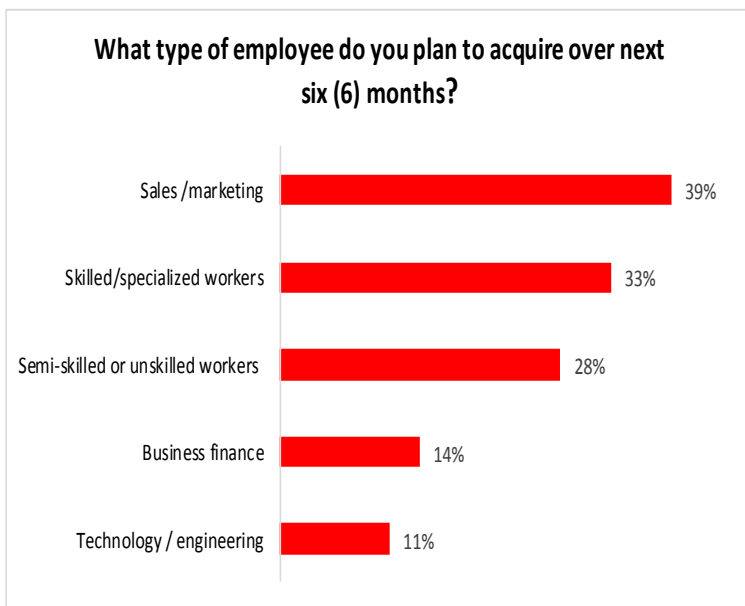
Projected profit for next three months – 75% of the industrial manufacturers surveyed, anticipate a downward trend in profits. 8 per cent are hopeful on an increase in their profits while 17 per cent are of view that their profits shall remain constant.



8. PERCENT PLANNING TO HIRE

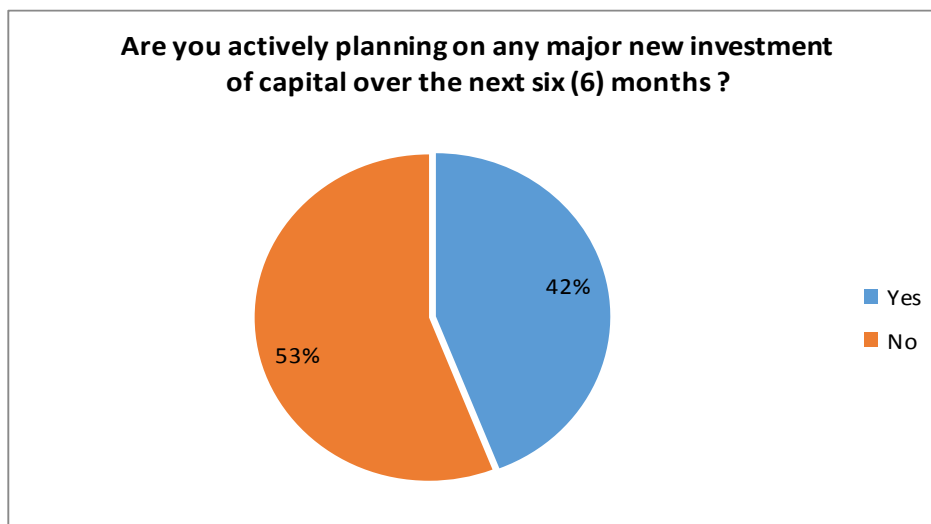


In total, 47 per cent of industrial manufacturers plan to reduce employees on their workforces in the next 6 months. Only 22 percent plan to add the number of employees while 31 percent will maintain the same number of employees. The general outlook for workforce growth is negative.



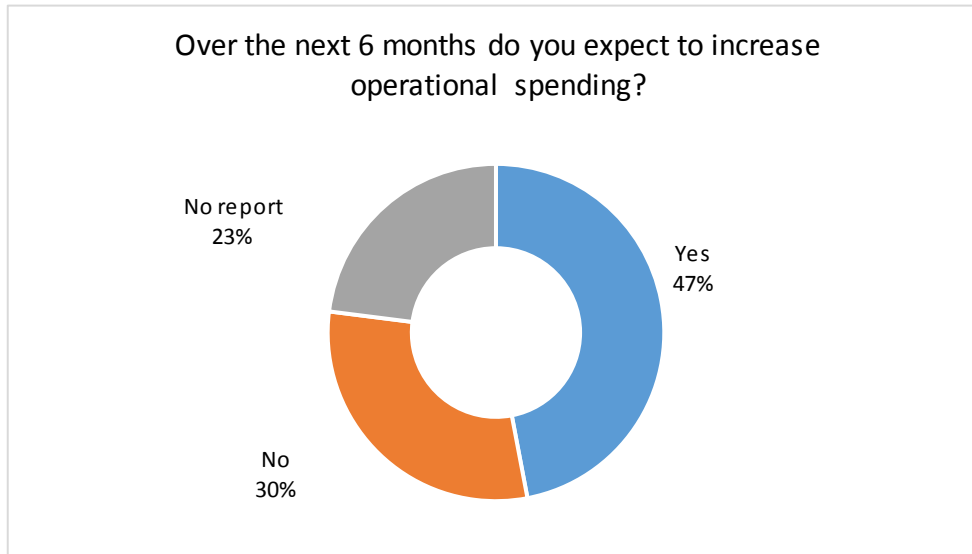
Among the 22 percent planning to hire within the next 6 months, the most sought employee will be professionals (sales/marketing at 39%) while blue collar workers follow closely (skilled/specialized workers and semi-skilled or unskilled workers at 33% and 28% respectively).

9. PERCENT PLANNING ON MAJOR NEW INVESTMENT OF CAPITAL

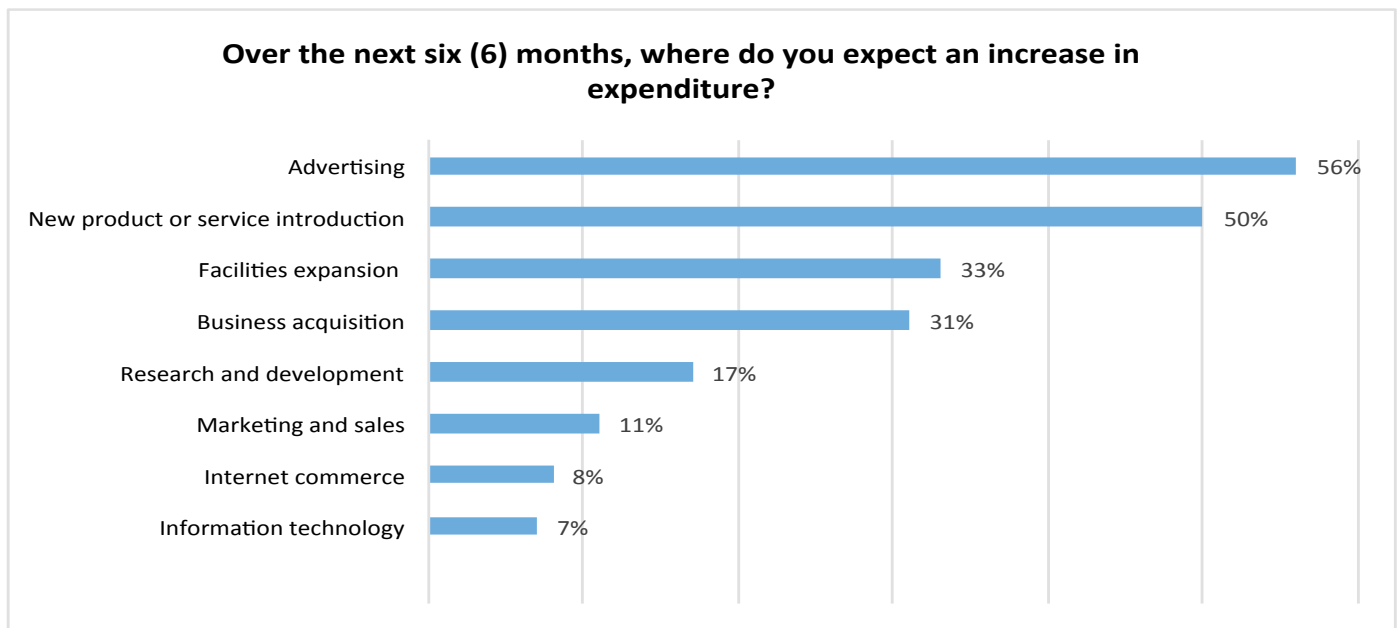


On Capital Investment, 53 per cent of Kenya Industrial manufacturers surveyed will not have new investment on capital during the next 6 months. However, 42 per cent of the surveyed manufacturers are actively planning for new investments.

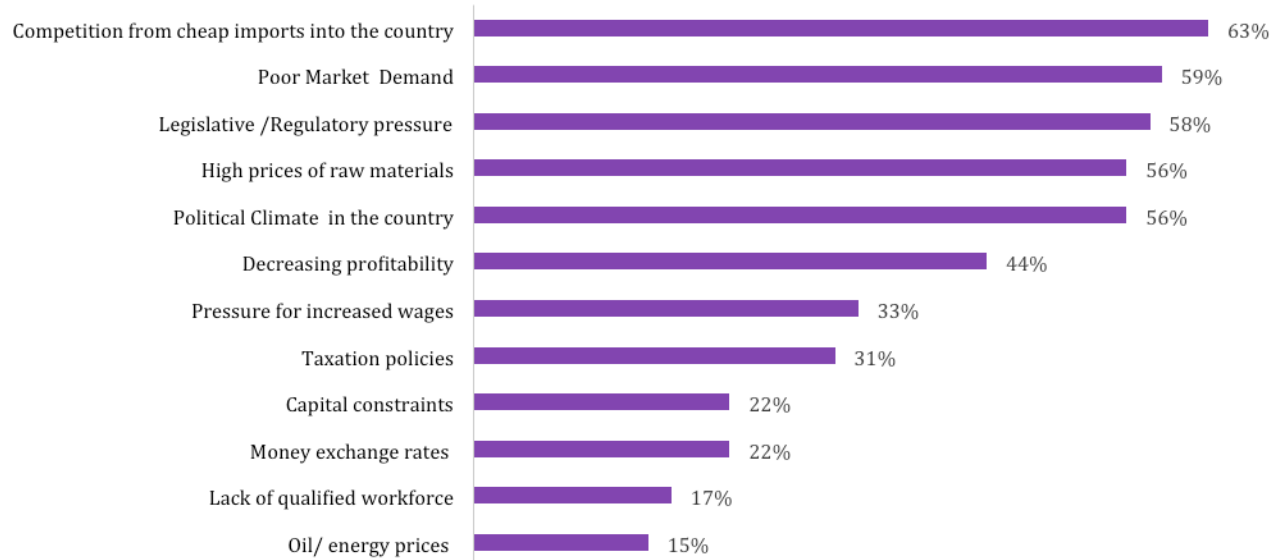
10. PERCENT PLANNING ON OPERATIONAL SPENDING



Percent planning to increase operational spending – 47% industrial manufacturers plan to increase operational spending over the next 6 months reflecting a strong base. Advertising, new product or service introduction and facilities expansion take the top three areas for increased operational spending at 56%, 50% and 33% respectively.



In your opinion, what are the expected barriers to business growth within the manufacturing industry?



*******END*******

The next KAM manufacturing index will contain information collected for the 4th quarter in December 2017 and will be released in early January 2018.

To contact us or send feedback:

Email: info@kam.co.ke or ceo@kam.co.ke

Website: www.kam.co.ke