

## JANUARY - MARCH, 2019 MANUFACTURING BAROMETER

### 1 Introduction

Welcome to the Kenya Association of Manufacturers (KAM) quarter one 2019, Manufacturing Barometer. It provides a vital snapshot of the sector’s performance in the last three (3) months and forecasts the next 6 months. It records the trends, views, and confidence of Kenyan manufacturers. Our constituents form the core of value addition chains in Kenya’s manufacturing sector and are therefore conversant with its trends.

Our special focus in this edition is on the Big 4 Agenda, in which manufacturing is expected to contribute 15% of Gross Domestic Product by 2022. We asked leaders in manufacturing to give their views on the implementation of the Big Four Agenda (Manufacturing Pillar) and highlight missing gaps.

### 2 Summary of Key indicators for the Manufacturing business outlook

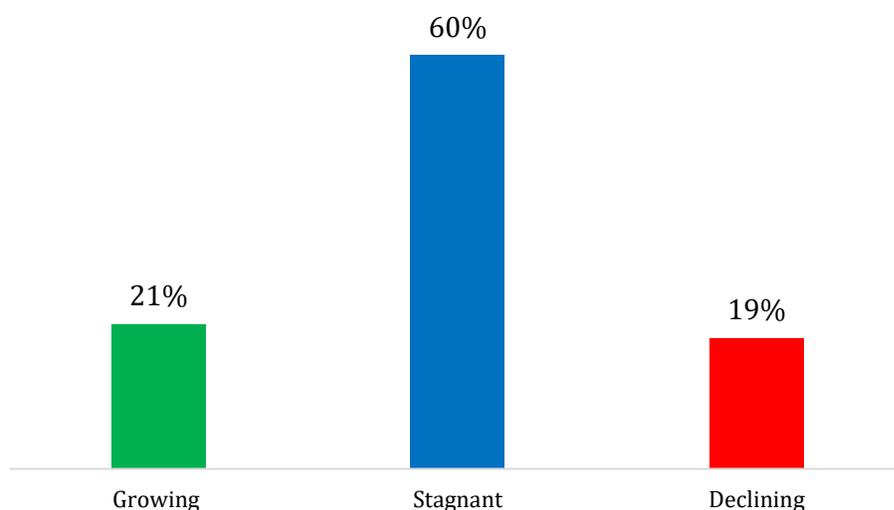
Indicator	Q4-2018	Q1-2019	Changes
Optimistic about Kenya’s Economy	39%	52%	+
Expect positive revenue growth	50%	72%	+
Optimistic about manufacturing growth	35%	48%	+
Planning new investment	40%	48%	+
Planning to hire	23%	24%	+
<b>Headwinds to growth</b>			
Exchange rate stability	48%	38%	-
Lack of demand	43%	33%	-

Legislative and regulatory uncertainty	33%	43%	=
Unhealthy competition	49%	43%	-
Decreasing profitability	50%	54%	+
Taxation policies	43%	48%	+
Oil/energy price stability	40%	43%	+
Pressure from increased wages	56%	57%	+
Capital constraints	28%	28%	=
High prices of imported raw materials	55%	61%	+

### 3 ECONOMIC VIEWS

#### 3.1 Views of the Kenyan Economy January- March 2019

In the first quarter of 2019, 60% of manufacturers surveyed believe the Kenyan Economy stagnated while 21% believed it was growing. 19% of surveyed manufacturers believe the economy was declining.



Source: KAM Manufacturing Barometer, April 2019

Some of the reasons given by surveyed manufacturers as to why the economy stagnated or declined between January and March, 2019 are as follows:

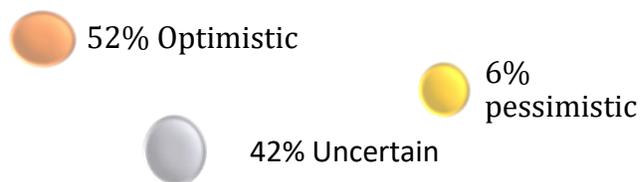
*“Rampant corruption and increased bureaucracy in government agencies is hampering Kenya’s growth prospects.”*

*“In January and February, we experienced delays in clearance of our cargo at the port and Inland Container Depot in Nairobi, affecting our production operations”*

*“Delays in payment of suppliers by government has brought liquidity challenges from the market especially to SMEs. The cash crunch is dampening consumers’ purchasing power”*

### **3.2 View of the Kenyan economy, next 6 months**

Looking ahead at the next 6 months, how do you feel about the prospects of the Kenyan Economy?



*Source: KAM Manufacturing Barometer, April 2019*

Manufacturers remain positive about the economy’s growth prospects. This is in line with projections by World Bank and Central Bank of Kenya as shown in table 1. Some key concerns among manufacturers on economic growth are:

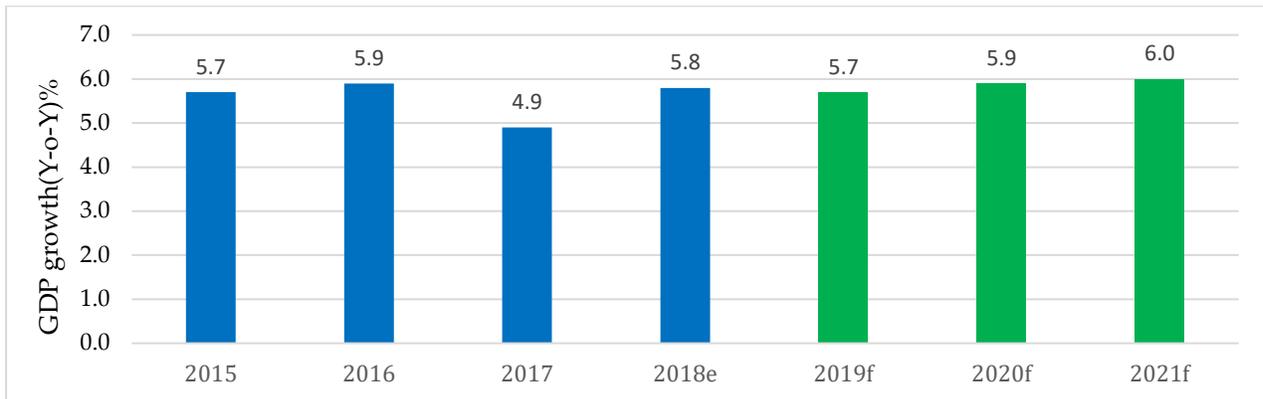
*“The Agricultural sector slowed down on account of the delays in rains. This will have an effect on the industry”*

*“The KRA tax refund process is too slow and is likely to have an effect on manufacturers’ cash flow, hence hampering economic activities”*

*“Unpredictable policy environment and heightened political rhetoric”*

*“Due to the current cash crunch and runaway corruption, the metrics are not looking promising”*

Table 1: GDP Growth -projected to accelerate slightly over the medium term



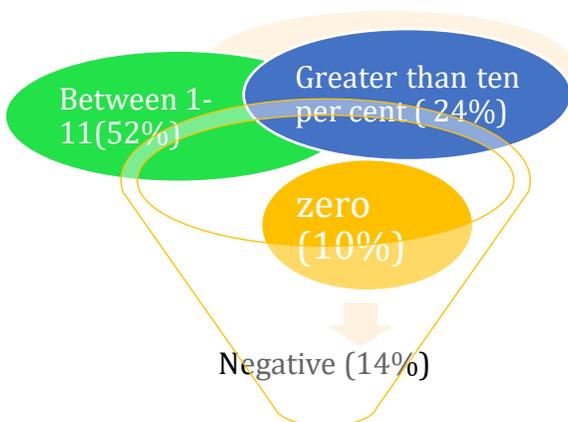
Source: World Bank, 2019 (Kenya Economic Update)  
*e* denotes an estimate *f* denotes forecast

#### 4 COMPANY PERFORMANCE

Under this section, we highlight internal prospects of manufacturing firms in Kenya. This section focuses on revenue, gross margins, changes in cost of raw materials and finished products, inventory movement and capacity utilization.

##### 4.1 What is your company's estimated revenue growth rate for the 2018 financial year?

The composite average growth estimate for own company revenue for the calendar year 2018 remained steady. 76% of respondents reported positive growth in revenue, with 24% recording a double digit growth rate. 14% recorded a decline in growth, while 10% recorded zero growth.

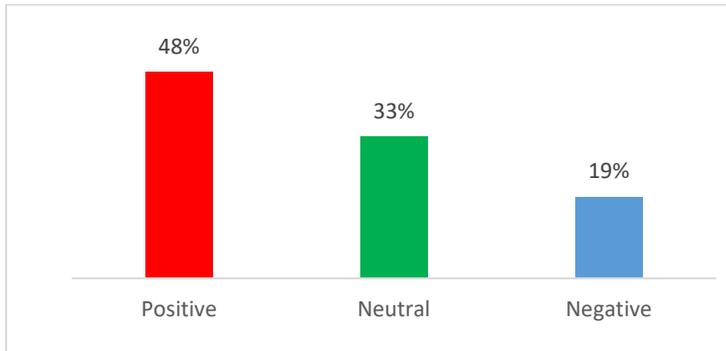


Some of the key challenges witnessed by manufacturers in 2018 were:

- Cash flow challenges
- Government policy uncertainty
- Poor performance of retail chains
- Low demand
- Foreign exchange fluctuations

#### 4.2 How would you characterize the manufacturing business outlook of your firm in the next 6 months?

The Manufacturing Sector's outlook remains positive for the next 6 months. 48% of surveyed manufacturers said they expect positive own company growth with 33% anticipating a neutral growth rate. 19% were on the negative side.



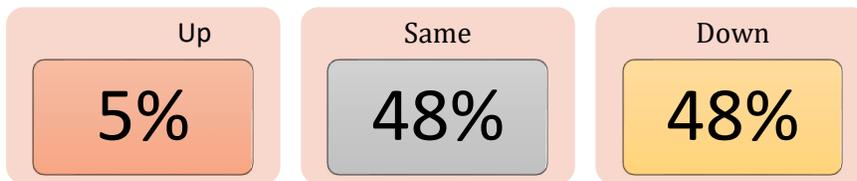
*"Demand for our products has increased" (respondent from food sector).*

*"Our key challenge in next few months is cost of importation" (chemical sector)*

Source: KAM Manufacturing Barometer, April 2019

#### 4.3 Are gross margins up, down, or the same compared with three months ago?

In the first quarter of 2019, gross margins were neutral and down for majority of manufacturers recording 48% each. On the other hand, the gross margins for 5% of manufacturers surveyed went up.

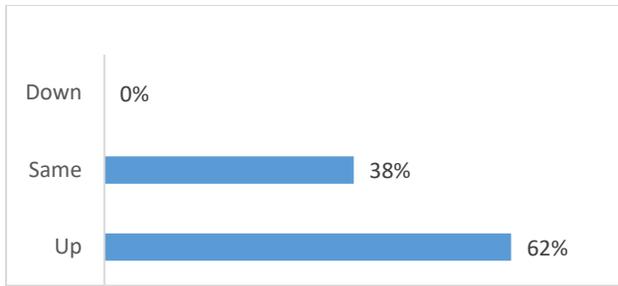


*"A raise in input cost is hampering business"*  
*"Increase in raw materials cost and pressure in margins of final products"*

Source: KAM Manufacturing Barometer, April 2019

#### 4.4 Are costs of raw materials up, down or the same compared to three months ago?

In quarter one 2019, the cost of raw materials went up largely attributed to the cost of transport of logistics. 62% of surveyed manufactures reported an increase in cost of raw materials, and 38% reported that costs remained the same.

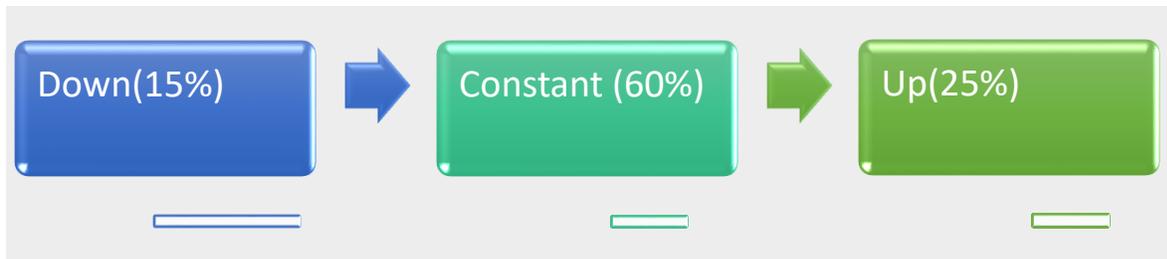


*“Our challenge is clearance delays at ICDN and overall cost of importing raw materials”*

## INVENTORY MOVEMENT

### 4.5 Are finished inventories as a percentage of sales up, down, or the same compared to three months ago?

We measured the market absorption level of manufactured goods. Inventories remained the same for majority (60%) of manufacturers in the first quarter, 2019. It grew for 25% of surveyed manufacturers while it went down for 15%.



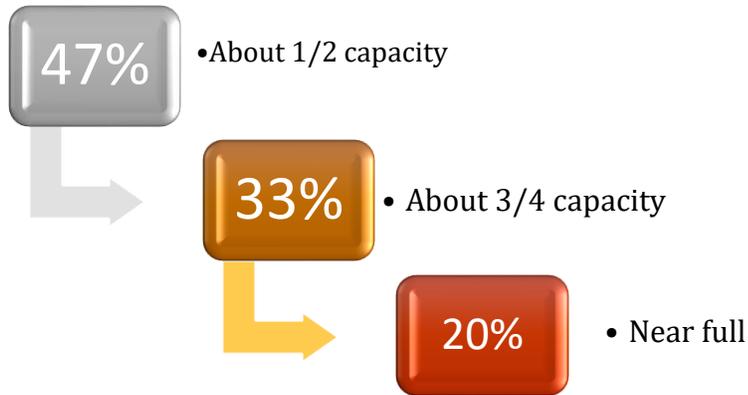
Source: KAM Manufacturing Barometer, April 2019

## LEVEL OF OPERATING CAPACITY

### 4.6 What is your organization’s current operating capacity?

Operating capacity is an estimate of the current level of installed capacity in terms of machinery, permanent staffing and overall operations compared to what is needed for full-capacity output.

In the first quarter, majority (47%) of manufacturers operated at about half capacity while 33% reported to be operating at 75% of installed capacity. Only 20% of surveyed manufacturers were operating at near full capacity during the quarter under review.

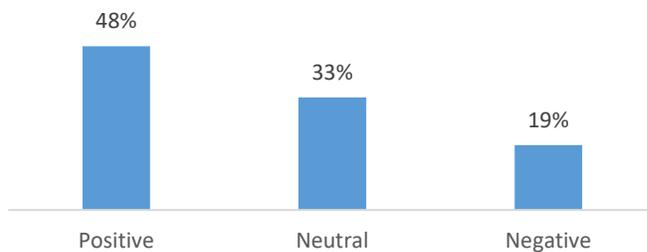


Source: KAM Manufacturing Barometer, April 2019

## 5 BUSINESS OUTLOOK, NEXT 6 MONTHS

### 5.1 What is your organization's estimated revenue growth for the next 6 months?

Industrial manufacturers have a positive outlook on revenue growth rate over the next 6 months. 48% expect positive revenue growth for their own companies, with 19% forecasting a negative growth whereas 33% forecast zero growth.

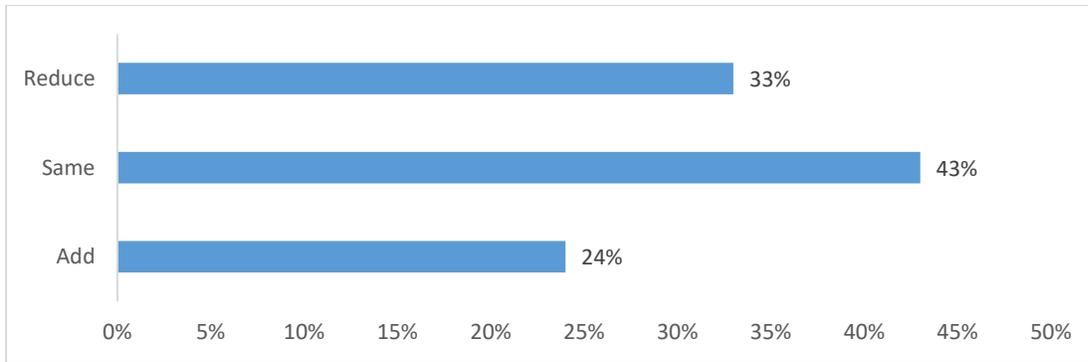


Source: KAM Manufacturing Barometer, April 2019

## THOSE PLANNING TO HIRE

### 5.2 Do you plan to add or reduce the number of full time equivalent employees over the next 6 months?

24% of industrial manufacturers plan to add employees to their workforce over the next 6 months. However, majority (43%) plan to retain the status quo while 33% plan to reduce the number of full time equivalent employees.

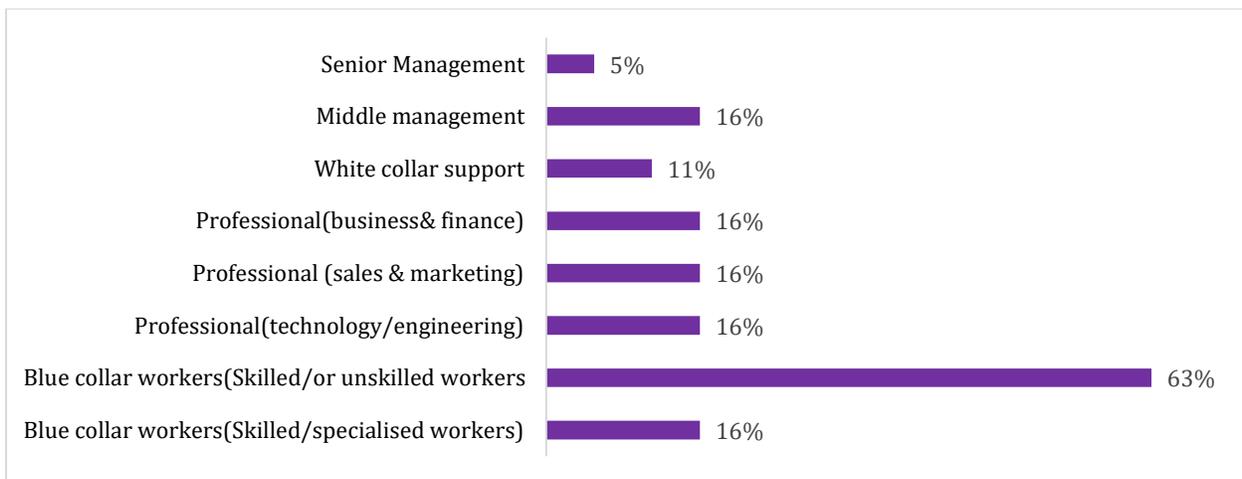


Source: KAM Manufacturing Barometer, April 2019

**PERCENTAGE PLANNING TO HIRE BY TYPE OF EMPLOYEE**

**5.3 What types of employees do you plan to add over the next 6 months?**

The most sought after employees by companies planning to hire in the next 6 months are: blue collar workers (semi-skilled or unskilled workers) at 63%, blue collar workers (skilled / specialized workers) at 16% and professionals (technology/engineering) at 16%.

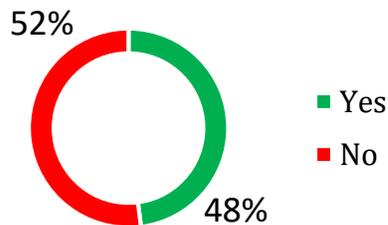


Source: KAM Manufacturing Barometer, April 2019

## MANUFACTURERS PLANNING NEW MAJOR CAPITAL INVESTMENTS

### 5.4 Are you actively planning any new major capital investments over the next 6 months?

Close to half of surveyed manufacturers plan new major capital investments in the next 6 months. These findings indicate a significant number of firms planning capital expenditure spending over the next 6 months.



#### **Challenges in capital expenditure:**

*"Delays in VAT refunds by KRA"*

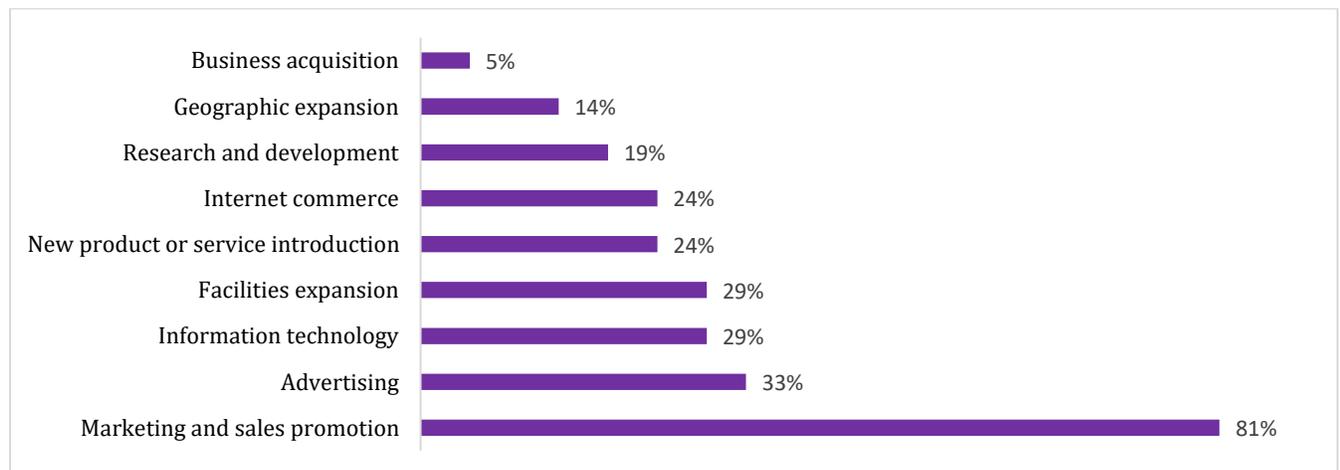
*"With the current regulatory environment and uncertainty in the trade environment, shareholders are not willing to invest; investors have been deferring their planned investments over the past two years"*

Source: KAM Manufacturing Barometer, April 2019

## PERCENTAGE PLANNING TO INCREASE OPERATIONAL SPENDING

### 5.5 Over the next 6 months, where do you expect to increase spending?

Operational spending will remain strong over the next 6 months with 69% of manufacturers surveyed planning to increase operational spending. The key areas of spending will be on marketing and sales promotion (81%), advertising (33%), facilities expansion (29%), information and technology (29%) and new product or service introduction (24%).

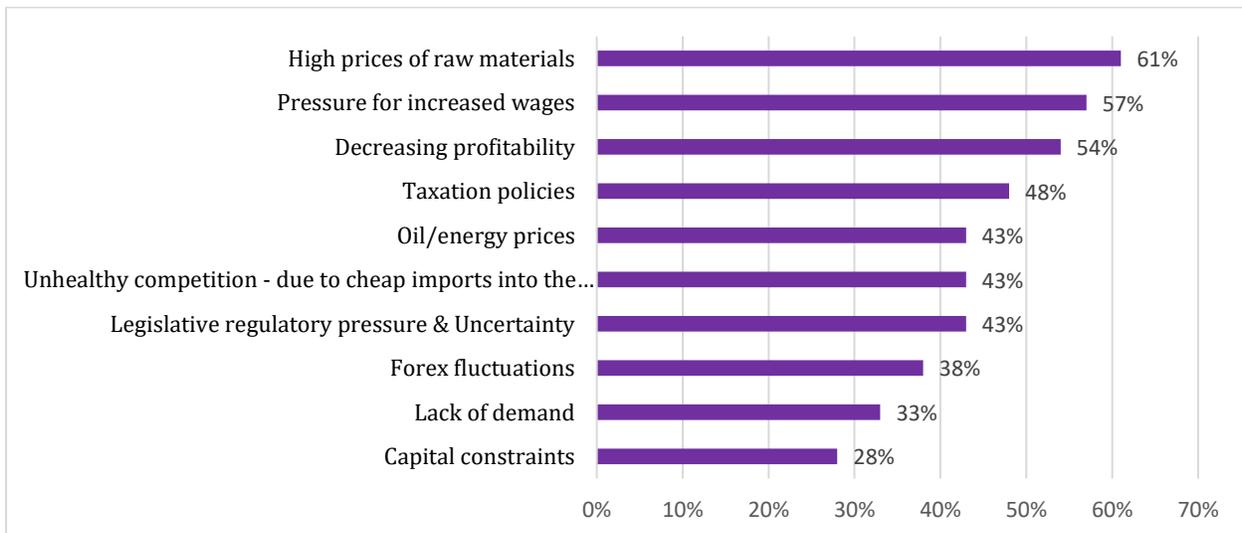


Source: KAM Manufacturing Barometer, April 2019

## SPEED BREAKERS TO BUSINESS GROWTH

### 5.6 Over the next 6 months, will any of the following represent barriers to business growth?

The leading headwinds to the growth of the manufacturing sector over the next 6 months as reported are: Cost of raw materials (61%), pressure from increased wages (57%), decreasing profitability (54%), taxation policies (48%), oil/energy prices (43%), unhealthy competition from cheap imports (43%) and legislative regulatory pressure & uncertainty (43%).



Source: KAM Manufacturing Barometer, April 2019

Respondents were given the opportunity to submit other challenges affecting their businesses aside from the choices given in the survey question. Here is a sample of the comments that were offered:

*“Frequent power fluctuations in Mombasa”*

*“Delays in VAT refunds by KRA “*

*“Lack of modern technology in the Agriculture sector which exposes the entire sector to risks related to climate change”*

*“Clearance delays at the port leading to lost sales and high demurrage charges”*

*“High costs of raw materials due to inefficiencies at the Inland Container Depots (ICDN) and the Port”*

*“Regulatory compliance requirements that highly increase complexity and costs as they are not aligned to global benchmarks”*

*“Uncontrolled imports”*

## **6 Big Four Agenda**

The manufacturing sector has acted as a growth accelerator for most of the countries that have industrialized and attained high levels of income. The contribution of the manufacturing sector to the economy has averaged about 10% for many decades and declined to 7.7% in 2018 from 8.4% in 2017. There have been several policy initiatives aimed at propping up the manufacturing industry in Kenya including Vision 2030, Kenya Industrial Transformation Program (KITP), National Trade Policy and recently the Big 4 Agenda.

Under this survey we asked manufactures to point out possible areas that could derail attainment of the Manufacturing Pillar under the Big 4 Agenda. The Manufacturing sector is expected to contribute 15% to the GDP by 2022. Here is a sample of the comments that were offered:

1. The role of Counties is not explicit under the Big 4 Agenda
2. Uncontrolled imports
3. Delays in VAT refunds resulting in serious cash flow constraints to firms
4. Delays in implementation of local content and Buy Kenya Build Kenya Strategy
5. Low budgetary allocation for the Big 4 Agenda
6. Coordination of development strategies is a daunting task especially where implementation and funding is scattered between different Government institutions and agencies.
7. Inefficiencies at the Inland Container Depot due to many and uncoordinated activities of government agencies.
8. Power costs, road infrastructure to facilitate timely delivery to meet customer needs,

9. Multiple charges, fees, levies by county government on cross county trade
10. Delays in finalization of Common External Tariff review
11. Lack of a systemic structure to encourage FDI by developing free zones

#### **Policy recommendations on the Big 4 Agenda**

In view of the above challenges, there is a need to have an in-depth review of the current framework that will coordinate, implement or fund manufacturing activities. The coordination framework has to bring county governments on board for the development of strategies to achieve set goals. This coordination has to include budgetary allocations for planned programs.

**\*\*\*END\*\*\***

## SURVEY DEMOGRAPHIC AND RESEARCH METHODOLOGY

### Demographic:

**Who** Members of Kenya Association of Manufacturers

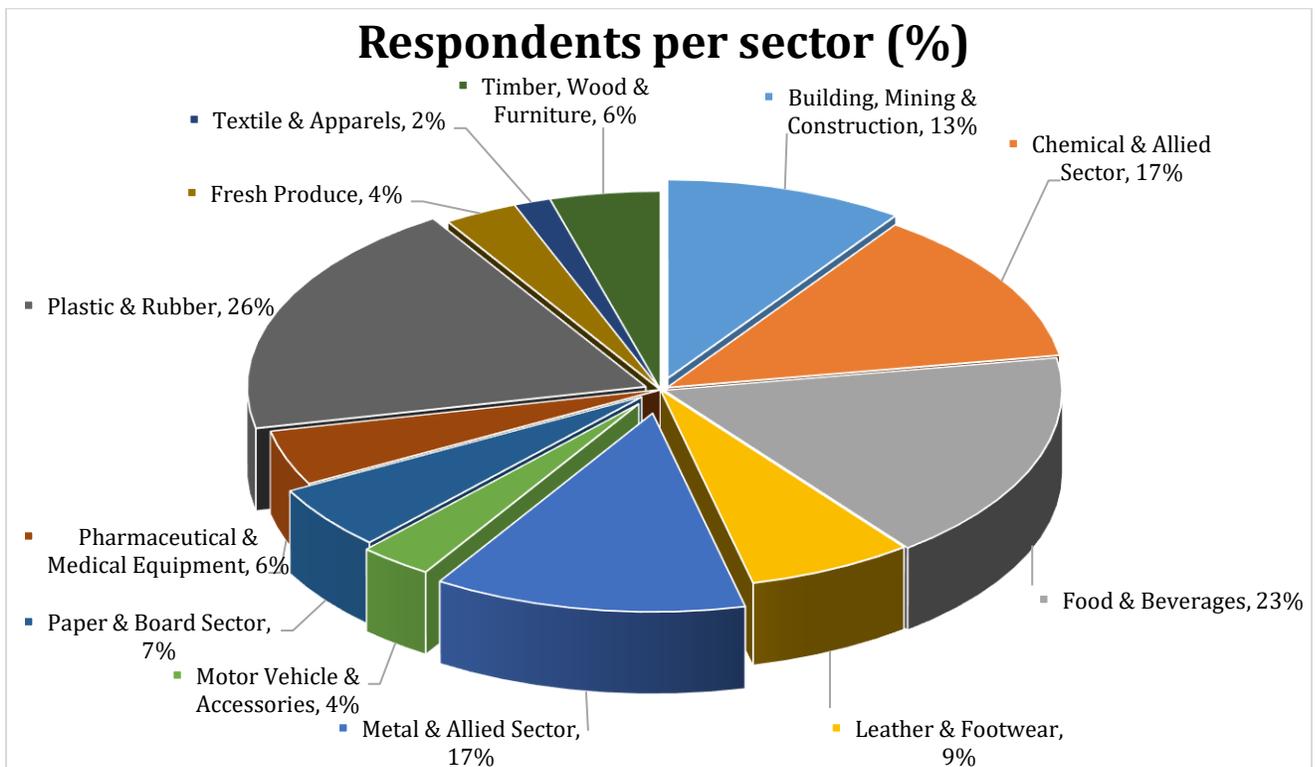
**Period Covered** January- March, 2019

**Survey Period** 29<sup>th</sup> March to 10<sup>th</sup> April, 2019

### Methodology:

KAM Barometer is a quarterly online survey conducted by the Policy and Research Department at KAM and targets senior executives/managers in the manufacturing sector.

The next KAM Manufacturing Barometer (Q2 '19, April - June 2019) will contain information collected between the 1<sup>st</sup> and 2<sup>nd</sup> week of July and will be released in mid-July 2019.



### To contact us or send feedback:

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