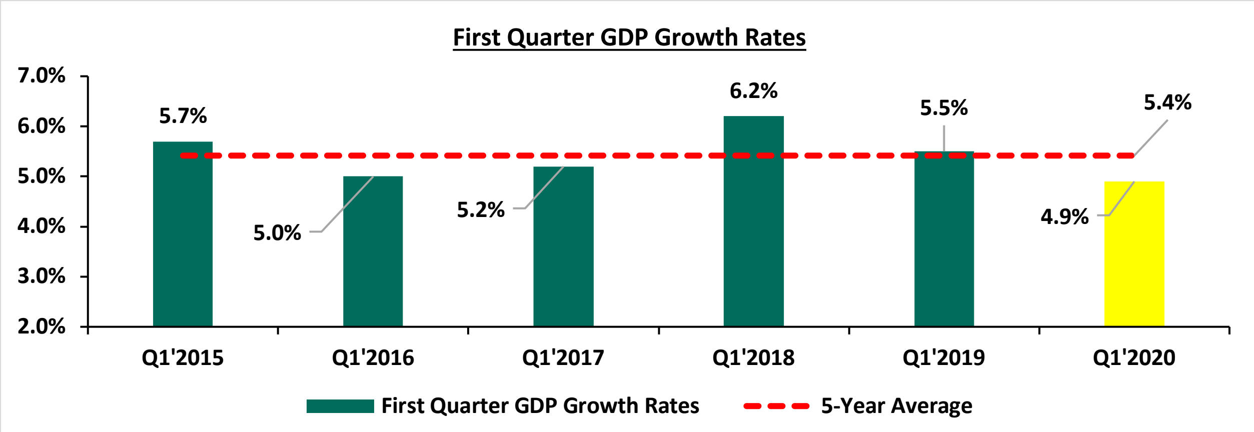
Kenya Q1'2020 GDP Growth

According to Kenya National Bureau of Statistics (KNBS), Kenya's economy slowed down during the first quarter of 2020 compared to the corresponding quarter in 2019. The economy recorded subdued growth expanding by 4.9% in Q1'2020, lower than 5.5% in Q1'2019 a 2-year low. The chart below shows the GDP growth progression over the last 5 years;



This performance was mainly driven by;

(i) A 9.3% slowdown in the Accommodation and Food Services Sector compared with the growth of 11.0% recorded in Q1'2019,

(ii) The Agricultural sector which recorded a slightly faster growth of 4.9%, compared to 4.7% seen in Q1'2019, and,

(iii) Faster growth in the: Mining and Quarrying, Education, Health and Agriculture and Forestry sectors which grew by 9.5%, 5.3%, 5.8% and 4.9% in Q1'2020, from 1.4%, 4.3%, 5.4% and 4.7%, respectively, recorded in Q1'2019;

The table below shows the weighted sectoral contribution to the overall GDP growth, of which agriculture & forestry was the main driver:

Sector	Contribution Q1'2019	Contribution Q1'2020	Q1'2019 Growth	Q1'2020 Growth	Weighted Growth Rate Q1'2019	Weighted Growth Rate Q1'2020	Variance
Agriculture and Forestry	26.0%	26.0%	4.7%	4.9%	1.2%	1.3%	0.2%
Taxes on Products	10.2%	10.0%	5.1%	3.4%	0.5%	0.3%	(1.7%)
Manufacturing	9.5%	9.3%	3.5%	2.9%	0.3%	0.3%	(0.6%)
Real estate	8.1%	8.0%	4.8%	4.3%	0.4%	0.3%	(0.5%)
Wholesale and retail trade	6.8%	6.9%	6.3%	6.4%	0.4%	0.4%	0.1%
Education	6.6%	6.6%	4.3%	5.3%	0.3%	0.3%	0.9%
Transport and Storage	6.2%	6.2%	6.4%	6.2%	0.4%	0.4%	(0.1%)
Financial & Insurance	5.9%	5.9%	6.3%	6.0%	0.4%	0.4%	(0.3%)
Construction	5.0%	5.0%	6.1%	5.3%	0.3%	0.3%	(0.7%)
Information and Communication	4.4%	4.6%	10.2%	9.8%	0.5%	0.5%	(0.4%)
Public administration	3.6%	3.7%	8.9%	6.7%	0.3%	0.2%	(2.2%)
Electricity and Water Supply	2.6%	2.6%	7.8%	6.3%	0.2%	0.2%	(1.6%)
Professional admin	2.0%	2.0%	5.5%	4.4%	0.1%	0.1%	(1.1%)
Health	1.5%	1.5%	5.4%	5.8%	0.1%	0.1%	0.4%
Accommodation & Food Services	1.6%	1.3%	11.0%	-9.3%	0.2%	(0.1%)	(20.3%)
Other services	1.2%	1.2%	5.6%	3.4%	0.1%	0.0%	(2.3%)
Mining and quarrying	1.0%	1.1%	1.4%	9.5%	0.0%	0.1%	8.0%
Financial Services Indirectly Measured	(2.2%)	(2.2%)	4.6%	4.7%	(0.1%)	(0.1%)	0.1%
GDP at Market Prices	**100.0%**	**100.0%**	**5.5%**	**4.9%**	**5.5%**	**4.9%**	**(0.6%)**

The key take-outs from the report are:

- **Sectoral Contribution to Growth-** The biggest gainers in terms of sectoral contribution to GDP were Information and Communication, Wholesale and Retail Trade, Public Administration sectors, where Information and Communication increased by 0.2% points to 4.6% from 4.4% in Q1’2019 while the rest increased marginally by 0.1% points to 6.9% and 3.7%, respectively, from 6.8% and 3.6% recorded in Q1’2019. The Accommodation and Food Services sector was the biggest loser since it decreased by 0.3% points. We attribute the decline to decreased activity in the sector due to the coronavirus pandemic which led to the cancellation and suspension of international travel in nearly all countries. The number of international visitors declined to 294,053 from 364,744 recorded during the first quarter of 2019;
- **Improvement in agricultural activities** – The Agricultural sector recorded an improvement in growth to 4.9% from 4.7% in Q1’2019, as sectoral contribution remained unchanged at 26.0%. This improvement can be attributed to the relatively favourable weather experienced during the quarter evidenced by the movement in respective prices. Notably, fruit prices were generally higher during the period when compared to vegetable prices implying that supply was relatively adequate. During the quarter, production of key food crops showed mixed performances:
  - **i.** Tea production recorded a 49.2% increase in tea production from 106.3 thousand tonnes in Q1’2019 to 158.6 thousand tonnes in Q1’2020, while,
  - **ii.** The volume of cut flowers exported decreased by 15.3% to 42,639 metric tonnes from 49,163 metric tonnes recorded in Q1’2019;
- **Slower growth in the manufacturing sector**- The manufacturing sector slowed down in terms of growth coming in at of 2.9% in Q1’2020 compared to a growth of 3.5% in Q1’2019, while sectoral contribution fell marginally to 9.3% from 9.5% recorded in Q1’2019, 5.7% lower than the 15.0% target the government has in line with the Big 4 Agenda. The performance was mainly driven by:
  - **i.** An increase in the non-food sub-sector, which came in at 4.6%, lower than the 3.3% seen in Q1’2019. This performance was driven by a rebound in cement production and increased activity in the assembly of motor vehicles, and,
  - **ii.** In the food sub-sector, growth came in at 0.3%, lower that the 3.8% recorded in Q1’2019. Growth in the subsector was subdued by contractions in the manufacture of bakery products, processing of coffee and the manufacture of fats and margarine;

  The sector has remained resilient as a number of companies adjusted and started manufacturing essential medical and protective equipment to deal with the pandemic. We expect the sector to pick up through the remaining portion of the year supported by increased production in the food sub-sector from the favourable weather conditions during the second quarter of the year,
- **Slowdown in Financial and Insurance sector** - The financial and insurance sector recorded a slower growth coming in at 6.0% in Q1’2020, from 6.3% recorded in Q1’2019, with its contribution to GDP remaining unchanged at 5.9%. The slowdown in the sector can be attributed to the slower business activity being experienced in the country coupled with the reduced over the counter transactions in line with social distancing measures. Broad money supply (M3) expanded by 7.2% to 3,661.0 bn in March 2020, from 3,415.3 seen in March 2019. During the quarter, the Central Bank of Kenya adopted an accommodative monetary policy stance to cushion against systemic issues in the banking system by lowering the Central Bank Rate to 7.25% in March 2020, from 8.25% in Feb 2020, and, reducing the Cash Reserve Ration to 4.25% from 5.25% to inject liquidity into the banking sector. We expect the growth to improve supported by the measures put in place by the CBK to curb COVID-19, coupled with the expectations of increased business activity as lockdown restrictions ease;
- **Decline in growth of the Tourism sector**- The sector contracted by 9.3% in Q1’2020, from a growth of 11.0% in Q1’2019, as sectoral contribution fell to 1.3% from the 1.6% recorded in Q1’2019. The sector has been adversely affected by the spread of COVID-19 which led to lockdowns and travel restrictions in most countries. International travels were either suspended or cancelled, most hotels closed while

others scaled down and this has resulted to a steep decline in the volume of tourists. Evidently, the number of international visitors declined to 294,053 in Q1'2020, from 364,744 recorded during the first quarter of 2019,

- **Slowdown in the Real Estate sector** – The sector's contribution to GDP declined marginally by 0.1% to 8.0% as growth decelerated to 4.3% from 4.8% seen in Q1'2019. The decline in performance can be attributed to the reduced spending experienced during the pandemic period as households try to preserve cash ultimately leading to lower sales in real estate. Further to the above, the high level of Non-Performing Loans (NPLs) in the sector has caused banks to shun advancement of financing towards the sector to avoid associated costs, despite the improved private sector credit growth which came in at 8.1% in the 12 months to May 2020. As such, we expect growth in the real estate sector to be fuelled by:
    1. Improvement in infrastructure that will open up areas for development in addition to the improving socio-economic environment, and,
    2. Continued efforts towards the affordable housing initiative by increasing the availability and affordability of housing finance, thus boosting homeownership,

The macroeconomic growth recorded mixed performance in Q1'2020 driven by the economic factors highlighted below;

i. Average inflation increased to 6.1% in Q1'2020 from 4.4% recorded in Q1'2019. The Kenya National Bureau of Statistics (KNBS), revised the commodity basket and included several items such as mobile phone airtime, pay-tv, and garbage collection while dropping several archaic items such as radio and video cassettes. The revision was in a bid to reflect the true cost of living due to increased urbanization and the expanding middle-class population,

ii. The Kenya Shilling depreciated by 3.3% against the US Dollar but gained against the Sterling Pound and Euro, most notably, the Kenyan shilling appreciated against all regional currencies such as the South African Rand coming in at 6.4%. This performance was supported by: (i) high levels of forex reserves, currently at USD 9.2 bn (equivalent to 5.6-months of import cover), above the statutory requirement of maintaining at least 4.0-months of import cover, and the EAC region's convergence criteria of 4.5-months of import cover. Despite this, we expect continued pressure due to subdued diaspora remittances evidenced by the 9.0% decline to USD 208.2 mn in April 2020, from USD 228.8 seen the previous month, mainly due to the decline in economic activities globally, coupled with increased prices of household items leading to lower disposable income. Key to note, the Central Bank of Kenya (CBK) expects a 12.0% decline in remittances in 2020,

iii. A stable interest rate environment with the CBK rejecting higher yields on treasury securities, and the MPC lowering the CBR to 7.25% in their March 2020 meeting, from 8.25% in February 2020,

Considering the current state of affairs in the country, we expect subdued performance for the rest of the year mostly informed by the slower business activity experienced during the first half of the year in the country evidenced by the PMI's decline to lows of 34.8 recorded in April. According to the Central Bank, the month of April was the worst hit though there are signs of recovery in the economy as the index edged up the following month to 36.7 in May and came in at 46.6 for the month of June which points to a recovery but is still below the 50.0 mark. A PMI reading of above 50 indicates improvements in the business environment, while a reading below 50 indicates a worsening outlook.

As a result of the movement restrictions put in place to curb the spread of the novel Coronavirus, the country has experienced disruptions of supply chains and domestic production, and the locust invasion experienced during the first quarter of the year which took a toll on agricultural production, we expect the overall 2020 GDP growth to slow down to a range of 1.4%-1.8% from 5.7% in 2019. We expect the low fuel prices to help ease the downward pressure on GDP growth as a result of reduced input costs, despite the current uncertainties surrounding the government's capability to contain the pandemic and support the recovery going forward.