

## Kenya Q2'2019 GDP Growth and 2019 Outlook

According to Kenya National Bureau of Statistics (KNBS), Kenya's economy expanded by 5.6% in Q2'2019, lower than the 6.4% recorded in Q2'2018. This was due to:

- (i) Recovery in the financial and insurance sector, which recorded a growth of 6.7% compared to the growth of 3.9% seen in Q2'2018,
- (ii) Increased output in the education, transport and storage and construction sectors, which grew by 6.0%, 7.2% and 7.2%, respectively,
- (iii) Information and Communication sector which recorded the highest growth of 11.6%, compared to 11.7% recorded in Q2'2018, and,
- (iv) The agricultural sector which recorded a slower growth of 4.1%, compared to 6.5% seen in Q2'2018.

The table below shows the weighted sectoral contribution to the overall GDP growth, of which agriculture & forestry remain the largest contributors:

Sector	Contribution Q2'2018	Contribution Q2'2019	Q2'2018 Growth	Q2'2019 Growth	Weighted Growth Rate Q2'2018	Weighted Growth Rate Q2'2019	Variance
Agriculture and Forestry	23.4%	23.1%	6.5%	4.1%	1.5%	0.9%	(0.6%)
Taxes on Products	10.9%	10.8%	5.5%	4.5%	0.6%	0.5%	(0.1%)
Manufacturing	9.8%	9.7%	4.7%	4.2%	0.5%	0.4%	(0.1%)
Real estate	8.3%	8.2%	4.9%	5.4%	0.4%	0.4%	0.0%
Wholesale and retail trade	7.1%	7.1%	5.8%	5.8%	0.4%	0.4%	0.0%
Education	6.8%	6.8%	4.5%	6.0%	0.3%	0.4%	0.1%
Transport and Storage	6.8%	6.9%	6.0%	7.2%	0.4%	0.5%	0.1%
Financial & Insurance	5.9%	5.9%	3.9%	6.7%	0.2%	0.4%	0.2%
Construction	5.4%	5.5%	5.2%	7.2%	0.3%	0.4%	0.1%
Information and Communication	3.5%	3.6%	11.7%	11.6%	0.4%	0.4%	0.0%
Public administration	4.3%	4.3%	6.4%	6.0%	0.3%	0.3%	(0.0%)
Electricity and Water Supply	2.8%	2.8%	10.5%	5.6%	0.3%	0.2%	(0.1%)
Professional admin	2.4%	2.4%	15.2%	7.6%	0.4%	0.2%	(0.2%)
Health	1.8%	1.8%	2.5%	5.2%	0.0%	0.1%	0.0%
Accommodation & Food Services	1.0%	1.0%	15.4%	10.6%	0.1%	0.1%	(0.0%)
Other services	1.2%	1.2%	5.0%	2.3%	0.1%	0.0%	(0.0%)
Mining and quarrying	0.9%	0.9%	1.4%	5.7%	0.0%	0.1%	0.0%
Financial Services Indirectly Measured	(2.2%)	(2.1%)	(0.4%)	4.0%	0.0%	(0.1%)	(0.1%)
<b>GDP at Market Prices</b>	<b>100.0%</b>	<b>100.0%</b>	<b>6.4%</b>	<b>5.6%</b>	<b>6.4%</b>	<b>5.6%</b>	<b>(0.7%)</b>

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, Construction and Transport & Storage sectors which increased marginally by 0.1% points to 3.6%, 5.5% and 6.9%, respectively, from 3.5%, 5.4% and 6.8% recorded in Q2'2018. The improvement in the sectoral contribution of Information and Communication to GDP was supported by the increased number of mobile subscribers, which grew by 14.5% to 52.2 mn from 45.6 mn recorded in Q2'2018. The Agriculture and Forestry sector was the biggest loser since it decreased by 0.3% points. We note the decline in the Agriculture and Forestry sector's contribution to GDP, from 23.4% in Q2'2018 to 23.1% in Q2'2019, was mainly attributed to the delayed long rains that constrained agricultural production during the period;
- **Slowdown in agricultural activities** – The Agricultural sector recorded declines both in growth and contribution to GDP in Q2'2019. Growth in the sector declined to 4.1% from 6.5% in Q2'2018. The slower growth in agriculture was attributed to a delay in the long rains in most parts of the country that led to reduced agricultural production in the country. This decline was however mitigated by:

- i. A 17.6% increase in the volume of cut flowers from 35.8 thousand tonnes in Q2'2018 to 42.1 thousand tonnes in Q2'2019.
- ii. Quantities of coffee sales at the Nairobi Coffee Exchange and cane deliveries similarly increased by 29.5% and 7.8%, respectively.
- iii. Tea production on the other hand declined by 18.9% to 106.3 thousand tonnes in Q2'2019 from 131.2 thousand tonnes recorded during a similar period in 2018,
- **Slower growth in the manufacturing sector-** The manufacturing sector recorded a decline in terms of growth coming in at 4.2% in Q2'2019 compared to a growth of 4.7% in Q2'2018. The growth in the sector was mainly driven by:
  - i. In the food sub-sector, manufacture of dairy products which increased by 3.7% in Q2'2019 compared to a similar period in 2018, while milk processing declined by 7.4% during the same period, and;
  - ii. Under the non-food sub-sector, manufacture of galvanized sheets increased by 12.4% in Q2'2019 compared to a similar period in 2018, while cement manufacturing declined by 2.8% over a similar period;

We expect the sector to pick up through the remaining portion of the year given that manufacturing is one of the major pillars in the government's Big 4 agenda and will be supported by the ongoing infrastructural developments,

- **Growth in financial and insurance sector-** The financial and insurance sector recorded accelerated growth, which came in at 6.7% in Q2'2019, from 4.6% recorded in Q2'2018, with its contribution to GDP remaining unchanged at 5.9%. This was supported by an expansion in broad money supply (M3) from Kshs 3,262.6 bn as at June 2018 to Kshs 3,487.5 bn as at June 2019;
- **Decline in growth of the Tourism sector-** The sector expanded by 10.6% in Q2'2019, from a growth of 15.4% in Q2'2018. The sector has recorded impressive growth over the past three years on the back of improved political environment in the country and marketing strategies in place to position Kenya as an attractive tourist destination. The slower performance in Q2'2019 is attributed to a marginal decline in tourist arrivals by 0.1% to 450,124 from 450,343 in Q2'2018, pointing towards decreased levels of activity in the quarter under review,
- **Growth in the Real Estate sector** –the sector's contribution to GDP declined marginally to 8.2% from 8.3% recorded in Q2'2019. Despite this, it recorded a growth of 5.4%, higher than the 4.9% recorded in a similar period in 2018. We expect the sector to maintain the upward trend in terms of growth supported by the government's Affordable Housing Program where they plan to construct 500,000 new affordable housing units in-line with the Big 4 agenda.

The macroeconomic growth recorded a relatively stable performance in Q2'2019 supported by the economic factors highlighted below;

- i. Average inflation increased to 5.9% in Q2'2019 from 4.0% recorded in Q2'2018,
- ii. The Kenya Shilling improved against its major trading currencies during the second quarter compared to the same quarter of 2018. The Shilling gained against the Euro, Sterling Pound and Japanese Yen by 12.0%, 5.3% and 5.1%, respectively. It however marginally ceded ground against the US Dollar and Ugandan Shilling by 0.5% and 0.8%, respectively.
- iii. A stable interest rate environment with the CBK rejecting higher yields on treasury securities, and the Monetary Policy Committee retaining the Central Bank Rate at 9.0% in their September meeting,

Going forward, we are of the view that based on the implementation of the Big 4 agenda, various sectors stand to grow significantly with the increased activity such as the manufacturing sector, which will also benefit from the major infrastructural developments taking place. It is however key to note that the regulations that have been put in place by government, through the current Finance bill, will also have an effect on the various industries as can be seen in private sector credit growth, which deteriorated after the capping of the interest rates.

*We expect the 2019 GDP growth to slow down to a range of 5.7%-5.9% from 6.3% in 2018, due to the delayed onset of the long rains with most parts of the country having experienced depressed rainfall that is set to lead to a decline in agricultural production. Consequently, this will have an adverse effect on the manufacturing sector, as the major growth driver in the sector is Agro-processing.*