Kenya Q1’2018 GDP Growth and 2018 Outlook

Kenya’s economy expanded by 5.7% in Q1’2018, higher than the 4.8% experienced in Q1’2017. According to Kenya National Bureau of Statistics (KNBS), Kenya’s economy expanded by 5.7% in Q1’2018, higher than 4.8% in Q1’2017. This was due to; (i) recovery in agriculture, which recorded a growth of 5.2% due to improved weather conditions, (ii) improved business and consumer confidence, and (iii) increased output in the real estate, manufacturing, and wholesale & retail trade sectors, which grew by 6.8%, 2.3% and 6.3%, respectively. The table below shows the weighted sectoral contribution to the overall GDP growth, of which agriculture & forestry was the main driver:

Sector	Contribution to GDP Q1'2017	Contribution to GDP Q1'2018	Q1'2017 Growth	Q1'2018 Growth	Weighted Contribution to Growth Q1' 2017	Weighted Contribution to Growth Q1'2018	Variance
Agriculture & Forestry	25.6%	25.5%	1.0%	5.2%	0.3%	1.3%	1.1%
Taxes on Products	10.4%	10.4%	4.9%	5.4%	0.5%	0.6%	0.1%
Manufacturing	9.9%	9.6%	1.3%	2.3%	0.1%	0.2%	0.1%
Real estate	8.2%	8.3%	6.1%	6.8%	0.5%	0.6%	0.1%
Wholesale & Retail trade	6.9%	7.0%	4.8%	6.3%	0.3%	0.4%	0.1%
Education	6.8%	6.9%	5.7%	6.7%	0.4%	0.5%	0.1%
Transport & Storage	6.2%	6.3%	9.4%	7.1%	0.6%	0.4%	(0.1%)
Financial & Insurance	6.1%	5.9%	5.3%	2.6%	0.3%	0.2%	(0.2%)
Construction	5.0%	5.0%	8.2%	7.2%	0.4%	0.4%	(0.0%)
Information & Communication	3.9%	4.2%	12.5%	12.0%	0.5%	0.5%	0.0%
Public administration	3.6%	3.6%	4.4%	4.7%	0.2%	0.2%	0.0%
Electricity & Water Supply	2.5%	2.4%	6.1%	5.1%	0.1%	0.1%	(0.0%)
Professional admin	2.0%	2.0%	3.5%	5.4%	0.1%	0.1%	0.0%
Health	1.6%	1.6%	4.7%	5.7%	0.1%	0.1%	0.0%
Accommodation & Food Services	1.4%	1.5%	24.5%	13.5%	0.3%	0.2%	(0.1%)
Other services	1.2%	1.2%	6.6%	2.4%	0.1%	0.0%	(0.1%)
Mining & Quarrying	1.1%	1.1%	7.1%	4.5%	0.1%	0.0%	(0.0%)
Financial Services Indirectly Measured	(2.5%)	(2.3%)	(1.3%)	1.2%	0.0%	(0.0%)	(0.1%)
GDP at Market Prices	**100.0%**	**100.0%**	**4.8%**	**5.7%**	**4.8%**	**5.7%**	**0.8%**

The following are the key take-outs from the results;

- **Sectoral Contribution** – Manufacturing and Finance & Insurance were the biggest losers in terms of sectoral contribution to GDP, losing 0.3% points to 9.6% in Q1’2018 from 9.9% in Q1’2017 and 0.2% points to 5.9% in Q1’2018 from 6.1% in Q1’2017, respectively. Information & Communication was the most improved sector, increasing its share by 0.3% points to 4.2% in Q1’2018 from 3.9% in Q1’2017. Agriculture continued on a declining trend, though marginal, losing 0.1% points of contribution to 25.5% from 25.6%, an indication that the economy is becoming more diversified, reducing its over-reliance on agriculture, with other sectors gradually gaining ground. However, the decline in contribution of manufacturing to GDP is a concern, given that the government’s “***Big Four***” Agenda outlines a plan to increase its contribution to 15.0% of GDP by 2022;
- **Recovery of the Agriculture sector** – Growth in the agriculture sector improved to 5.2%, as compared to 1.0% in Q1’2017, despite its contribution to GDP declining by 0.1% points to 25.5% in Q1’2018, down from 25.6% in Q1’2017. The sector contributed the largest weighted share to GDP growth at 1.3% during the quarter, attributed to the favourable weather conditions that have prevailed since Q4’ 2017, and the long rains experienced in early March of 2018. Growth was also driven by (i) increased tea production, which grew by 10.7% to 99,760.4 Metric Tonnes (MT) from 90,094.1 MT in Q1’2017, and (ii) improved horticultural production as evidenced by the increased volume of exports to 100.5 mn tonnes from 85.8 mn tonnes in Q1’2017, (iii) improved volume of cane deliveries to 1703.1 metric tonnes (MT) in Q1’2018 from 1,571.7 MT in Q1’2017, despite a decline in the volume of coffee sold by 5.2% to 15,857.3 MT in Q1’2018 from 16,731.0 MT in Q1’2017;

- **Further decline in the Financial & Insurance sector growth –** the Financial & insurance sector slowed down further, recording a growth of 2.6% in Q1'2018 from 5.3% in Q1'2017. The sector's contribution to GDP declined as well by 0.2% points to 5.9% in Q1'2018 from 6.1% Q1' 2017, which explains the negative weighted contribution to GDP growth of 0.2%. The slow-down in the sector can be attributed to a slow-down in private sector credit growth that recorded an average growth of 2.0% in Q1'2018 compared to 3.8% in Q1'2017, as the effects of the enactment of the Banking (Amendment) Act, 2015 continue to be felt. This is despite the lending rate declining to 13.6% on average in Q1'2018 from 13.7% in Q1'2017, total domestic credit rising by 3.2% to Kshs 3.1 tn as at March 2018 from Kshs 3.0 tn as at March 2017, and broad money supply (M3) expanding by 5.9%. The National Treasury as well as the International Monetary Fund (IMF) have proposed a repeal of the interest rate cap, which if repealed would see banks increase lending to the private sector as they will be able to price differently based on their risk profiles thus improving their revenues;
- **Accelerated growth in the Manufacturing sector, despite a decline in sectoral contribution to GDP** – Growth in the manufacturing sector improved to 2.3% in Q1'2018 from 1.3% in Q1'2017. However, contribution of the sector to total GDP declined slightly to 9.6% from 9.9% in Q1'2017. Improved growth in the sector was driven by food manufacturing, supported by processing of canned fruits, wheat flour and maize meal, manufacture of baked products, sugar and manufacture of soft drinks. Growth in the sector was however hindered by the decline in assembly of motor vehicles and manufacture of cement to 1,495,793 Metric Tonnes (MT) in Q1'2018 from 1,527,325 Metric Tonnes (MT) in Q1'2017 attributed to the deceleration in the construction sector. Going forward, we expect growth in this sector driven by ongoing government infrastructural projects such as phase two of the standard Gauge Railway and roads as well as the development in real estate with the expected implementation of the big 4 of which housing is one of the key agendas.;
- **Growth in the Real Estate sector –** The Real Estate sector performance improved during Q1'2018, having grown by 6.8% compared to 6.1% in Q1'2017. The sector recorded an increase of 0.1% points in contribution to GDP to 8.3% from 8.2% in Q1'2017. Real estate is one of the sectors expected to drive growth in 2018 and in the next 5 years, with the government's plan to construct 500,000 new affordable housing units under the big four agenda in the next 5 years through injecting low-cost capital into the housing sector;
- **Decline in growth of the Tourism sector**– During the quarter, growth declined to 13.5% from 24.5% recorded in Q1'2017, which can be attributed to the rebound that had been experienced in Q1'2017 from the considerable slump witnessed before 2016 hence the base effect. The number of airport arrivals grew by 5.8% up from 3.1% in Q1'2017. This, in our view, indicates that growth is now stabilizing in the sector, following the recovery period past year and will slow down to grow steadily going forward should better security and ongoing reforms continue to prevail and bear fruit.

The macroeconomic environment in Kenya remained relatively stable in the first quarter of 2018, supported by, (i) a stable interest rate environment with the CBK rejecting higher yields on treasury securities, and the MPC reducing the CBR to 9.5% from 10.0%, (ii) a relatively stable currency, having gained by 2.3% in Q1'2018, (iii) improved business confidence and strong private consumption as evidenced by an average Stanbic PMI of 54.4 in the first 3 months of 2018 up from 50.2 in the first 3-months of 2017, and (iv) declined inflation, with the average inflation rate for Q1'2018 declining to 4.5% from 8.8% in Q1'2017. Having said this, 2018 is set to be a better year in terms of the macroeconomic environment and economic growth, as we have seen reflected in the first quarter growth, and we expect similar improvements going forward.

We expect the 2018 GDP growth to come in between 5.4% and 5.6%, supported by recovery in the agriculture and manufacturing sectors following improved weather conditions set to boost agricultural productivity, water supply and electricity that will in turn favour the manufacturing sector, and continued growth in tourism, real estate and construction sectors.