Kenya Q3'2019 GDP Growth and 2019 Outlook

According to Kenya National Bureau of Statistics (KNBS), Kenya's economy recorded subdued growth expanding by 5.1% in Q3'2019, lower than 6.4% in Q3'2018. This was due to:

(i) The Agricultural sector which recorded a slower growth of 3.2%, compared to 6.9% seen in Q3'2018.
(ii) A recovery in the Real Estate sector, which recorded a growth of 4.9% compared to the growth of 3.8% seen in Q3'2018,
(iii) Increased output in the Financial & Insurance, and Mining & Quarrying sectors, which grew by 5.6% and 4.3%, respectively, and,
(iv) Accommodation & Food Services sector which recorded the highest growth of 9.0%, compared to 15.7% recorded in Q3'2018,

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

Sector	Contribution Q3'2018	Contribution Q3'2019	Q3'2018 Growth	Q3'2019 Growth	Weighted Growth Rate Q3'2018	Weighted Growth Rate Q3'2019	Variance
Agriculture and Forestry	18.6%	18.3%	6.9%	3.2%	1.3%	0.6%	(0.7%)
Taxes on Products	12.0%	11.9%	5.6%	4.2%	0.7%	0.5%	(0.2%)
Manufacturing	9.8%	9.6%	4.6%	3.1%	0.5%	0.3%	(0.2%)
Real estate	8.6%	8.6%	3.8%	4.9%	0.3%	0.4%	0.1%
Wholesale and retail trade	8.7%	8.7%	6.5%	4.7%	0.6%	0.4%	(0.2%)
Transport and Storage	7.5%	7.6%	9.0%	7.1%	0.7%	0.5%	(0.1%)
Education	7.0%	7.1%	5.9%	5.7%	0.4%	0.4%	(0.0%)
Financial & Insurance	6.4%	6.4%	5.3%	5.6%	0.3%	0.4%	0.0%
Construction	5.8%	5.9%	7.0%	6.6%	0.4%	0.4%	(0.0%)
Public administration	3.8%	3.8%	6.1%	5.8%	0.2%	0.2%	(0.0%)
Information and Communication	3.8%	4.0%	9.8%	8.4%	0.4%	0.3%	(0.0%)
Electricity and Water Supply	2.6%	2.6%	7.8%	4.9%	0.2%	0.1%	(0.1%)
Professional admin	2.3%	2.3%	6.7%	5.0%	0.2%	0.1%	(0.0%)
Health	1.8%	1.8%	5.5%	4.8%	0.1%	0.1%	(0.0%)
Other services	1.3%	1.3%	4.9%	2.2%	0.1%	0.0%	(0.0%)
Accommodation & Food Services	1.3%	1.3%	15.7%	9.0%	0.2%	0.1%	(0.1%)
Mining and quarrying	1.1%	1.0%	3.3%	4.3%	0.0%	0.0%	0.0%
Financial Services Indirectly Measured	(2.4%)	(2.1%)	1.7%	(4.5%)	(0.0%)	0.1%	0.1%
GDP at Market Prices	**100.0%**	**100.0%**	**6.4%**	**5.1%**	**6.5%**	**5.1%**	**(1.4%)**

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, Transport and Storage, Education and Construction sectors, where Information and Communication increased by 0.2% points to 4.0% from 3.8% in Q3'2018 while the rest increased marginally by 0.1% points to 7.6%, 7.1% and 5.9%, respectively, from 7.5%, 7.0% and 5.8% recorded in Q3'2018. The improvement in the sectoral contribution of Information and Communication to GDP was supported by the increased volume of mobile to mobile traffic, which grew by 24.3% to 17.9 bn minutes from 14.4 bn recorded in Q3'2018. 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 18.6% in Q3'2018 to 18.3% in Q3'2019, was mainly attributed to a drop in production of key crops during the period;
- **Slowdown in agricultural activities** – The Agricultural sector recorded declines both in growth and contribution to GDP in Q3'2019. Growth in the sector declined to 3.2% from 6.9% in Q3'2018. The

slower growth in agriculture was attributed to a drop in production of key crops in the country. This performance was driven by:

i. A 9.6% decline in tea production from 115.2 thousand tonnes in Q3’2018 to 104.2 thousand tonnes in Q3’2019.
ii. Quantities of vegetable & fruit exports and cane deliveries similarly decreased by 28.0% and 21.0%, respectively.
iii. Production of coffee and cut flowers on the other hand increased by 19.8% and 10.6%, respectively. Milk deliveries similarly increased by 15.8%, from 162.1 mn litres in Q3’2018 to 187.2 mn litres in Q3’2019 ;

- **Slower growth in the manufacturing sector**- The manufacturing sector slowed down in terms of growth coming in at of 3.1% in Q3’2019 compared to a growth of 4.6% in Q3’2018. This was mainly driven by:
  i. In the food sub-sector, growth came in at 2.9%, lower that the 4.9% recorded in Q3’2018. This slow-down was mainly driven by declines in the manufacture of sugar and tea processing, and;
  ii. Slower growth the non-food sub-sector, which came in at 3.2%, lower than the 4.4% seen in Q3’2018. This performance was driven by declines in cement production and manufacture of galvanized iron. The decline was however mitigated by a 21.4% expansion in motor vehicles assembly;

  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 fourth quarter of the year. Further to this, improved private sector credit and the government’s focus on manufacturing with the Big Four Agenda will similarly contribute to the growth of the sector,
- **Growth in financial and insurance sector**- The financial and insurance sector recorded accelerated growth, which came in at 5.6% in Q3’2019, from 5.3% recorded in Q3’2018, with its contribution to GDP remaining unchanged at 6.4%. This was supported by an expansion in broad money supply (M3) which grew by 5.3% to 3,435.1 bn in September 2019, from 3,261.1 seen in September 2018. This is attributable to growth in stocks of deposits during the period under review. We expect the growth to continue as we anticipate increased activity in the sector following the removal of the rate cap;
- **Decline in growth of the Tourism sector**- The sector expanded by 9.0% in Q3’2019, from a growth of 15.7% in Q3’2018. Despite the slow growth, visitor’s arrival through the two major airports increased from 430,063 seen in Q3’2081, to 449,620 in Q3’2019,
- **Growth in the Real Estate sector** – The sector’s contribution to GDP remained unchanged at 8.6% as growth accelerated to 4.9% from 3.8% seen in Q3’2018. We expect growth in the real estate sector to be fuelled by:
  i. Increased foreign direct investments,
  ii. Improvement in infrastructure that will open up areas for development in addition to the improving socio-economic environment, and,
  iii. Continued efforts towards the affordable housing initiative by increasing the availability and affordability of housing finance, thus boosting homeownership. The investment opportunity for retail mall developers is in markets such as Mombasa and Kiambu attributed to low retail space supply.

The macroeconomic growth recorded mixed performance in Q3’2019 driven by the economic factors highlighted below;

i. Average inflation increased to 5.0% in Q3’2019 from 4.7% recorded in Q3’2018. This was as a result of increases in transport costs driven by a raise in pump prices for petrol and diesel, and similarly, an increase in Housing, Water, Electricity, Gas and Other Fuels Index stimulated by an increase in house rent and cooking fuel prices,
ii. The Kenya Shilling improved against some of its major trading currencies during the third quarter compared to the same quarter of 2018. The Shilling gained against the Sterling Pound and Euro by

2.9% and 1.8%, respectively, and most notably, appreciated against the Tanzanian Shilling by 19.7%. It however depreciated against the US Dollar by 2.8%. This improvement was supported by: (i) improving diaspora remittances, which have increased cumulatively by 8.9% in the 12-months to August 2019 to USD 2.8 bn, from USD 2.6 bn recorded in a similar period of review in 2018, (ii) CBK's supportive activities in the money market, such as repurchase agreements and selling of dollars, and, (iii) High levels of forex reserves, currently at USD 9.0 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.

iii. A stable interest rate environment with the CBK rejecting higher yields on treasury securities, and the MPC retaining the CBR at 9.0% in their September meeting,

Going forward, we expect activity to increase in various sectors in the economy following the repeal of the interest rate cap. Private sector will have access to the much needed credit from the banking sector and various businesses stand to benefit significantly from the same. 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 after the repeal of the interest rate cap. We expect improved private sector credit growth and in-turn, more activity in terms of business across the economy given that banks are now looking to grow their loan books.

We expect the overall 2019 GDP growth to slow down to a range of 5.4%-5.7% 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.