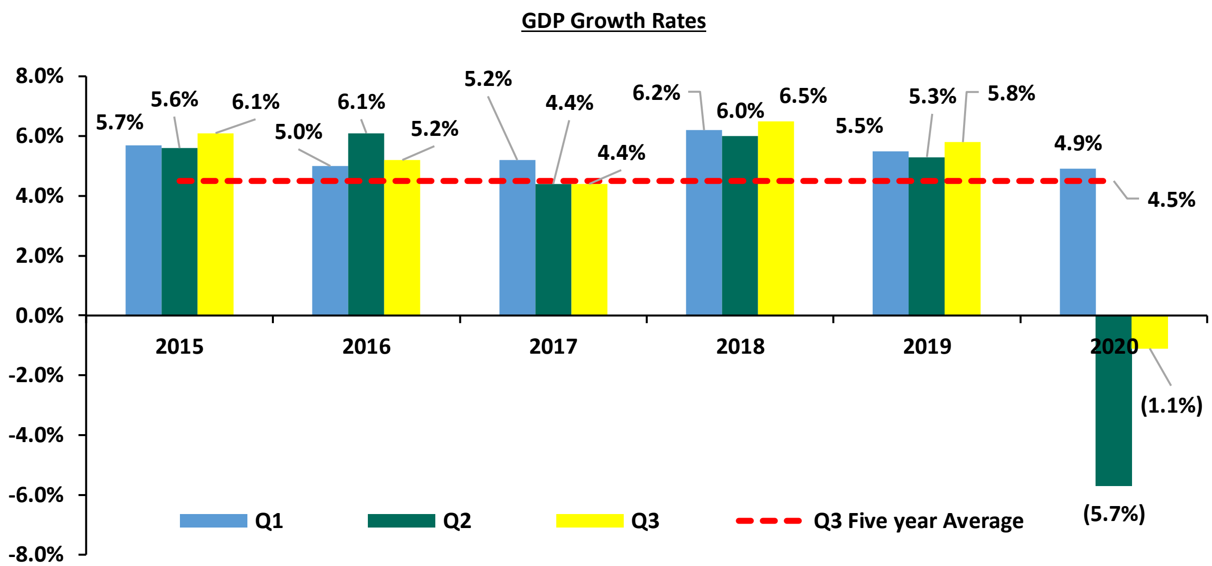
Kenya Q3'2020 GDP Growth

According to Kenya National Bureau of Statistics (KNBS) Quarterly Gross Domestic Product Report, the Kenyan economy recorded a 1.1% contraction in Q3'2020 down from a growth of 5.8% recorded in a similar period in 2019. This was the second consecutive contraction, after the 5.7% recorded in Q2'2020 pointing to an economic recession. Consequently, the average GDP growth rate for the 3 quarters in 2020 is a contraction of 0.6% a decline from 5.5% during a similar period of review in 2019. The chart below shows the quarter three GDP growth progression over the last 5 years;



The table below shows the growth of the various sectors and their overall contribution GDP:

Sector	Contribution Q3'2019	Contribution Q3'2020	Q3'2019 Growth	Q3'2020 Growth
Agriculture and Forestry	18.3%	19.7%	4.3%	6.3%
Taxes on Products	11.9%	11.5%	5.1%	(4.2%)
Manufacturing	9.7%	9.5%	4.4%	(3.2%)
Real estate	8.6%	9.1%	5.5%	5.3%
Wholesale and retail trade	8.8%	8.7%	6.9%	(2.5%)
Transport and Storage	7.6%	7.9%	7.2%	2.9%
Education	7.0%	4.1%	5.9%	(41.9%)
Financial & Insurance	6.5%	6.9%	7.6%	5.3%
Construction	5.8%	6.9%	6.9%	16.2%
Public administration	3.8%	4.3%	7.4%	9.6%
Information and Communication	3.9%	4.3%	8.0%	7.3%
Electricity and Water Supply	2.7%	2.8%	6.7%	4.7%
Professional admin	2.2%	2.0%	4.8%	(12.3%)
Health	1.8%	2.0%	5.4%	5.6%
Other services	1.3%	1.2%	5.4%	(4.5%)

Accommodation & Food Services	1.3%	0.6%	9.8%	(57.9%)
Mining and quarrying	1.0%	1.2%	3.2%	18.2%
Financial Services Indirectly Measured	(2.4%)	(2.6%)	5.6%	7.7%
GDP at Market Prices	**100.0%**	**100.0%**	**5.8%**	**(1.1%)**

The key take-outs from the report are:

- **Sectoral Contribution to Growth** - The biggest gainers in terms of sectoral contribution to GDP were Agriculture, construction and Real Estate sectors, where agriculture increased by 1.4% points to 19.7% from 18.3% in Q3' 2019 while construction and real estate sectors increased by 1.1% points and 0.5% points to 6.9% and 9.1%, respectively from 5.8% and 8.6% recorded in Q3' 2019. Education was the biggest loser, declining by 2.9% points to 4.1% in Q3'2020 from 7.0% in Q3'2019. We attribute the decline to the decreased activity in the sector as the government implemented social distance measures, due to the coronavirus pandemic, which saw schools being closed for the whole quarter,
- **Accelerated Growth In The Agricultural Sector** – Agriculture, Forestry and Fishing activities recorded a growth of 6.3% in Q3'2020 compared to 4.3% in Q3'2019. The sector's performance was supported by a notable increase in tea production, cane deliveries, milk intake and fruit exports. During the quarter, production of key food crops recorded mixed performances:
    i. Tea production rose by 13.7% to 118,500.0 metric tonnes from 104,200.0 metric tonnes in Q3'2019, this was supported by 24.6% increase in tea exports to 138,600 metric tonnes from 111,300 metric tonnes in Q3'2019,
    ii. Cane deliveries increased significantly to 1,900.0 thousand metric tonnes in Q3'2020 from the 873.6 thousand metric tonnes recorded in a similar period in 2019,
    iii. Fruit exports rose by 31.6% to 25,000.0 metric tonnes from 19,000.0 recorded in Q3'2019,and,
    iv. The sector recorded a decline in production in some activities such as coffee sales, milk intake and horticultural exports. The volume of coffee exports and milk intake contracted by 17.0% and 8.3% respectively.
- **Contraction of the manufacturing sector** - The manufacturing sector reported a contraction of 3.2% in Q2'2020 compared to a 4.4% growth in a similar period of review in 2019. The sectoral contribution also declined marginally by 0.2% points to 9.5% from 9.7% in Q3'2019. The performance was mainly driven by:
    i. Non-food products recorded a mixed performance with positive growth in the assembly of motor vehicle and manufacture of galvanized iron sheets, while contractions being recorded in the manufacturing of cotton woven fabric, and,
    ii. Manufacture of food which includes beverages, meat and meat products among others recorded a contraction during the review period.
- **Resilience in the Financial and Insurance sector** – The financial and insurance sector grew by 5.3% compared to 7.6% Q3'2019, and the sectoral contribution also rose by 0.4% points to 6.9% as at Q3'2020 from 6.5% recorded in Q3'2019. Some of the notable improvements include:
    i. Broad money supply (M3) – which is a collection of all the currency flowing in the economy, rose to Kshs 3,843.5 billion as at September 2020 from Kshs 3,473.4 billion as at September 2019, and,
    ii. Net foreign assets reduced to Kshs 751.3 billion as at June 2020 from Kshs 837.4 billion as at June 2019.

  The Central Bank of Kenya (CBK) in efforts to support the economy further, lowered the Central Bank Rate (CBR) from 7.25% in March 2020 to 7.0 per cent in April 2020 and maintained at the same level throughout the quarter,

- **Huge decline in growth of the Accommodation and food services sector**- The sector activities contracted by 57.9% in Q3’ 2020 compared to an expansion of 9.8% in Q3’ 2019. The sectoral contribution fell by 0.8% points to 0.6% from the 1.3% recorded in Q3’2019. This sector was the worst hit by the COVID-19 pandemic as businesses in accommodation and food services sector either operated under minimum capacity or completely closed down. The significant reduction in the number of visitor arrivals through Jomo Kenyatta International Airport and Moi International Airport to 34,701.0 from 453,881.0 in Q3’2019, mainly as a result of near cessation of international flights, as well as restrictions of movement within the country, adversely affected the sector’s performance. We expect the sector to pick up in the coming quarter as some of the restrictions have been lifted and eateries are open for business,
- **Growth in the Real Estate and Construction sectors** – The real estate and construction sectors recorded growths of 5.3% and 16.2% in Q3’2020 compared to 5.5% and 6.9% in Q3’2019, respectively, cushioning the economic performance from a deeper slump. Key to note the sectoral contribution in Q2’2020 stood at 9.1% and 6.9%, for the real estate and construction sector, respectively, compared to 8.6% and 5.8% in a similar period of review in 2019. Consequently, credit advanced to the construction sector rose by 4.9% in the review period. Cement consumption rose by 23.5% to 1.9 mn metric tonnes in Q3’2020 from 1.5 mn metric tonnes recorded during the same period in 2019, and,
- **Moderate Growth in the Transport and Storage Sector** – Transportation and storage sector grew by 2.9% in Q3’ 2020 compared to 7.2% in Q3’2019. The sector’s contribution to GDP declined marginally by 0.3% points to 7.9% from 7.6% recorded in Q3’2019. The improvement in performance was weighed down by air transport and Standard Gauge Railway (SGR) passenger transport which had not picked despite the easing of containment measures, the number of passengers by SGR declined by 77.5%. Some of the key observations are;
    1. The volume of port throughput increased by 3.9% to 8,655 thousand metric tonnes in Q3’ 2020 from 8,325 thousand metric tonnes in Q3’2019. However, Freight movement through Standard Gauge Railway (SGR) rose by 8.8% to stand at 1,205.8 thousand metric tonnes, and,
    2. The transportation and storage growth was also reflected in the increase in consumption of light diesel, a major input to transportation activities, which rose by 2.2% compared to a contraction of 1.0% in Q3’2019.

Even though the latest GDP figures point to a recession, improvement in some of the sectors including construction and real estate, as well as the financial and insurance sector remaining resilient provides a basis for an even better growth going forward. Considering the recent reopening of some of the sectors, including education and transport, we expect them to record a better performance. Key to note is that agriculture continues to be the main driver of economic growth and as observed in the figures released by the MPC, exports, mostly agricultural produce have rebounded in the later stages of 2020, pointing to an even larger growth in the coming quarters. A surge in infection and the discovery of new strains of the virus has led to imposition of new restriction measures in some of the trading partners, and is a potential risk that could hinder a faster recovery.

In our view, the economy has already felt the full effects of the pandemic and with some of the worst affected sectors, Education, accommodation and food services, showing signs of recovery which we believe will also be transmitted to the rest of the economy. We expect a slight recovery in the subsequent quarters given the continued gradual reopening of the economy and the procurement and distribution of the COVID-19 vaccine. However, given the uncertainty of the tenor and the severity of the pandemic, we maintain our expectations of a best-case scenario of a 1.4% economic growth for 2020.