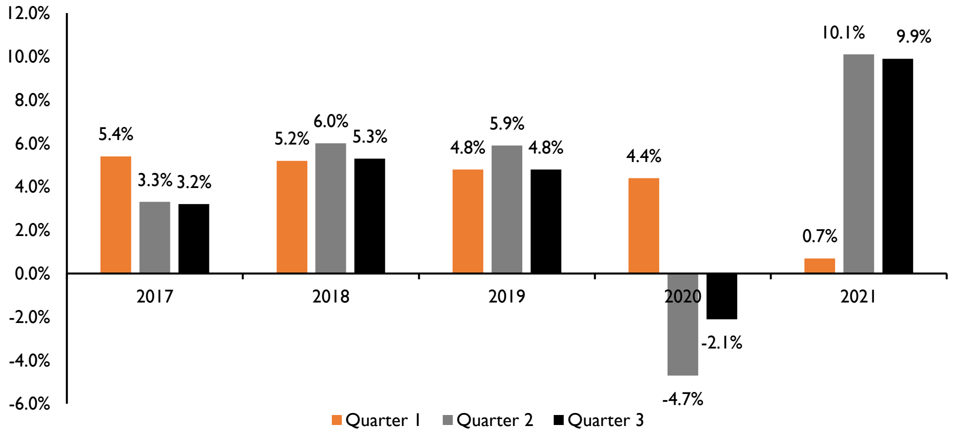

# Augmented Growth Recovery

KNBS released the economic growth figures for 3Q21 where GDP, as measured at market price, expanded by **9.9%** in 3Q21 compared to a **2.1%** contraction in 3Q20. The recovery 3Q21 was mainly driven by rebounds across various sectors of the economy following the negative effects of the pandemic in corresponding quarters in 2020. Major growth drivers include: Education(**64.7%),** Mining **(25.1%),** Accommodation **(24.8%)** and Manufacturing **(9.5%).** The performance recorded by this sectors was expected as they were the most severely affected by the COVID19 pandemic. Agricultural sector contracted, for a third consecutive quarter, by **1.8%** compared to a **4.2%** growth in 3Q20, mainly attributable to unfavorable weather conditions experienced in the country for the better part of the year.

Additionally, the balance of payment figures indicated that the current account balance deficit expanded by 27.4% to **KES 184.6Bn** in 3Q21 from **KES 145.0 Bn** in 3Q20, partly due to currency depreciation making imports more expensive than exports. Merchandise trade deficit expanded **39.6%** to **KES 321.8Bn** attributable to a 26.5% growth in imports of non-food industrial supplies. Meanwhile, Exports earnings grew **7.9%** to **KES 176.2Bn** driven by horticulture, articles of apparel, edible products and titanium.

Graph 1: GDP Growth




Source: KNBS

**Key Highlights:**

- The average inflation in 3Q21 increased to **6.7%** from **4.3%** recorded in 3Q20. The increase was partly attributable to increase in prices of food, non-alcoholic and transport prices. Additionally, we believe that global factors such as: elevated inflation, supply chain challenges and the rise in price of fuel prices are driving up prices of commodities locally.
- The Kenyan shilling, on average, lost ground against major currencies such as sterling pound, Euro and US Dollar by 8.0%, 2.0% and 1.1%, respectively.

**January 4th , 2022**

Sovereign Credit Rating:

Moody's: B2 (negative)

Fitch: B+ (negative)

S&P: B (stable)

GDP Growth (3Q21) :
9.9%

December Inflation: 5.7%

Interbank rate (3rd Jan 2022): 4.7.%

C.B.R (Nov 2021): 7.00%

Stanbic PMI (November): 53.0

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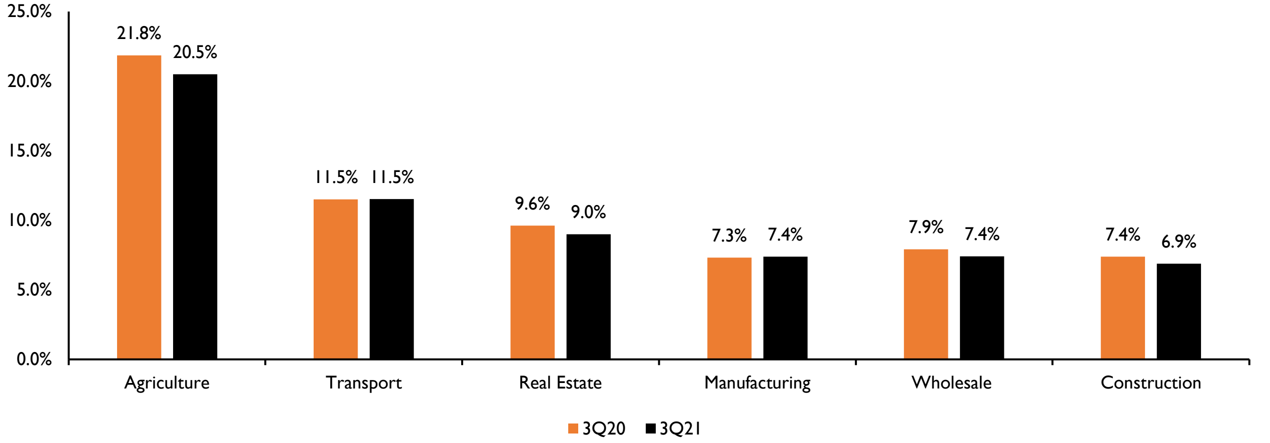
## Agriculture remains the key economic activity

Agriculture remained as the largest contributor to the economy at 20.5% which was a marginal decline from the 21.8% contribution in 3Q20. The continued dominance by the agricultural sector is attributable to growth of crops and animal production. We also observed a further point of concern for the Agricultural sector as it was the largest decliner in GDP contribution having declined by 135 bps. Other key contributors included; Transport (11.5%), Real Estate (9.0%) and manufacturing (7.4%).

Another prevailing concern is the continued decline in the contribution of the manufacturing sector to the GDP, with the sector contributing 7.4% in 3Q21 compared to a high of 9.3% in 2016. This would mean that the sector has been growing albeit at a slower pace than other sectors in the economy. Additionally, there was improvements in sectors such as Taxes on products (183 bps gain) and Education (181 bps gain) attributable to lifting of restrictions and businesses reopening.

Graph 2: Sector contributions




Source: KNBS

## Education and Mining the best performing sectors

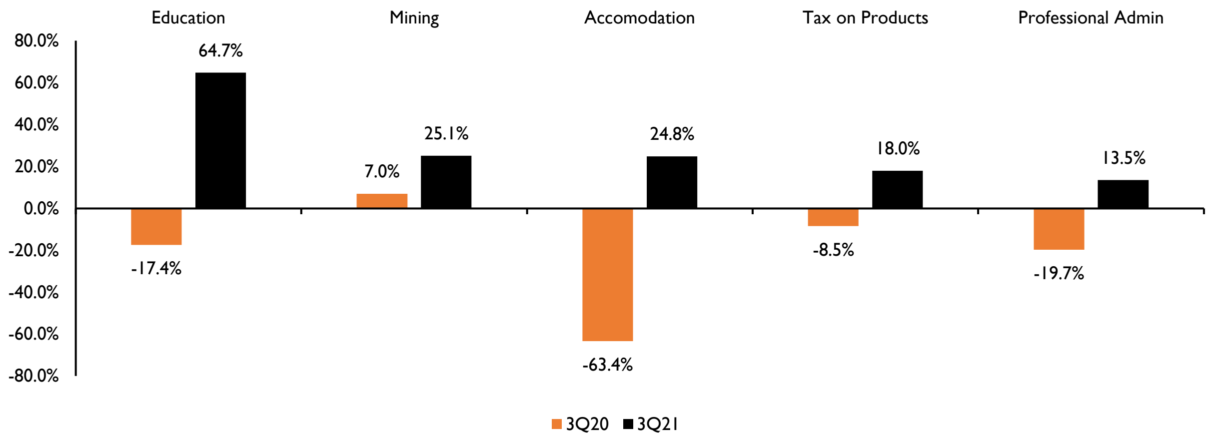
Education was the best performing sector as it recorded an accelerated growth of 64.7% compared to a 17.4% contraction in 3Q20. We attribute this growth to the resumption of learning in all levels of learning, after schools were closed for the most parts of 2020 due to the pandemic. Mining and quarrying was second best performer having grown by 25.1% from a 7.0% growth in 3Q20.

We observed that the sectors that had been previously affected by the pandemic recorded impressive recoveries on an y/y basis. Accommodation and food services sector continued its recovery by recording a 24.8% growth from a 63.4% contraction in 3Q20.

Manufacturing sector grew 9.5% from a contraction of 1.7% recorded in 3Q20. Food manufacturing grew 8.6% driven by beverages, dairy and grain mill production. Non food manufacturing saw a mixed performance. Production of textile and paper increased while production of machinery and basic metal declined.

Transport and storage sector grew 13.0% owing to the lifting of travel and movement restrictions that had been imposed in 3Q20. The number of SGR passengers increased 529.1% to 600,070 from 95,378 in 3Q21.

Graph 3: Best Performing Sectors



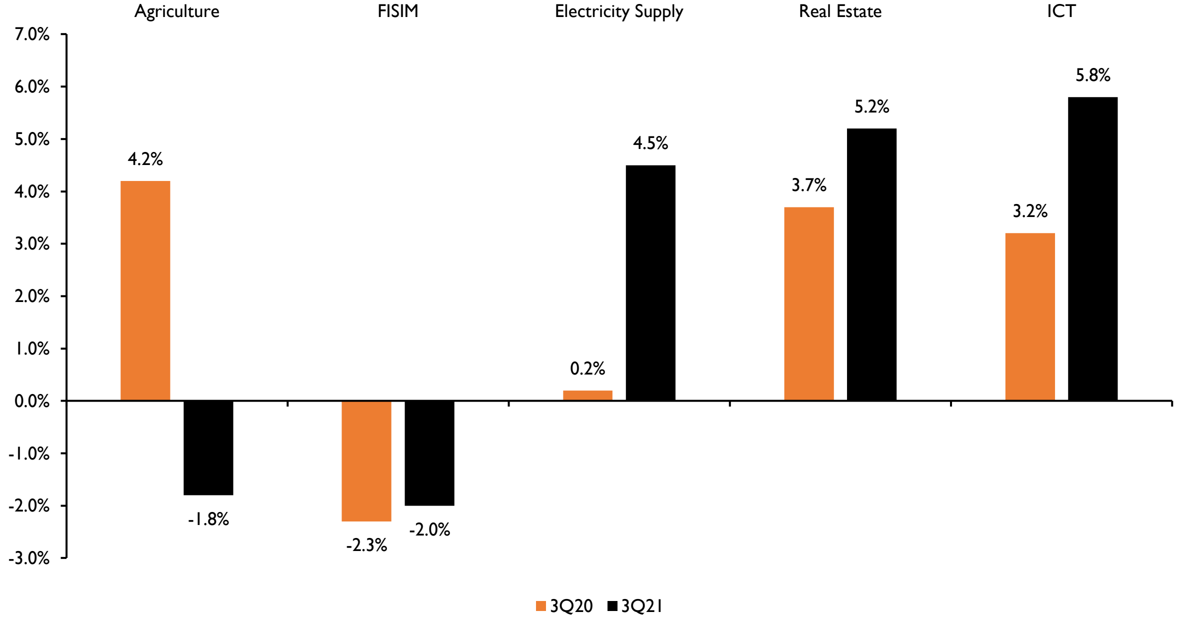

Source: KNBS

## Agriculture forestry and fisheries sector the worst performer

Agriculture forestry and fisheries was the worst performing sector for a second consecutive quarter, recording the largest contraction by 1.8% compared to a 4.2% growth in 3Q20. The decline was mainly attributable to adverse weather conditions experienced in the country leading to reduced agricultural production. More specifically there was a reduction in the production of coffee, fruit exports and tea by 24.1%, 19.9% and 5.9%, respectively. However, further decline was prevented by an increase in cut flowers, milk and vegetable exports of 44.8%, 21.9% and 14.1%, respectively.

Other notable slow growths were recorded in the electricity and water supply sector whose growth improved to 4.5% in 3Q21 from 0.2% in 3Q20. Real estate and ICT also recorded slower growth but higher than 3Q20 of 5.2% and 5.8%, respectively.

Graph 4: Worst performing Sectors




Source: KNBS

## 4Q21 Economic Outlook:

We maintain our expectation of a continued pick-up in economic growth and a better performance, having averaged 6.9% for the three quarters, as the end of 4Q'2021 mainly due to increased economic activity. Framing out the prevailing uncertainties occasioned by the vicious cycle of new variants and waves of infection, we still expect the economy to continue improving. Despite, the spread of the omicron variant in 4Q2,1 we have not seen any new restrictions mainly supported by vaccine inoculation.

Global challenges: supply chain delays, rising oil prices and elevated inflation will have a trickle down effect on the local economy and will likely be a pain point for some sectors. However, we do not expect any new restrictive measures to be introduced providing relief for sectors such as transport and storage, education and accommodation and food services.

The following sectors are likely do perform better:

- **Health services:** We expect a continued development expenditure in the sector by both the national and county governments. The health risk from the pandemic persist and the vaccination efforts are expected to drive growth and further expenditure into the sector. With the government having achieved the 10 million mark of COVID-19 vaccines the sector is at the forefront of driving economic growth. We expect a pickup in inoculations in 2022 as additional vaccines arrive and more jabbing centres are established.

- **Accommodation and Food Services:** The easing of travel restriction has already seen an improvement in both local and international tourist numbers in 2021. However, the rising COVID cases towards the end of 2021 saw placing of Kenya in the "Red Zone List" by countries such as UAE. If cases increase there is a threat of such restrictions by key tourist source countries in Europe and North America weighing down on any growth recorded.

- **Transport and Storage:** The easing of local and international movement restrictions is a huge positive for the sector. For example the allowing of public transport vehicles to carry at full capacity as well as avoidance of further local travel restrictions. However, the global logistical challenges been experienced will most likely be reflected in the local market through reduced imports and may weigh down on any growth recorded.

- **Information and Communication:** This sector is expected to continue growing as consumers embrace more digital channels. The onset of the pandemic has introduced new trends such as working and learning from home which are expected to be a new way of life post pandemic. Additionally, adoption of digital channels for services such as e-commerce will drive the level of economic activity derived from this sector.

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