

Stanbic IBTC Bank Nigeria PMI™

compiled by markit

Operating conditions improve for first time in a year

Key findings:

- **Headline PMI reaches 13-month high of 51.9**
- **Renewed expansions in output and new orders**
- **Input buying increases solidly**

January data signalled a renewed improvement in the health of Nigeria's private sector, with output levels increasing for the first time in a year. As a result, businesses increased their purchasing activity solidly which in turn led to a stronger accumulation in stocks of inputs. The rate of job shedding meanwhile eased since the end of 2016, and was fractional overall. At the same time, inflationary pressures remained marked, with input cost inflation reaching a four-month high and prices charged increased sharply.

The headline figure derived from the survey is the *Purchasing Managers' Index™ (PMI™)*. Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

The headline PMI registered 51.9 in January, up from 48.1 in December, and above the crucial 50.0 no-change level to signal a renewed improvement in overall operating conditions. Though modest, it was the first improvement in the health of Nigeria's private sector for a year.

Leading the PMI higher in January was the first increase in output for 12 months. Furthermore, the rate of expansion was the quickest since December 2015, with a number of panellists commenting on stronger underlying client demand and higher new orders.

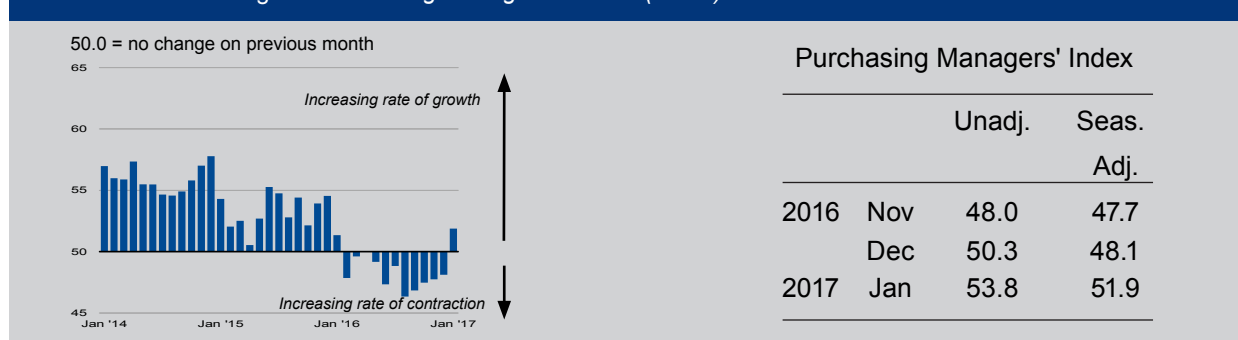
Highlighting this, new business also rebounded in January, with the rate of growth the most marked in 13 months. Data indicated that stronger domestic demand led the expansion, as new export work continued to decline.

To support higher production, companies increased their purchasing activity for the first time since July 2016 and at a solid pace. Consequently, stocks of inputs rose at the most marked rate in 13 months as firms made efforts to build up their inventories due to stronger client demand.

Job shedding meanwhile eased to only a fractional pace in January. Where lower staff numbers were reported, they were generally linked to streamline costs. Despite lower employment, backlogs of work continued to decline at the start of the year. The rate of depletion was modest overall and similar to that recorded in the previous month.

Nigerian private sector companies reported a further sharp rise in overall input costs during January. Furthermore, the rate of inflation was the quickest seen since September 2016. Survey respondents indicated that a steep increase in purchasing costs was the key driver of higher cost burdens, as staffing costs rose only slightly. Companies generally passed on higher input costs in the form of higher selling prices. Notably, the rate of charge inflation was also sharp, despite easing to its weakest in one year.

Stanbic IBTC Bank Nigeria *Purchasing Managers' Index™ (PMI™)*

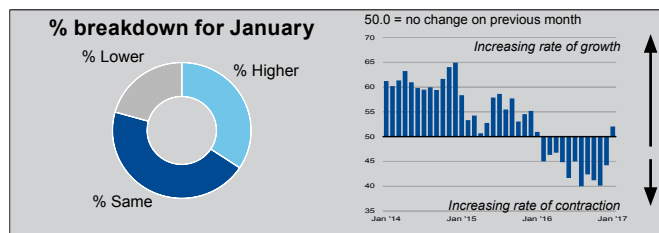


The Stanbic IBTC Bank Nigeria Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the Nigerian economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Stanbic IBTC Bank use the above marks under licence. IHS Markit is a registered trade mark of IHS Markit Group Limited.

Output Index

Q. Please compare your production/output this month with the situation one month ago.

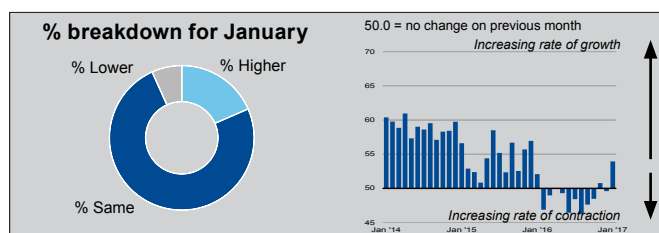
January survey data pointed to a renewed expansion in Nigerian private sector output, thereby ending an 11-month sequence of contraction. After adjusting for seasonal factors, the rate of growth was modest, however, and slower than the series long-run average. According to anecdotal evidence, improved underlying customer demand had prompted firms to increase output at the start of the year.



New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

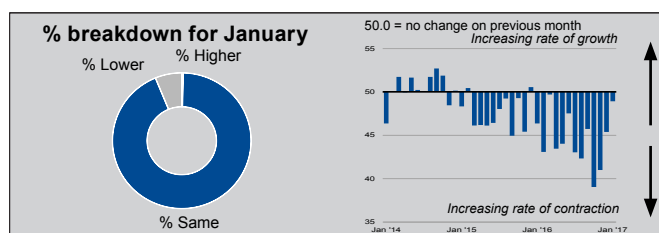
After a marginal reduction at the end of 2016, the total amount of new work placed at Nigerian private sector businesses increased solidly in January. Furthermore, it was the strongest rate of new order book expansion seen since December 2015. Panellists indicated that new client wins and, in some cases, new product releases, had supported growth in new work.



New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

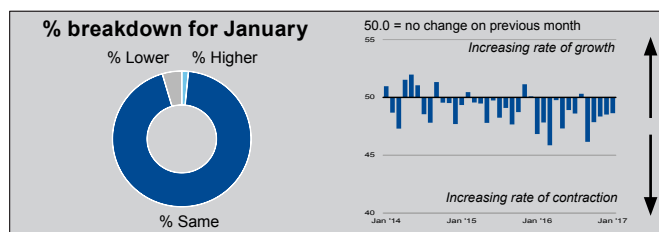
The rise in total new work was despite a further fall in new export orders at the start of the year. New business from abroad has now fallen in each of the past thirteen months, though the latest reduction was the weakest seen since March 2016. Some monitored companies had linked the fall in new export work to unfavourable exchange rate movements.



Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

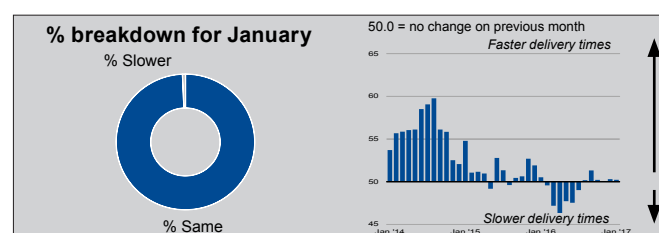
As has been the case since September 2016, outstanding business declined across Nigeria's private sector during January. After adjusting for seasonal factors, the rate of backlog depletion was little-changed from those seen in the prior two months and moderate overall. A number of surveyed businesses mentioned increased efforts to clear unfinished work in the latest survey period.



Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

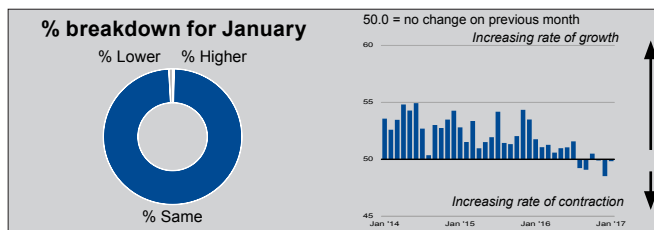
Average vendor performance was broadly unchanged from the previous month in January, thereby continuing a trend that has been evident since October 2016. This was shown by the seasonally adjusted Suppliers' Delivery Times Index posting only fractionally above the neutral 50.0 mark. Furthermore, the vast majority of the panel (99%) recorded no change to delivery times in January.



Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

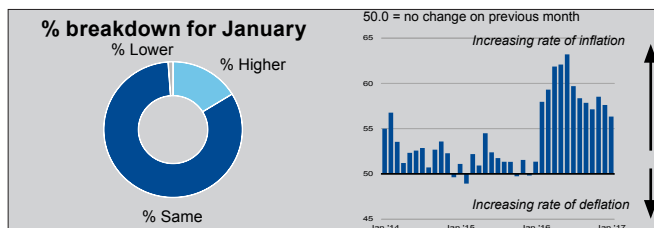
Private sector employment in Nigeria declined for the third successive month in January. That said, the rate of job shedding eased since December and was only fractional overall. Anecdotal evidence suggested that some companies trimmed their staff numbers in order to reduce their costs and improve profit margins.



Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

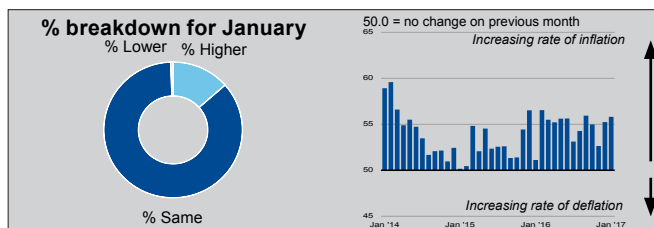
The seasonally adjusted Output Prices Index remained comfortably above the neutral 50.0 level to signal a further robust increase in prices charged by Nigerian private sector companies. This was despite the rate of inflation easing to its slowest in a year. Increased selling prices were widely linked by respondents to the passing on of higher inputs costs to clients.



Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

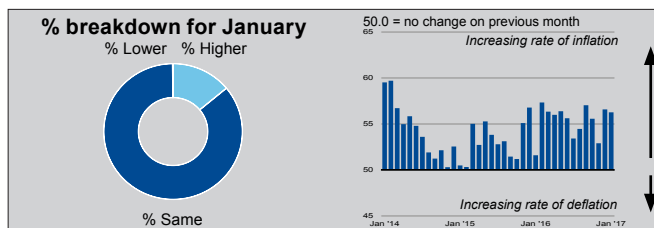
Latest survey data pointed to a sharp rise in total input costs faced by Nigerian private sector firms in January. Notably, the rate of total input price inflation picked up further from November's recent low to reach its strongest in four months. Underlying prices data indicated that inflationary pressures predominantly stemmed from a steep increase in purchasing prices, as staffing costs rose only slightly.



Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

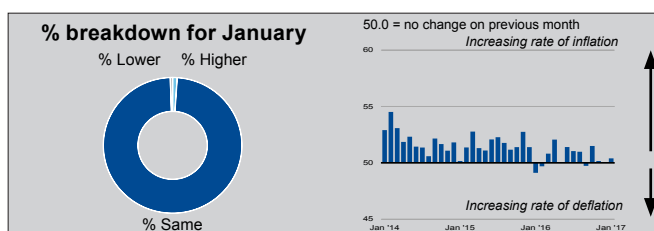
Private sector firms operating in Nigeria registered a further increase in average purchasing prices during January. The rate of inflation remained sharp overall, despite weakening slightly since December. Exactly 14% of surveyed firms reported higher purchasing costs in January, with a number of panellists commenting on higher prices for raw materials such as fuel and foodstuffs.



Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

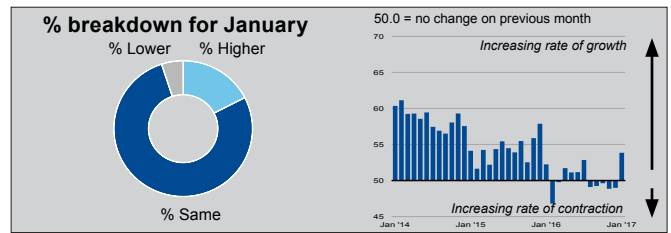
After stabilising in December, average staffing costs increased across Nigeria's private sector at the start of the year. That said, the seasonally adjusted index was consistent with only a marginal rate of wage inflation. Companies that reported higher staffing costs mentioned raising pay rates as part of efforts to increase motivation.



Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

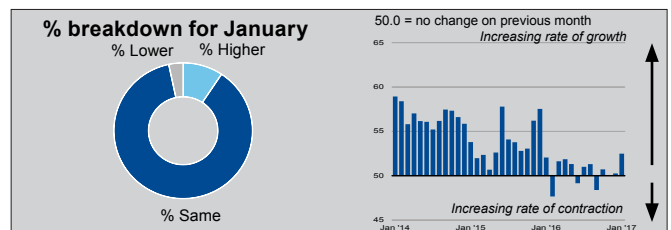
Purchasing activity increased across Nigeria's private sector during January, thereby ending a five-month sequence of reduction. Furthermore, the rate of expansion was the most marked since December 2015. Stronger client demand and an upturn in new orders were both cited as key factors behind the renewed rise in input buying.



Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

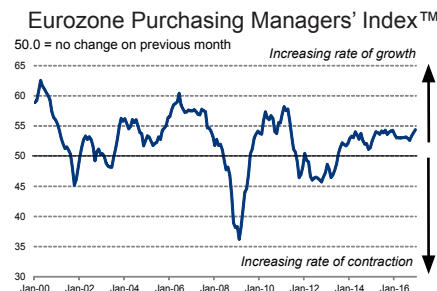
A solid increase in purchasing activity contributed to a faster accumulation in stocks of purchased items held by Nigerian private sector businesses. Notably, the rate of inventory expansion was the quickest recorded in 13 months. A number of panellists also commented on raising their stock holdings due to an improvement in underlying demand conditions.



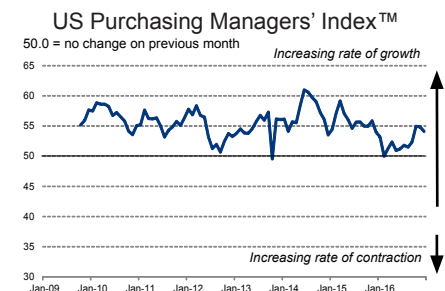
International PMI summary



Sources: IHS Markit, Caixin



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a further marked rise in business activity across China in December, with the rate of expansion picking up since the previous month. Moreover, the Composite Output Index was up from 52.9 in November to a 45-month high of 53.5 at the end of 2016.

At 54.4 in December, up from November's 53.9, the Markit Eurozone PMI Composite Output Index signalled a solid and quicker rate of expansion. Manufacturing led the growth acceleration, with production increasing at the quickest pace since April 2014. Service sector activity also rose solidly, with the rate of increase staying close to November's 11-month high.

The seasonally adjusted Markit U.S. Composite PMI Output Index registered 54.1 in December, down slightly from 54.9 in November but above the 50.0 no-change mark for the tenth consecutive month. Moreover, the average reading for the final quarter of 2016 (54.6) was the strongest since Q4 2015.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the Nigerian economy, including agriculture, mining, manufacturing, construction, retail and services. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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