

Stanbic IBTC Bank Nigeria PMI™

compiled by markit

Contraction of Nigerian private sector accelerates to new survey-record

Key findings:

- Business conditions worsen for fourth time in five months
- Survey-record fall in new work leads to substantial drop in output
- Charges rise at fastest pace in series history

Nigeria's private sector sank further into contraction territory in June, as business conditions worsened for the fourth time in five months. Moreover, the rate of deterioration accelerated to a survey-record, driven by a sharp contraction of output. Lower new orders also contributed to the downturn – the rate of decline was the fastest in the series history. In contrast, both employment and purchasing activity increased, albeit only slightly. High prices was reportedly a factor behind subdued client demand. Charges rose at the sharpest rate on record, reflective of strong cost pressures.

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 seasonally adjusted PMI tumbled to a new series low of 47.3 in June, from 49.2 in May. The latest deterioration in business conditions was the fourth in the past five months. Prior to February, Nigeria's private sector had grown continuously for more than two years. June's reading meant that the second quarter average (48.9) was the lowest since the survey began two-and-a-half years ago.

Underpinning the overall contraction was a steep fall in activity at Nigerian private sector firms. The rate of decline was by far the sharpest recorded by the survey. Currency weakness and

high inflation were cited as factors behind lower output.

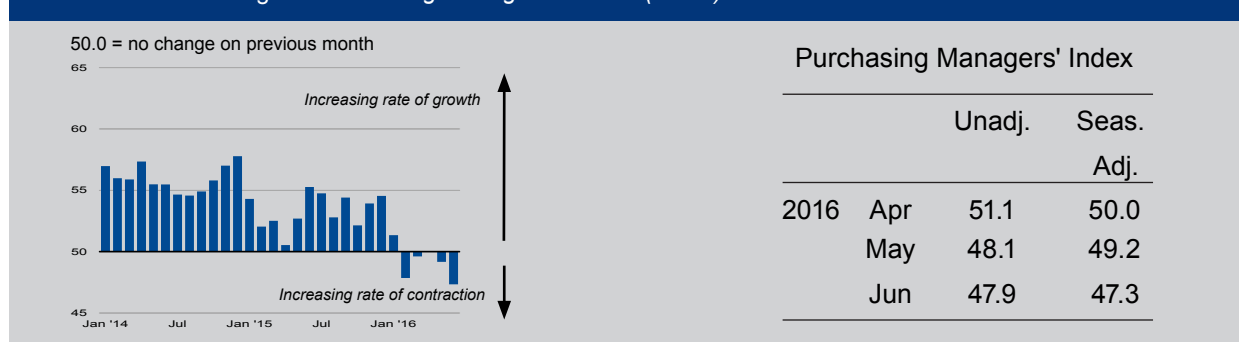
Subdued client demand was highlighted by panellists as a key reason behind the reduction. This was borne out by latest data, which showed new business falling at a survey-record pace. There were reports that rising prices had led some customers to postpone orders. New export work also declined, albeit to only a moderate extent.

Purchasing activity continued to rise in the face of weakening demand during June, but the pace of growth remained muted compared to the series average. Meanwhile, pre-production inventories were depleted for the first time in four months.

The rate of job creation picked up to a three-month high in June, though it remained subdued in the context of historical data. In fact, hiring over the second quarter on average was the weakest since the survey's inception in 2014. As well as the larger workforce, a lack of new work contributed to a sixth successive fall in outstanding business.

On the price front, output charges increased at the quickest rate in two-and-a-half years of data collection during June. The rate of inflation has accelerated to record highs in each of the past five months. Panellists pointed to the impact of higher input costs, which were linked in part to the weakness of the naira.

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

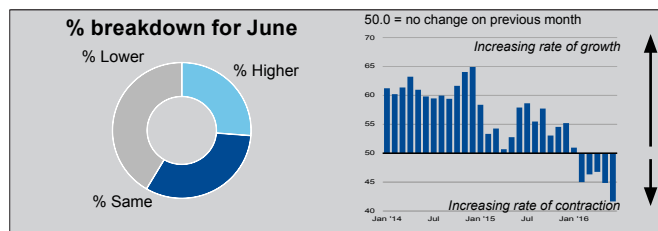


The Stanbic IBTC Bank Nigeria Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the Nigerian economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times 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. Markit is a registered trade mark of Markit Group Limited.

Output Index

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

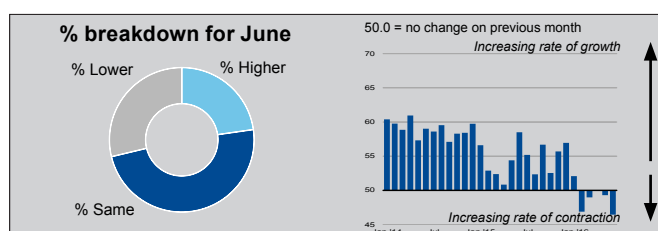
Nigerian private sector output fell at a survey-record pace in June. The sharp and accelerated contraction extended the downturn which started in February. Around 42% of panellists noted a drop in activity, versus 26% that registered an expansion. A lack of client demand was frequently mentioned as the main drag on output. Currency weakness and high inflation were also cited as factors behind the reduction.



New Orders Index

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

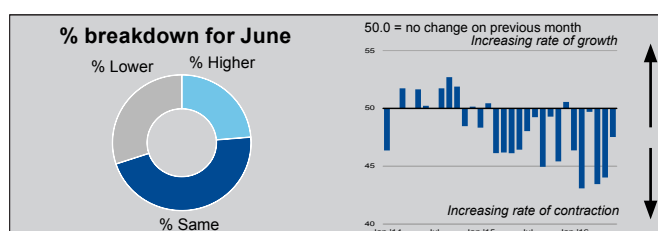
New orders showed a similar trend to output in June, as signalled by the seasonally adjusted index posting at a survey-record low. The latest decline continued a five-month sequence during which new business has either stagnated or fallen. A number of firms commented on worsening demand. Some respondents were more specific, suggesting that high prices had led clients to postpone orders.



New Export Orders Index

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

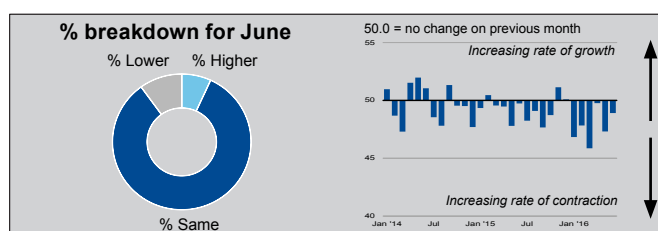
The amount of new business from abroad in Nigeria's private sector decreased for the sixth straight month in June. Roughly 30% of survey participants noted a decline since May, with high prices and weak international demand cited as contributing factors. That said, the rate of contraction eased to the slowest in three months, and was only moderate overall.



Backlogs of Work Index

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

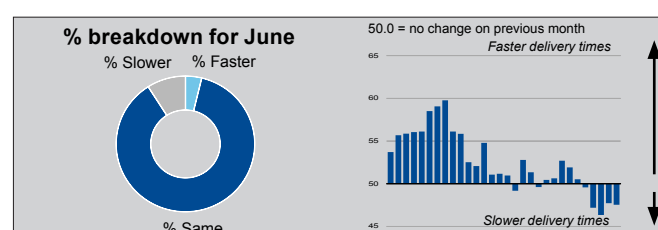
As has been the case in every month of 2016 so far, outstanding business decreased in June. According to anecdotal evidence, spare capacity was largely a result of ongoing weakness in client demand. That said, the rate at which backlogs were depleted was only modest and slower than in May. Exactly 10% of monitored companies noted a reduction, against 7% that registered an increase.



Suppliers' Delivery Times Index

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

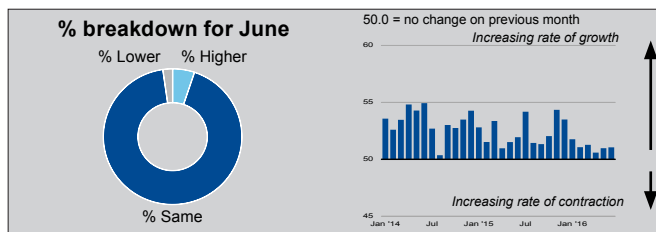
Average lead times faced by Nigerian private sector businesses lengthened in June, as shown by the seasonally adjusted index posting below the 50.0 no-change value. The degree to which vendor performance worsened was little-changed since May and moderate overall. There were reports that suppliers' delivery times had been affected by road congestion and high fuel prices.



Employment Index

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

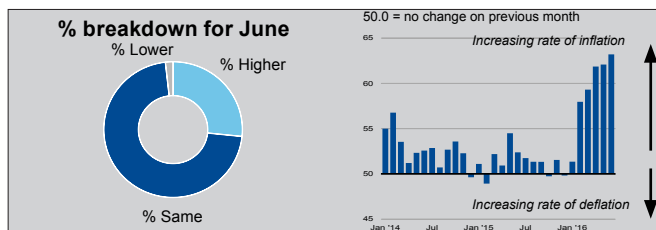
In spite of sustained contractions in output and new work, Nigerian private sector employment rose further in June. That said, the rate of job creation remained modest. Data over the second quarter on average signalled the weakest rise in payroll numbers since the survey began two-and-a-half years ago. The vast majority of panel members (93%) noted no change in the latest period.



Output Prices Index

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

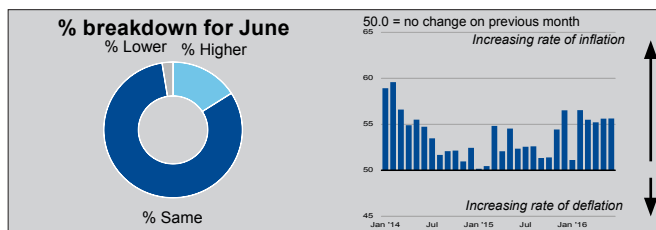
The seasonally adjusted Output Prices Index climbed to a survey-record high for the fifth consecutive month in June. It therefore signalled a marked rise in charges, with around 27% of respondents seeing an increase compared to May. Charges were reportedly raised in order to reflect a higher cost of production.



Overall Input Prices Index

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

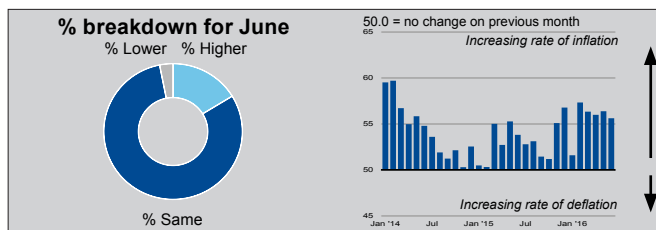
The rate at which input prices increased was unchanged from May's sharp pace in June. The rise was strong in the context of historical data. Close to 16% of surveyed firms noted upward cost pressures, versus just 3% that registered a decline. Underlying data showed that both salaries and purchase prices increased in the latest period.



Input Costs: Purchase Prices Index

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

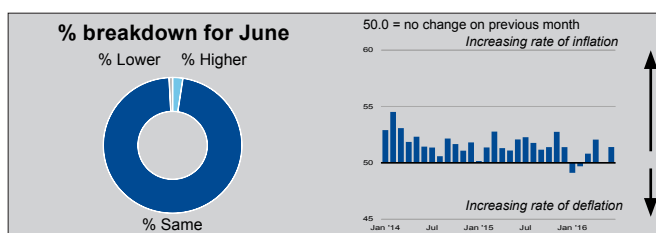
Purchasing costs in Nigeria's private sector continued to rise midway through 2016, as has been the case in each of the 30 months of data collection so far. Though marked overall, the latest increase was the slowest since January. The weakness of the naira and higher raw material costs, in particular fuel, were mentioned as factors behind inflation.



Input Costs: Staff Costs Index

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

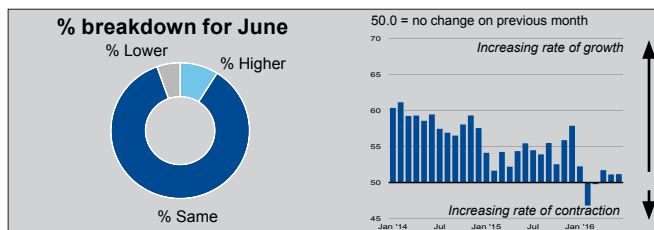
Prices paid for wages and salaries increased on average in June, stretching the current upturn to four months. The rate of salary growth was broadly in line with the series average, albeit modest overall. Some panel members suggested that wages had been raised in order to help employees with a higher cost of living.



Quantity of Purchases Index

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

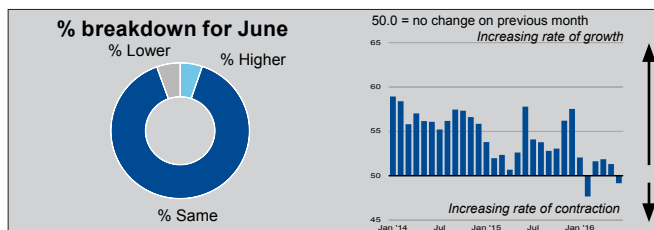
Contrasting with the downward trends seen for output and new work, purchasing activity increased at the end of the second quarter. That said, the rate of expansion was broadly similar to that seen in the preceding two months and only modest. A small minority of the panel (9%) recorded growth of input buying, while most (86%) saw no change.



Stocks of Purchases Index

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

June data pointed to a renewed decline in stocks of purchases at Nigerian private sector companies. This was only the second time, after February, that input stocks had fallen since the survey's inception in January 2014. The rate of inventory depletion was only slight, however, as the vast majority of panellists (89%) registered no change relative to May.



International PMI summary



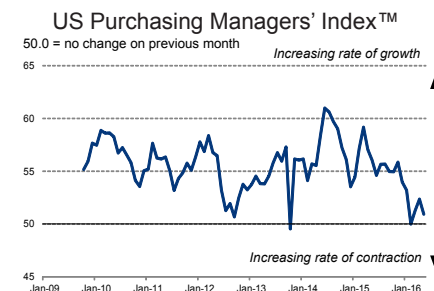
Sources: Markit, Caixin

Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a further increase in total Chinese business activity during May. However, the Composite Output Index posted 50.5, down from 50.8 in April, to signal the slowest rate of expansion in the current three-month sequence of growth.



Source: Markit

The Markit Eurozone PMI Composite Output Index ticked higher to 53.1, up from 53.0 in April. However, the past four months have seen economic growth hold broadly steady at February's 13-month low. The upturn was again led by the service sector.



Source: Markit

The seasonally adjusted Markit U.S. Composite PMI Output Index dropped from 52.4 in April to 50.9 in May, to signal the slowest expansion of private sector output since February's stagnation. Higher levels of service sector activity contrasted with a slight reduction in manufacturing production during May.

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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