

Stanbic IBTC Bank Nigeria PMI™

compiled by markit

Nigeria's private sector slips back into decline

Key findings:

- PMI signals renewed downturn after stabilisation in April
- Output falls at survey-record pace
- New business drops for third time in four months

Latest data indicated that Nigeria's private sector had contracted for the third time in four months during May. After stabilising in April, business conditions worsened at a marginal pace, reflective of a renewed fall in new business. Output remained a key area of underperformance – the latest decline was the fourth in as many months and the fastest in the series history. On a more positive note, both employment and purchasing activity increased in May, albeit only slightly. Meanwhile, currency weakness and a scarcity of fuel continued to place upward pressure on costs and charges, with the latter rising at a survey-record pace for the fourth month in a row.

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 posted 49.2 in May, down from 50.0 in April. Though contrasting with growth signalled across the series on average (53.8), the latest figure marked a resumption of the downward trend seen in February and March. That said, it pointed to only a slight contraction of the sector overall.

Lower output was a key factor behind the downturn. Activity fell for the fourth successive month, with the rate of decline picking up to the most marked in the survey's history. Some firms

suggested that the fuel scarcity had hampered production, but most noted that poor sales had been the main driver of the contraction.

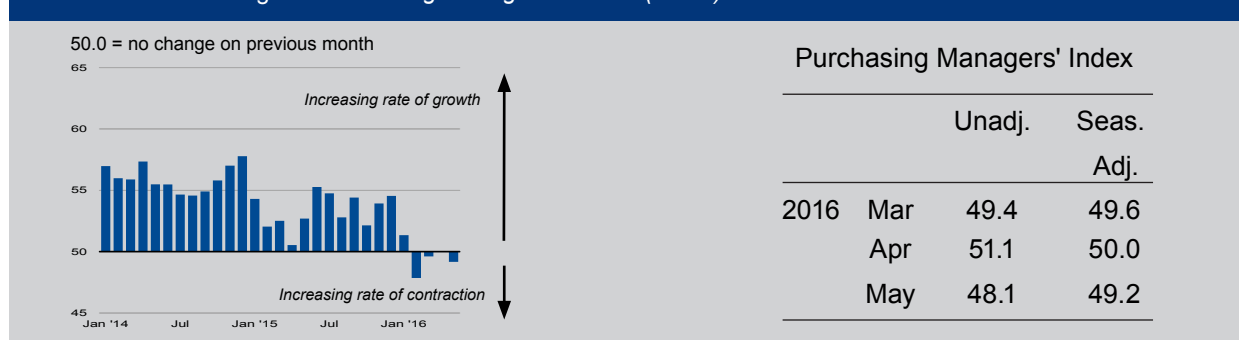
In line with the headline index, new business dropped in May having briefly stabilised in April. Though only slight, the latest fall was the third in four months. Data showed that subdued demand conditions extended to international markets, as exports declined for the fifth month running. Moreover, the rate at which foreign new work decreased was sharp overall.

Despite the contractions in output and new orders, Nigeria's private sector firms continued to hire additional staff in May. Sustained jobs growth and a lack of incoming new work allowed companies to clear outstanding business for the fifth consecutive month. However, the rate of job creation was among the weakest recorded over 29 months of data collection so far.

Buying activity in Nigeria's private sector also increased in May. Stocks of purchases rose as a result. That said, the overall downturn of the sector ensured that the respective rates of expansion were only modest overall.

On the price front, a weak naira and a shortage of fuel meant that input costs rose sharply again in May. Subsequently, charges increased at a survey-record pace for the fourth straight month.

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

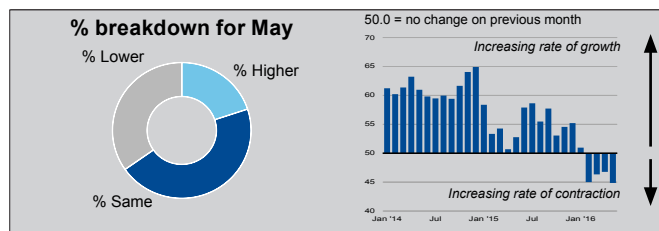


The Stanbic IBTC Bank Nigeria Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the Nigerian economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times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

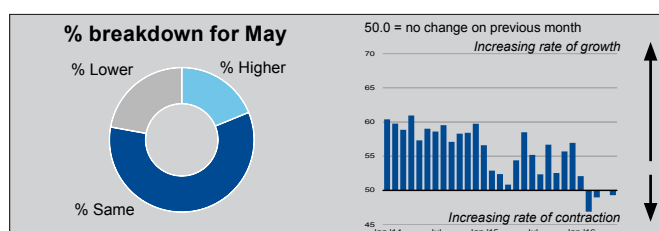
After having eased in each of the previous two months, the rate of contraction in Nigerian private sector output accelerated in May. In fact, the latest decline was the most marked in the survey's history, with around 35% of the panel reporting lower activity. Weaker-than-expected sales was cited as the main reason behind the downturn, though the fuel scarcity was again mentioned as a contributing factor.



New Orders Index

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

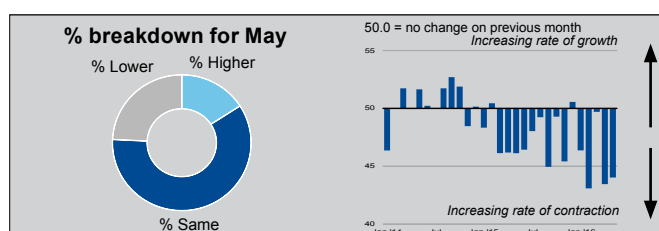
The stabilisation of new business seen in April proved to be short-lived, as the seasonally adjusted index slipped back into contraction territory during May. The reading signalled a third decline in the past four months, though the pace of reduction was only slight. Those companies that registered a drop in new work commented on subdued client demand.



New Export Orders Index

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

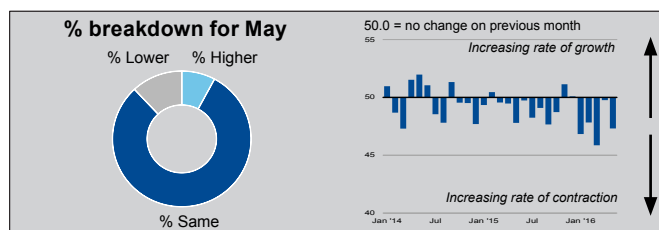
Total new orders were weighed down by another fall in exports during May. New business from abroad has decreased in every month of 2016 so far. The latest decline was sharp overall, albeit slightly slower than seen in April. As well as poor international demand, firms blamed high transportation costs for the contraction in new export work.



Backlogs of Work Index

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

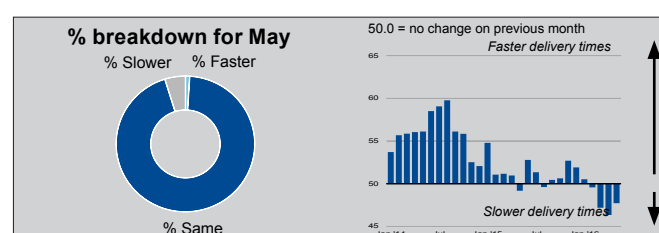
The level of unfinished work in Nigeria's private sector decreased for the fifth straight month in May. The rate of backlog depletion quickened since April and was solid overall. Both data and anecdotal evidence suggested that a lack of incoming new work had enabled companies to clear outstanding business.



Suppliers' Delivery Times Index

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

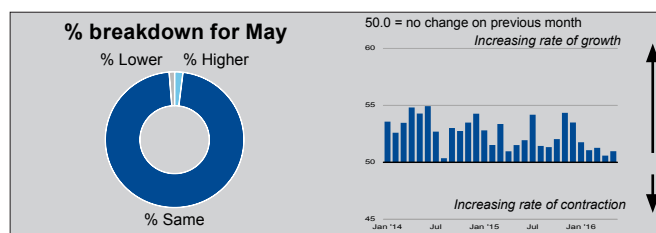
Suppliers' delivery times lengthened for the fourth month in a row during May. There were reports that the fuel scarcity had prompted delays at vendors' units. That said, the extent to which lead times worsened was only moderate, with the vast majority of respondents (94%) seeing no change since April.



Employment Index

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

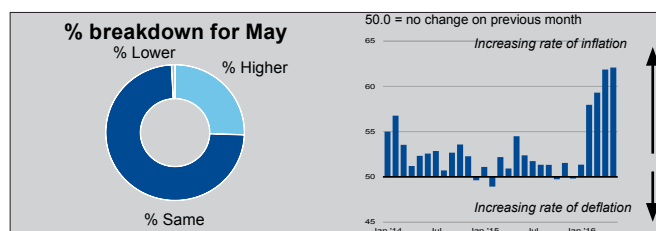
Contrasting with reductions in output and new work, job creation was sustained in May. Employment has risen throughout the survey's 29-month history. However, the rate of hiring was only modest, reflective of subdued demand conditions. Nearly the entire panel (97%) recorded no change in payroll numbers.



Output Prices Index

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

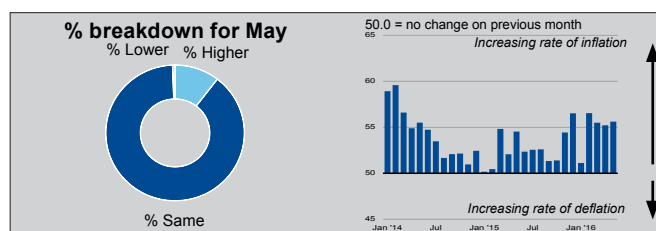
For the fourth month in a row, the seasonally adjusted Output Prices Index posted at a survey-record high in May. With more than a quarter of respondents noting a rise since April, the latest increase in charges was sharp overall. Higher input costs, driven in part by currency weakness and the fuel scarcity, were reportedly behind inflationary pressures.



Overall Input Prices Index

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

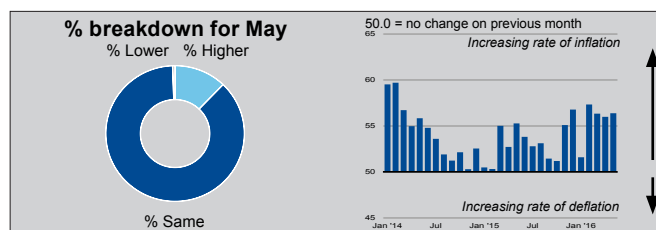
Total input costs continued to rise solidly in May, stretching the current upward trend which has run throughout the survey's history. The rate of increase picked up slightly from the prior month to the quickest since February. Underpinning overall cost pressures was a sharp rise purchase prices. Salary growth was meanwhile sustained, albeit at a fractional pace.



Input Costs: Purchase Prices Index

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

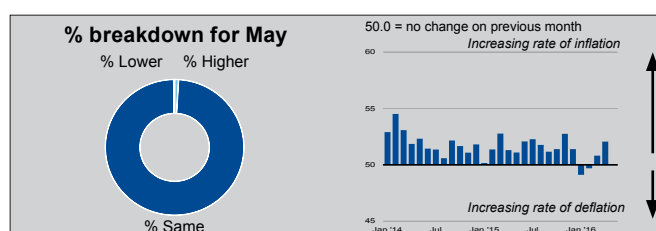
Purchasing costs followed a similar pattern to overall input prices in May, rising at the fastest pace in three months. Approximately 12% of panellists noted an increase, versus just 1% that registered a decline. A shortage of fuel pushed costs upwards, while respondents indicated that the weakness of the Nigerian naira had also been a contributing factor.



Input Costs: Staff Costs Index

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

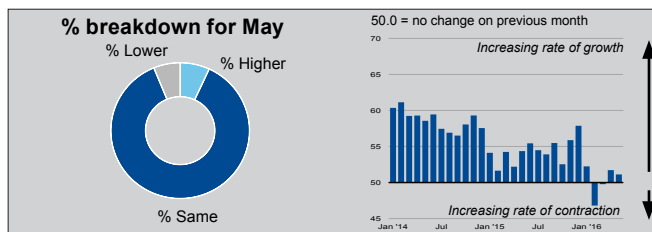
Average staff costs in Nigeria's private sector barely rose in May, as signalled by the seasonally adjusted index posting only fractionally above the crucial 50.0 threshold. Nearly the entire panel (99%) recorded no change since April. Those firms that raised salaries did so in order to compensate workers for higher living costs.



Quantity of Purchases Index

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

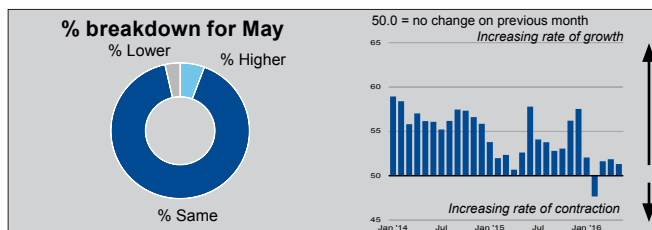
In spite of contractions in output and new work, purchasing activity rose for the second month running in May. The rate of expansion was only modest, however, with most panel members (87%) seeing no change since the prior month. In fact, the respective index was at its third-lowest level since data collection began in January 2014.



Stocks of Purchases Index

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

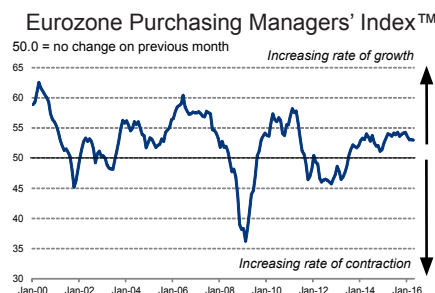
The rate of pre-production inventory building at Nigerian private sector companies eased in May. The latest rise was the slowest in the current three-month sequence of growth. Some firms suggested that they had built up stock levels in the face of a fuel shortage, but others commented on depletion resulting from poor sales.



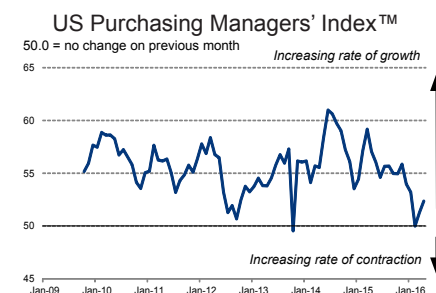
International PMI summary



Sources: Markit, Caixin



Source: Markit



Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) indicated a second successive monthly expansion of overall business activity in China during April. That said, the rate of activity growth eased since March to signal only a marginal rate of increase, with the composite index posting 50.8, down from 51.3.

The rate of eurozone economic expansion remained only modest in April. The Markit Eurozone PMI Composite Output Index posted 53.0 in April. This reading was a pip below March's 53.1. Nonetheless, the index has now signalled growth in each of the past 34 months.

The seasonally adjusted Markit U.S. Composite PMI Output Index picked up to 52.4 in April, from 51.3 in March, thereby signalling the fastest expansion of private sector output since January. Stronger growth of service sector business activity contrasted with the weakest increase in manufacturing production for just over five-and-a-half years.

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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