

Stanbic IBTC Bank Nigeria PMI™

compiled by markit

Nigerian private sector contracts for first time in series history

Key findings:

- PMI sinks below 50.0 mark to signal downturn in business conditions
- First falls in output and new orders since survey began in January 2014
- Survey-record rise in charges driven by currency weakness

The expansion of Nigeria's private sector came to an abrupt end in February. Business conditions worsened for the first time since the series began in January 2014. Falls were signalled for output and new orders, leading to declines in input buying and stocks of purchases – all of which were survey-firsts. Employment resisted the overall contraction, but increased only modestly. The data painted an equally bleak picture for consumers in February. Charges rose at a record pace amid marked cost pressures. These were driven in turn by adverse exchange rates, according to survey respondents.

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.

After having slipped to a nine-month low of 51.3 in January, the seasonally adjusted PMI dropped below the neutral 50.0 mark for the first time in the survey's history during February. At 47.9, the latest reading pointed to a solid deterioration in the health of the private sector.

The overall downturn was underlined by contractions in output and new work in February. Both ended growth trends that had been evident throughout the first 25 months of data collection. Moreover, the respective rates of decline were robust overall. Poor client demand was reportedly behind the fall in new

business. This was cited as the key driver of lower output, though currency weakness was also mentioned by some firms.

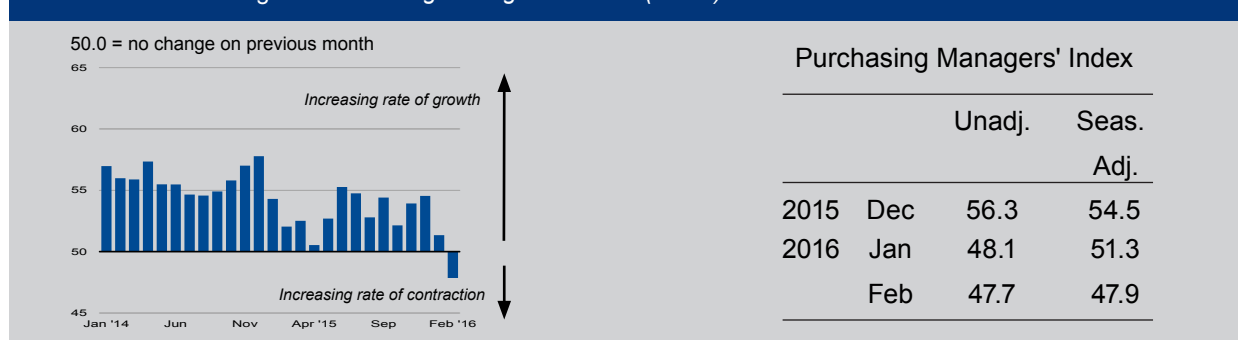
Uncertainty surrounding the exchange rate was widely reported to have dampened international demand in February. Data highlighted a survey-record drop in new export work, similar to the trend seen for total new business.

Less incoming new orders meant that output requirements decreased, and purchasing activity dropped as a result. Pre-production inventories also fell in February. Both declines followed periods of expansion which had run throughout the survey's history.

Employment was the only non-price index in which growth was registered in February. Job creation was sustained in spite of falling output and new work, albeit at only a modest rate. Those firms that engaged in hiring did so in order to expand the business.

Meanwhile, a sharp rise in purchase prices meant that total cost pressures intensified in February. In fact, the rate at which purchasing costs increased was the most marked in two years. Anecdotal evidence linked the rise to the weakness of the Nigerian naira relative to the US dollar. Subsequently, firms reported a survey-record increase in tariffs.

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



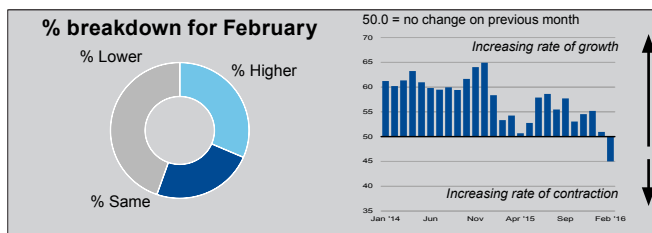
The Stanbic IBTC Bank Nigeria Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the Nigerian economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times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

This PMI is endorsed and adopted by NBS

Output Index

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

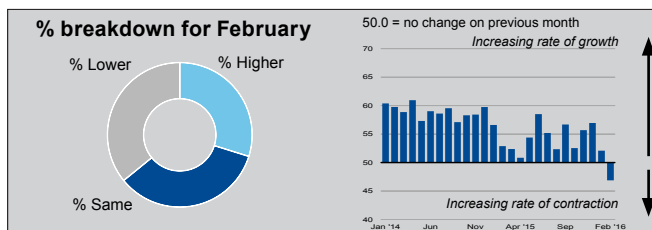
For the first time in the survey's 26-month history, Nigerian private sector output declined in February. This was signalled by the seasonally adjusted index posting below the neutral 50.0 mark. Moreover, with around 45% of respondents noting a drop in activity, the rate of contraction was marked overall. Lower output was widely linked to poor demand, though some firms also made reference to adverse exchange rates.



New Orders Index

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

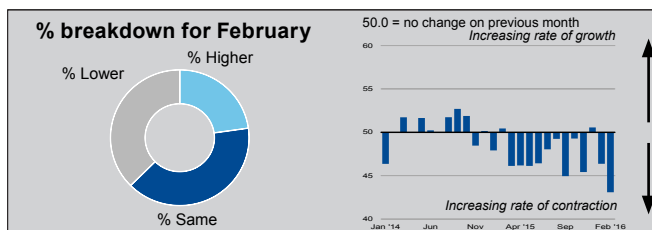
After rising only modestly in the first month of 2016, new orders placed with Nigerian private sector companies fell in February. Similar to output, the drop in new work was a survey-first. It was also solid overall, with roughly 36% of panellists seeing a reduction since January. Anecdotal evidence highlighted a general downturn in 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.

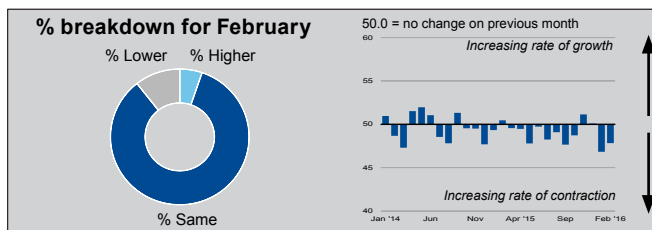
The contraction in total new business was driven in part by a sharper drop in new work from abroad during February. The latest decline was the most marked since the survey began in January 2014. Exchange rate volatility was reportedly a factor dampening international demand. Exports have now fallen in 11 of the past 12 months.



Backlogs of Work Index

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

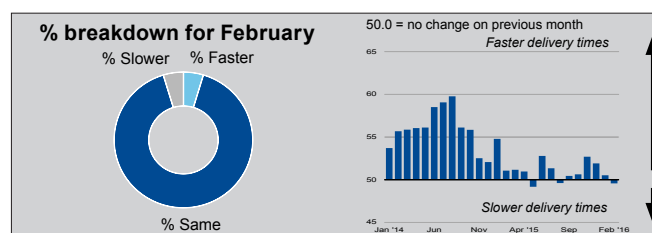
The level of unfinished work in Nigeria's private sector decreased for the second month running in February. That said, the rate of depletion eased since January in spite of a first reduction in new work intakes. Around 11% of monitored firms noted a fall in outstanding business, more than twice the proportion that saw a rise (5%).



Suppliers' Delivery Times Index

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

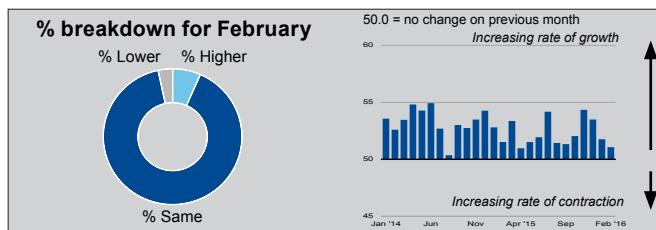
Average lead times lengthened for the first time in six months in February, albeit only fractionally. Some firms reported delays resulting from traffic congestion, while others noted faster deliveries amid prompt payments and supplier competition. That said, the vast majority of respondents (91%) saw no change in vendor performance.



Employment Index

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

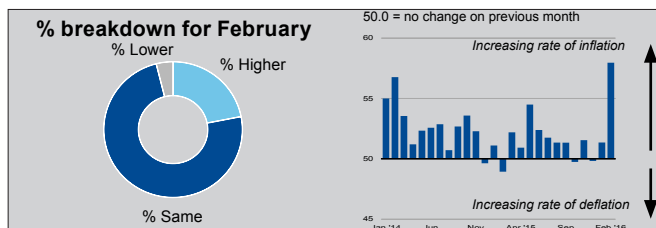
Despite reductions in output and new orders, employment remained in growth territory during February. Job creation has been recorded continuously throughout the series history, but the rate of increase in the latest period was one of the slowest on record. Where hiring was evident, this was often to facilitate business expansions. On the other hand, some companies shed staff in an effort to reduce costs.



Output Prices Index

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

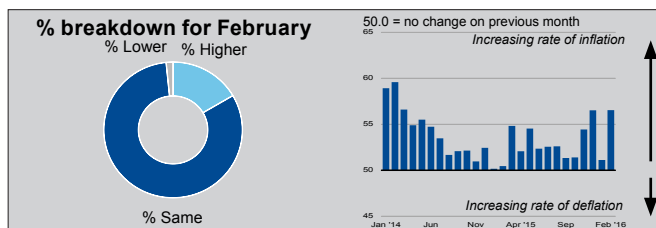
Charges rose to the greatest extent since the survey's inception more than two years ago during February. Around 22% of monitored firms registered an increase in selling prices, versus just 4% that noted a decline. Higher tariffs were a reflection of rising input costs. These were linked in turn to the weakness of the Nigerian naira, particularly against the US dollar.



Overall Input Prices Index

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

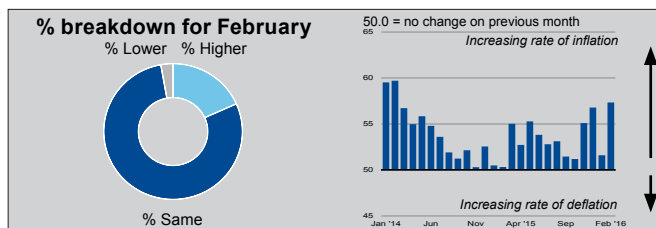
Total input costs in Nigeria's private sector economy increased at a faster pace in February. In fact, the latest rise was the joint-quickest since March 2014, with around one-in-six panellists noting an upward trend. Underlying data signalled that overall cost pressures were mainly driven by purchase prices, as salaries dropped marginally for the second straight month.



Input Costs: Purchase Prices Index

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

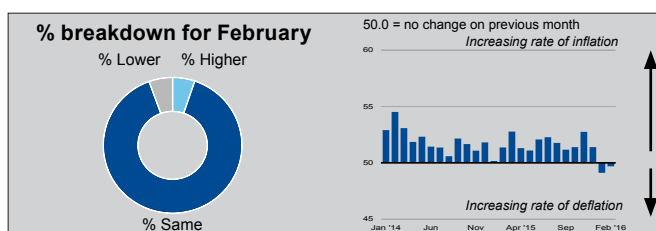
The rate at which purchase prices increased accelerated to an even greater extent than that for total input costs, as shown by the respective index surging to a two-year high in February. Six times as many companies noted a rise (18%) as opposed to a fall (3%). Higher purchasing costs were almost universally attributed to currency weakness relative to the US dollar.



Input Costs: Staff Costs Index

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

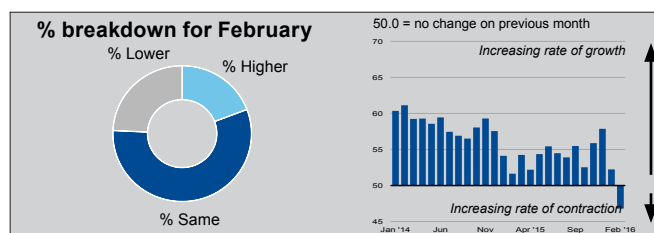
Average staff costs fell for the second month running in February, having risen continuously throughout the first two years of data collection. The latest drop was only marginal, however, as the majority of the panel (89%) saw no change since January. Those firms that cut salaries did so in order to lower costs in the face of falling demand.



Quantity of Purchases Index

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

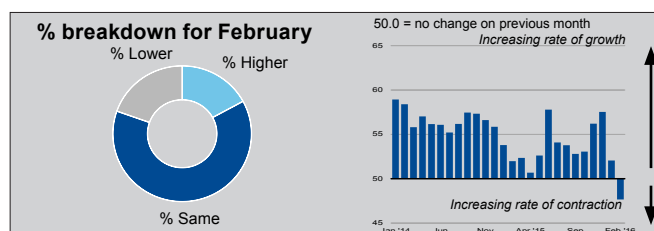
In line with lower activity and new work intakes, input buying decreased in February. The contraction was solid and the first recorded since the survey began at the start of 2014. Falling output requirements meant that purchasing activity was unnecessary, according to panellists. Approximately 24% reported a drop since January, compared with 19% that noted a rise.



Stocks of Purchases Index

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

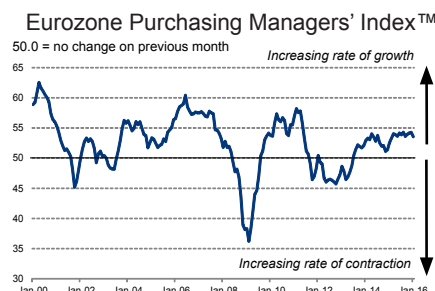
Stocks of raw materials and semi-manufactured goods in the Nigerian private sector decreased in February. The latest decline ended a growth sequence which had run throughout the series history. Moreover, it was solid overall, with a number of firms destocking amid poor demand and weaker-than-expected sales.



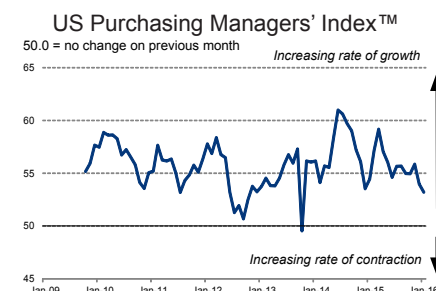
International PMI summary



Sources: Markit, Caixin



Source: Markit



Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a stabilisation of Chinese business activity in January, following a slight reduction at the end of 2015. This was signalled by the headline Caixin Composite Output Index registering fractionally above the no-change 50.0 value at 50.1, up from 49.4 in December.

The eurozone economy made a disappointing start to 2016. The Markit Eurozone PMI Composite Output Index fell to a four-month low of 53.6, down from 54.3 in December. Nonetheless, the headline index has remained above the neutral 50.0 mark for 31 consecutive months.

The seasonally adjusted Markit U.S. Composite PMI Output Index registered 53.2 in January, down from 54.0 in December, to signal the weakest rise in private sector business activity since October 2013. The overall slowdown in January largely reflected a more subdued expansion of service sector activity, as manufacturing output rose at a slightly faster pace than December's 26-month low.

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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