

# Stanbic IBTC Bank Nigeria PMI™

compiled by markit

## Downturn in Nigerian private sector eases during March

### Key findings:

- PMI remains in negative territory but moves closer to 50.0 mark
- Slower declines in output and new business
- Prices charged rise at record pace amid currency weakness

The contraction of Nigeria's private sector persisted in March, albeit at a weaker pace. Business conditions worsened only slightly, with the speed of downturn restricted by slower declines in output and new work. Reflective of subdued client demand, input buying also decreased marginally. In contrast, both employment and pre-production inventories increased. On the price front, currency weakness continued to have an impact – driving input costs higher which subsequently led to another survey-record rise in charges.

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.

At 49.6 in March, the seasonally adjusted PMI signalled a second consecutive deterioration in business conditions at Nigerian private sector firms. That said, the rate of contraction eased somewhat, with the latest reading up from 47.9 in February. Notably, the recent downturn has bucked a growth trend which had defined the first 25 months of data collection, meaning that the first quarter average (49.6) was by far the lowest recorded since the survey began at the start of 2014.

Lower output and new work ensured that the headline index remained in negative territory during March. The respective declines were the second in as many months, though both were

slower than in February.

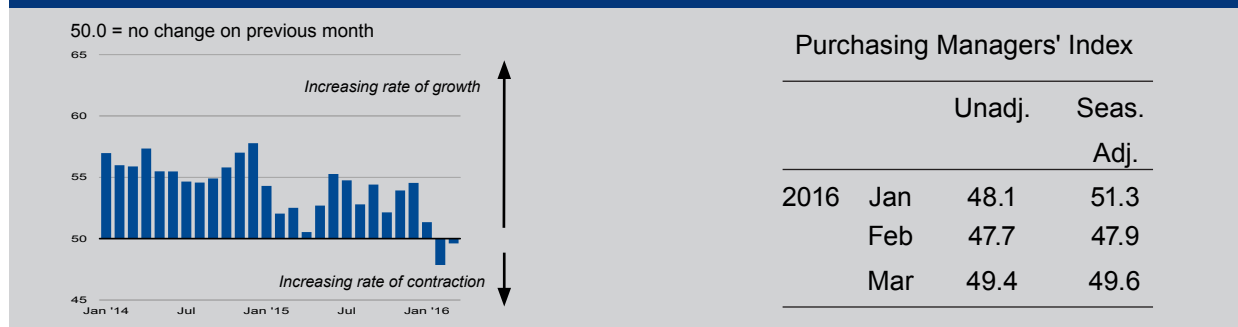
New orders fell amid muted client demand both domestically and abroad, but the rate of decline in exports eased substantially from the survey-record seen in the previous month. Panellists also mentioned exchange rate volatility and unfavourable economic conditions as factors undermining output.

Meanwhile, another rise in employment was recorded in March. Job creation has been sustained throughout the survey's history, though the latest increase was much weaker than the series average. With activity and new business falling, the expansion in staffing levels was more than sufficient to clear some backlogs of work. In fact, the rate of depletion was the fastest on record.

The slight drop in incoming new orders meant that purchasing activity almost stabilised in March. The pace of reduction was negligible, and coincided with a return to growth of input stocks.

Finally, the weakness of the Nigerian naira (particularly against the US dollar) was cited as the principal factor behind a relatively sharp rise in input costs. Charges rose to an even greater extent, with the rate of inflation at a survey-record high for the second month in a row.

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

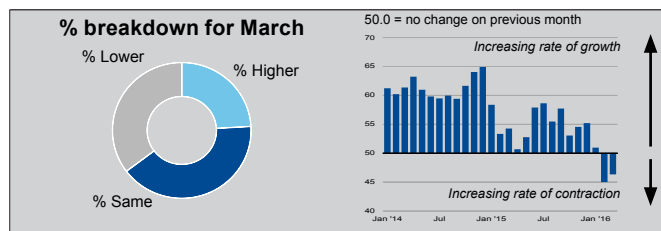


The Stanbic IBTC Bank Nigeria Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the Nigerian economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times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

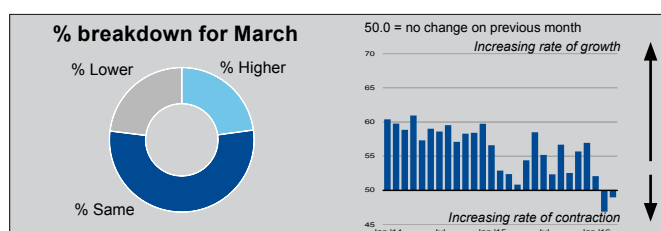
The downturn in Nigerian private sector output continued in March, as signalled by the seasonally adjusted index posting well below the neutral 50.0 mark. Though easing since February, the rate of contraction was solid overall. Around 35% of survey participants noted a drop in activity, with low sales, exchange rate volatility and generally poor economic conditions all contributing to the decline.



## New Orders Index

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

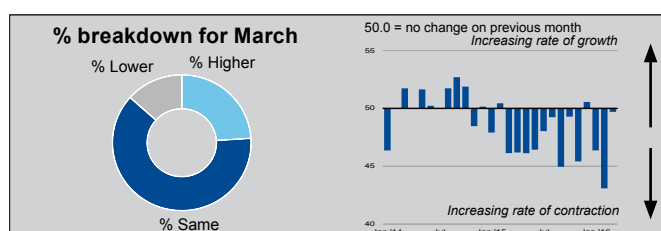
Mirroring the trend observed for output, new business fell for the second straight month in March. The back-to-back decline contrasted with continuous growth in the first 25 months of data collection. Panellists attributed the latest reduction to weakening client demand. However, the fall in new work was slower than in February and only modest overall.



## New Export Orders Index

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

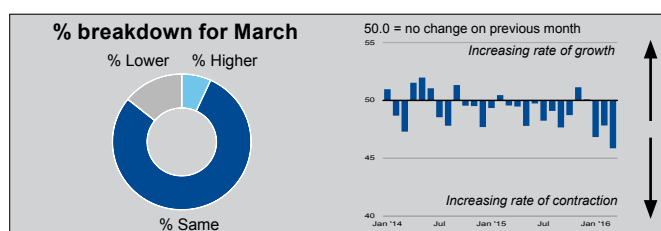
The rate of contraction in new export orders eased sharply at the end of the first quarter, with the latest fall by far the weakest in the current three-month sequence of decline. Posting only fractionally below the crucial 50.0 threshold, the seasonally adjusted index reading was well above the survey-record low seen in February.



## Backlogs of Work Index

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

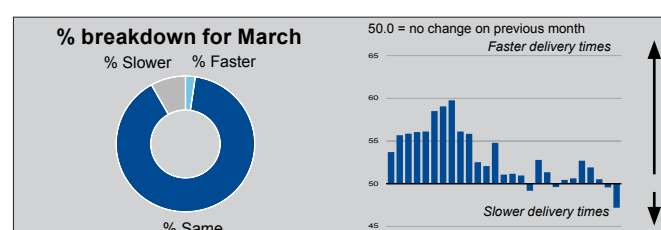
As has been the case throughout 2016 so far, outstanding business in Nigeria's private sector declined during March. Furthermore, the rate at which backlogs were depleted was the fastest in the survey's history. Twice as many respondents noted a fall (14%) than a rise (7%), with a lack of incoming new orders cited as the key contributing factor.



## Suppliers' Delivery Times Index

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

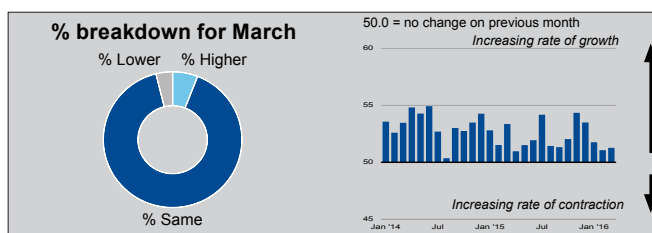
Suppliers' delivery times in Nigeria's private sector economy lengthened for the second consecutive month in March. The extent to which vendor performance worsened was the most marked since the survey started in January 2014. According to anecdotal evidence, a scarcity of fuel was the key factor behind slower deliveries.



### Employment Index

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

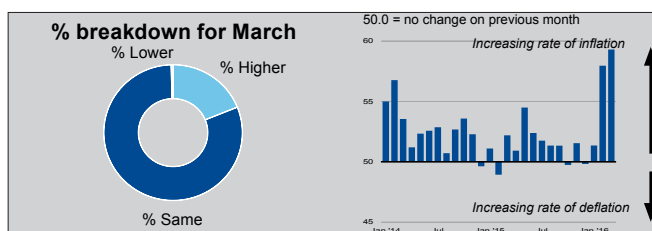
Continuing the trend observed so far in 2016, the pace of job creation was modest in March. It was also muted relative to the overall series average, with the vast majority of monitored firms (90%) seeing no change since February. Where hiring was evident, some panellists referred to the opening of new branches.



### Output Prices Index

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

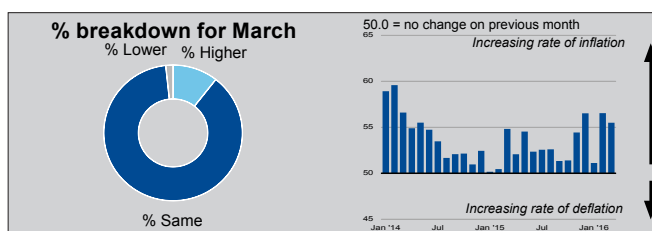
The seasonally adjusted Output Prices Index posted a survey-record high for the second month in a row during March. The latest rise in charges was sharp overall, with nearly one-fifth of respondents noting an increase since February. Exchange rate fluctuations were reportedly driving input costs higher, and tariffs were raised as a result.



### Overall Input Prices Index

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

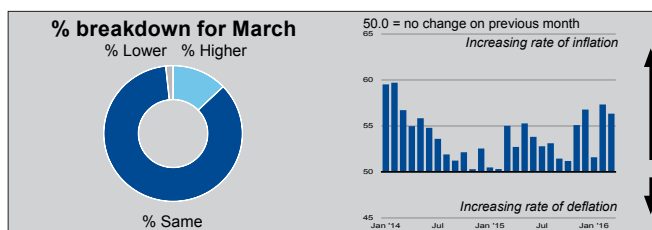
Despite easing slightly since February, total cost pressures remained marked at the end of the first quarter. In fact, the latest increase was among the quickest recorded in the past two years. Underlying data showed that purchase prices continued to rise sharply, while salaries returned to growth for the first time since the turn of the year.



### Input Costs: Purchase Prices Index

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

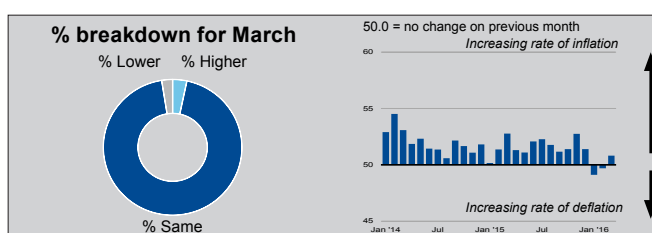
Purchasing costs faced by Nigerian private sector companies rose further in March, as has been the case in every month since the survey began more than two years ago. Mirroring the trend seen for overall input prices, the rate of increase slowed but remained sharp. The weakness of the naira, particularly against the US dollar, was cited as the main reason behind the rise.



### Input Costs: Staff Costs Index

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

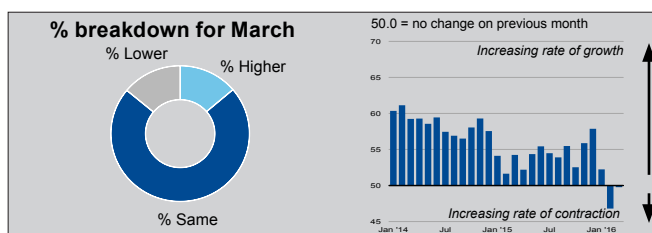
After having fallen in both January and February, staff costs increased on average in March. That marked a resumption of the upward trend seen throughout the first two years of data collection. The rate of salary growth was only modest, however, with most panel members (94%) signalling no change from the prior month.



## Quantity of Purchases Index

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

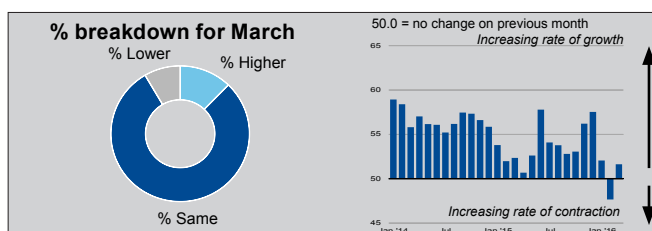
With output and new business falling further, purchasing activity dropped for the second successive month in March. This was signalled by the seasonally adjusted Quantity of Purchases Index posting below the neutral 50.0 mark. That said, the rate of decline eased to a marginal pace, in line with that seen for new work.



## Stocks of Purchases Index

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

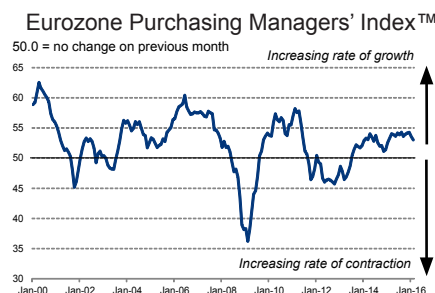
Nigerian private sector firms reported growth of pre-production inventories in March, reversing the downward trend seen in February. However, the latest rise was slower than the series average and only modest overall. Around 12% of survey participants noted an expansion in input stocks, versus 8% that saw a decline.



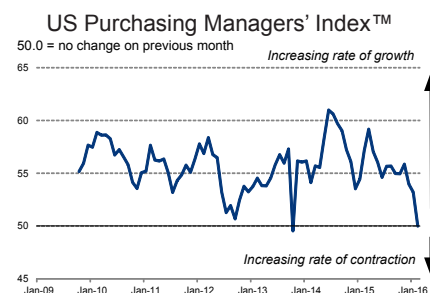
## International PMI summary



Sources: Markit, Caixin



Source: Markit



Source: Markit

After broadly stabilising at the start of 2016, the Caixin China Composite PMI data (which covers both manufacturing and services) indicated a renewed fall in total Chinese business activity in February. At 49.4, the composite index was down from 50.1 in January and below the neutral 50.0 threshold to signal a marginal rate of contraction.

February saw a broad-based slowdown of the eurozone private sector economy. The Markit Eurozone PMI Composite Output Index fell to 53.0, its lowest reading since January of last year. Rates of output growth slowed in both the manufacturing (12-month low) and service (13-month low) sectors.

The seasonally adjusted Markit U.S. Composite PMI Output Index posted 50.0 in February, thereby signalling that private sector output was unchanged over the month. Moreover, the index was down from 53.2 in January and the weakest recorded since October 2013.

## 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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