

01 March 2017

## **CBN's Nigeria PMI – February 2017 Data.**

### **Continued Decline in Business Conditions**

Nigeria's manufacturing and non-manufacturing activities contracted in February at a faster pace compared to January, according to the Central Bank of Nigeria's (CBN) Purchasing Managers' Index (PMI) report. The survey results so far this year mirror the disappointing pattern of decline recorded in the first two months of 2016, as both the manufacturing and non-manufacturing PMIs remained below the 50 point expansion threshold, in confirmation that economic and business activities are yet to improve.

In more specific terms, the composite manufacturing PMI fell to 44.6, indicating a quicker deceleration in manufacturing activities across the country, compared to January's 48.2. Similarly, the composite non-manufacturing PMI, at 44.5 (vs. 49.4 in the previous month), speaks to additional pressure in the non-manufacturing space.

#### **Manufacturing PMI**

At 44.6, the manufacturing PMI posted its second decline of the year after an incidence of expansion in December 2016 (the first in twelve months). In this category, production level slipped back to the contraction region on continued decline in new orders, inventories and employment level, suggesting that manufacturers still grapple with challenging operating conditions characterized by weak consumer demand, amid high energy and borrowing costs and more crucially, the inadequacy of foreign exchange.

Fourteen of the sixteen sub-sectors under manufacturing reported declines in the review month in the following order: transportation equipment; paper products; electrical equipment; printing & related support activities; fabricated metal products; chemical & pharmaceutical products; furniture & related products; cement; plastics & rubber products; petroleum & coal products; textile, apparel, leather & footwear; computer & electronic products; nonmetallic mineral products and primary metal. The appliances & components and food, beverage & tobacco products subsectors reported expansion in the review period.

#### **Non-Manufacturing PMI**

The non-manufacturing PMI (44.4 vs. 49.4) also declined at an accelerated pace, marking the fourteenth consecutive month of decline in this sector. During the month under review, business activity, new orders, employment level and raw materials inventories (all of which contracted during the period) constituted drag for the composite non-manufacturing PMI. Precisely, business activity and inventories slipped from the expansions achieved in January while new orders and employment level furthered their declines.

Figure 1: Manufacturing PMI

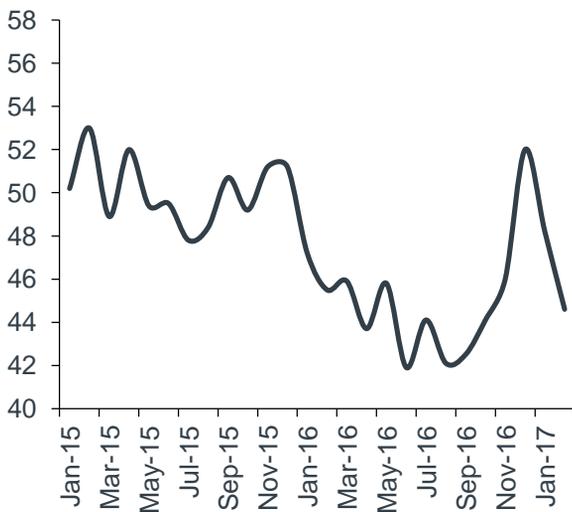
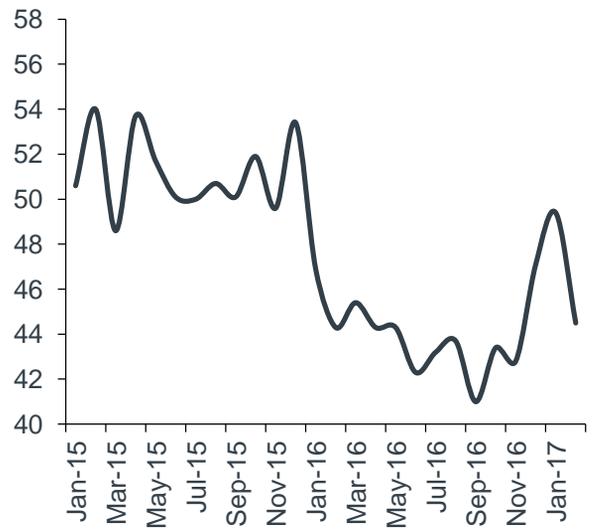


Figure 2: Non-Manufacturing PMI



Source: CBN, Cordros Research

Of the eighteen non-manufacturing sub-sectors, fifteen recorded declines in the following order: construction; professional, scientific, & technical services; water supply, sewage & waste management; accommodation & food services; public administration; arts, entertainment & recreation; real estate, rental & leasing; utilities; wholesale trade; information & communication; finance & insurance; repair, maintenance/washing of motor vehicles; health care & social assistance; electricity, gas, steam & air conditioning supply and transportation & warehousing. The management of companies remained the same, while the educational services and agriculture reported increase in the review month.

**Comment:**

*Overall, the February survey suggests that businesses do not foresee a substantial recovery in macroeconomic conditions soon. The adequacy and pricing of dollar to finance import requirements remain key to how employers appraise the business environment. Besides, domestic demand is far from recovering at current inflation and unemployment levels, while the policy environment, though seemingly improved from last year, still suffers significantly low credibility.*

*That said, sustaining the recent signal of intent – through the recent policy announcements -- to improve the availability of foreign exchange to both retail and large scale users might positively influence the result of the next survey in March. Since the FX policy announcements, the naira has recorded considerable gain (13% to N455, from N520) in the unofficial market and the central bank has sold USD692.2 million in forward contracts. In addition, the passage of the 2017 budget in March and progresses with the additional foreign borrowing plans (from World Bank and China) should support an upturn in business confidence.*

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*01 March 2017***Analyst:****Peter Moses** (*peter.moses@cordros.com*)**Important Disclaimers**

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