

02 May 2017

CBN's Nigeria PMI – April 2017 Data. Marked Improvement in Business Conditions

According to the Central Bank of Nigeria's (CBN) Purchasing Managers' Index (PMI) report for the month of April, manufacturing activities, during the month, expanded after three consecutive months of contraction. The report also shows that the non-manufacturing sector came within a whisker of exiting its 16-month streak of decline. Specifically, the manufacturing PMI grew to 51.1, from 47.7, while the non-manufacturing PMI came in at 49.5 (vs. 47.1 in March).

Indeed, the notable improvement in April's PMI came to us as no surprise, as it validated our expectation for the month. Suffice to say that business owners and manufacturers are positively responding to a number of encouraging developments in the broader macroeconomic space. Here, we highlight (1) the CBN's recent and sustained commitment to forex stability, particularly narrowing the spread between the official and parallel segments of the currency market rates, (2) government effort at improving the ease of doing business in Nigeria, as the Presidential Enabling Business Environment Council (PEBEC) rolled out fresh reforms to consolidate and deepen the impact of its previous plan, (3) the recent approval, by the FGN, of the reduction of documentation requirements and timeline for import and export trade transactions to 48 hours (4) the launch of the nation's Economic Recovery and Growth Plan (ERGP), (5) the soon-to-be-passed 2017 appropriation bill, which will herald the establishment of Satellite Industrial Centres (SICs) across the six geo-political zones of the country, (6) an extension of the tenure of the 2016 budget's capital spending projects until 5th May, 2017 amid a total sum of N1 trillion released from the same budget, thus far, for capex, and (7) a reported rebound in Nigeria's business confidence, according to the latest edition of the Global Economic Conditions Survey.

Manufacturing PMI Bucks Declining Trend

The manufacturing PMI commenced the second quarter of the year on an impressive note, bucking its 3-month contraction trajectory, expanding by 3.4 percentage points, from 47.7 in March, to 51.1 in April. The notable improvement was supported by considerable expansions in production level (58.5, previously 50.8), new orders (50.1, previously 45.6), and inventories (50.6, previously 49.1), which we believe was in response to the relative stability – amid the apex bank's renewed commitment to improve FX liquidity – of the NGN exchange rate (particularly at the parallel market) during the period under review. Clearly, this, in addition to improved power generation (close to 5,000MW), further strengthened manufacturers' confidence, supported by the slower pace of contraction in employment level (46.6 vs. 43.6) during the month.

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

Non-Manufacturing PMI Misses Expansion by a Whisker

The non-manufacturing PMI showed further signs of improvement, with the index, at 49.5, marginally shy of the 50 point expansion threshold. This marks the highest point of the index in its 16-month contraction spree. Primarily, in April, the non-manufacturing PMI benefitted from the growth of 3.5 percentage points and 4.1 percentage points in business activity (53.3, from 49.8) and new orders (50.5, from 46.4). Also, the slower rate of contraction in employment level (45.5, previously 44.0) and inventories (48.6, previously 48.0) was positive for the overall non-manufacturing index.

Figure 1: Manufacturing PMI

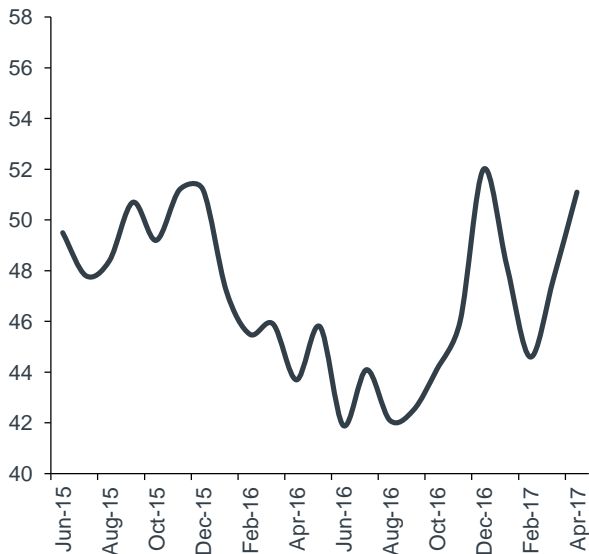
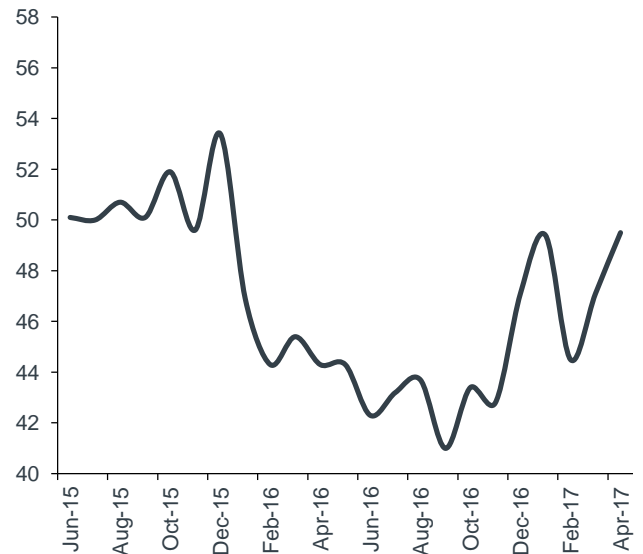


Figure 2: Non-Manufacturing PMI



Source: CBN, Cordros Research

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

Comment:

Clearly, April 2017 PMI figures speak to the fact that, manufacturing and non-manufacturing activities improved over the one month period. We look for the level of improvement achieved thus far being consolidated, going forward, as the impact of the positive drivers supporting the encouraging figures deepens. We highlight the (1) CBN's sustained commitment to forex stability, (2) possibility of the 2017 appropriation bill being passed early this month, following which the establishment of the FGN Satellite Industrial Centres (SICs) across the six geo-political zones of the country will commence, (3) potential gains from the recently launched Economic Recovery and Growth Plan (ERGP), (4) full implementation of the Presidential Enabling Business Environment Council (PEBEC) fresh plans on the ease of doing business, and (5) sustained improvement in power generation, on the back of cessation of hostilities by militants in the Niger Delta, and the rise in water level at the various dams in the country.

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