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Stanbic IBTC Bank Nigeria PMI[®]

Business conditions continue to improve, albeit at a weaker pace

Key findings

Softer increases in output and new orders

Series-record fall in backlogs

Business sentiment hits series low

Data were collected 11-28 September 2020

The Nigerian private sector remained in growth territory in September, although there were some signs of moderation as rates of expansion in output and new orders softened. Companies continued to expand purchasing activity and employment in line with higher new orders. Suppliers' delivery times improved further amid a lack of road congestion. Meanwhile, increased workforce numbers and sufficient capacity to fulfil new orders led to a series-record decline in the level of incomplete work. Looking forward, however, business sentiment was the weakest since the start of the survey in January 2014 as some firms reported difficulty planning for the year ahead.

On the price front, overall input price inflation was marked and was driven by increase in raw material costs and unfavourable exchange rates against the US dollar.

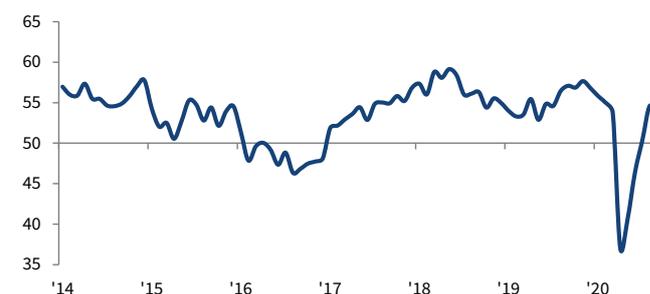
The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI[®]). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

At 52.5 in September, the headline seasonally adjusted PMI signalled expansion and one which extended the current sequence of strengthening business conditions to three months. That said, down from 54.6 in August, the reading pointed to a more moderate improvement.

Output and new orders rose sharply during September.

PMI

sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, IHS Markit.

In both cases, firms attributed growth to improvements in customer demand following the easing of restrictions related to the coronavirus disease 2019 (COVID-19).

Higher workloads prompted firms to increase staffing levels which led to the fastest pace of job creation since February. The rise in workforce numbers paired with sufficient capacity led to a series-record depletion in the amount of outstanding business.

Higher purchase costs was the main factor behind strong overall inflationary pressures. Purchase price inflation was substantial following reports of unfavourable exchange rate movements.

Firms responded to improving customer demand by raising purchasing activity at a sharp pace. Respondents also reported solid growth in stocks of purchases which was linked to planned increases in output levels. Prompt orders and quiet road conditions meant that input delivery times shortened to the greatest extent in almost two-and-a-half years.

Looking ahead, business confidence remained positive overall as firms continue to foresee a rise in output over the year ahead. That said, sentiment dropped to the lowest in the series so far amid reports that some firms were not planning to expand output at present.

Comment

Gbolahan Taiwo, Economist at Stanbic IBTC Bank commented:

“Although business conditions in the Nigerian private sector remained in expansion territory in September, the PMI printed lower at 52.5, compared to the 54.6 reading in August. Being a month-on-month reading, the relatively higher reading recorded in August was expected, coming off a lower base and as containment measures were eased. As such, output and new orders maintained their expansion albeit at a slower pace. This is not unexpected as manufacturing companies continue to struggle amid FX illiquidity situation in the country. Hence, continued expansion in output will prove difficult at this time and this will impact negatively on the overall GDP growth dynamics into the rest of year. Purchasing power of the consumer is also set to remain under pressure as some of the current reforms being pushed through by the government will keep headline inflation higher into the rest of the year. That, coupled with the continuous depreciation of the currency in the parallel market will put upward pressure on inflation, impacting aggregate demand and by extension the demand side of growth.”

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Methodology

The Stanbic IBTC Bank Nigeria PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include agriculture, mining, manufacturing, construction, wholesale, retail and services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

September data were collected 11-28 September 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

[ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html)

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