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Stanbic IBTC Bank Nigeria PMI[®]

Business activity continues to fall sharply

Key findings

Further substantial declines in output and new orders

Record rises in purchase costs and output prices

Business confidence at 29-month low

Data were collected 12-27 May 2020.

The Nigerian private sector remained in a deep downturn during May, with rates of decline in output and new orders only slightly softer than the unprecedented falls recorded in April. The impact of the coronavirus disease 2019 (COVID-19) and lockdown introduced to prevent its spread continued to be felt, with business confidence falling again. That said, employment decreased only marginally as the vast majority of companies kept workforce numbers unchanged.

Meanwhile, the rate of purchase cost inflation surged to a new record high, with firms likewise raising their own selling prices at a pace unseen since the survey began in January 2014.

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.

The headline PMI posted 40.7 in May, up only slightly from 37.1 in April and signalling a further substantial deterioration in business conditions which was the second-steepest since the survey began.

Similar trends were recorded with regards to output and new orders, with rates of contraction easing slightly due to a loosening of lockdown restrictions but remaining considerable. Falling demand and a lack of customers

PMI

sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, IHS Markit.

were widely mentioned.

Delays to orders received before the lockdown began and restrictions on operations meant that backlogs of work increased for the second month running. Moreover, the rate of accumulation in outstanding business was the sharpest since November 2018.

Employment fell only marginally in May as the vast majority of respondents (98%) kept their staffing levels unchanged.

The rate of purchase cost inflation hit a record high for the second month running, with the scarcity of materials, currency weakness and higher costs relating to logistics all mentioned as leading to higher purchase prices. In contrast, staff costs decreased for the second month running as wages were lowered in line with reduced working hours.

The steep increase in purchase costs was often passed on to customers in the form of higher selling prices. As a result, May saw the rate of output price inflation accelerate to a new record high.

Reduced activity requirements led to a second successive decline in input buying, while inventory holdings also fell. Meanwhile, suppliers' delivery times shortened slightly.

Business confidence dropped for the third month running and was the lowest since December 2017.

Comment

Gbolahan Taiwo, Economist at Stanbic IBTC Bank commented:

“The partial lifting of the Covid-19 related lockdowns in May saw economic activities in the Nigerian private sector pick up somewhat in May but were still firmly in the contraction territory as the PMI reading remained below 50 at 40.7 in May. Moderate rises in output and new orders indices were recorded during the period, this was not unexpected given increased activity. We expect the PMI reading will continue to pick up over the coming months as economic activities continue to rise, however, will mostly remain below the 50 mark which signals a contraction. The Federal and state governments are firming up plans to get some erstwhile banned businesses open over the coming months although still adhering to strict social distancing protocols. This should give some further support to output and new orders in the near term. From a much broader perspective, we expect the Nigerian economy to contract by some 3.3% in 2020 owing to the impact of lower oil prices and the Covid-19 pandemic. FX illiquidity and supply chain disruptions have continued to ensure upticks in prices. Although respondents have shown they were able to pass on the rising input costs to consumers in May, we believe that they would be more cautious going forward, given the largely depressed consumer environment. Ultimately, some corporates (particularly in the non-food sectors) will have to take some level of margin compression in a bid to keep volumes.”

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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.

May data were collected 12-27 May 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.

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