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Stanbic IBTC Bank Nigeria PMI[®]

Private sector activity continues to expand but intense cost pressures weigh on growth

Key findings

Output growth slows to eight-month low

Record rate of purchase price inflation

Sentiment improves to strongest since February

Data were collected 13-28 September 2021

Nigeria's private sector concluded the third quarter of 2021 with a modest expansion in business conditions. Quicker uplifts were seen in new orders, employment and stocks of purchases, but output growth moderated for the second month running. Nevertheless, optimism improved to a seven-month high.

Material scarcity and unfavourable exchange rate movements exerted upward pressures on costs, however, leading to a record rate of purchase price inflation. Subsequently, this fed through to a steep rise in selling prices.

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 registered at 52.3 in September, little-changed from 52.2 in August, and indicative of a fifteenth consecutive monthly expansion.

Central to the improvement was a solid and accelerated rise in new orders, which panellists mostly linked to the securing of new clients. Contrary to the improvement in domestic sales, exports fell, and at the quickest rate since December amid persisting international COVID-19 restrictions.

Nevertheless, to meet demand firms increased their output levels, but the pace of expansion was only modest, and

PMI

sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, IHS Markit.

much softer than the rate of new order growth. Cash and material shortages reportedly hindered some firms' ability to raise output. All four of the monitored sub-sectors recorded expansions, with manufacturers seeing the strongest uplift, followed by wholesale & retail, services and agriculture, respectively.

Firms raised their buying activity sharply in September. Anecdotal evidence suggested efforts to mitigate against future supply and price shocks led to stockpiling. As a result, stocks of purchases rose at the fastest rate since October 2020.

Meanwhile, vendor performance benefitted from quieter road conditions and advance payments. Furthermore, suppliers' delivery times improved to the greatest extent since last December.

Higher raw material and commodity costs as well as unfavourable naira-dollar exchange rate movements led to a substantial increase in input expenses. In fact, purchase costs rose at the quickest rate in nearly eight years of data collection. Firms were able to pass on part of the increase to clients however, with charge inflation the second-strongest in the series to date.

Finally, after moderating in August, sentiment improved to a seven-month high amid plans to increase marketing, open more stores and broaden product offerings.

Comment

Muyiwa Oni, Head of Equity Research West Africa at Stanbic IBTC Bank commented:

“The Stanbic IBTC PMI marginally increased to 52.3 in September from 52.2 in August. FX liquidity pressures continue to impact on purchase prices and consequently output prices. This is well seen in the m/m inflation numbers. Indeed, m/m inflation rate increased slightly to 1.02% in August compared to the 0.93% recorded in July. We also observed that the imported food index has been trending upward, albeit stickily, as in January it was at 16.01% y/y, and 17.12% y/y by August. This may be due to the exchange rate adjustments this year and the resultant impact. An interesting insight from the PMI report is the ‘new export orders index’ recorded the quickest rate of decline since December. In recent months, we have seen a declining trend in oil production levels which could be capping the expected impact of higher oil prices on oil revenue. Sure, we saw that production averaged 1.41mbpd in the first 6 months of the year but since the end of June, production has consistently fallen, reaching 1.27mbpd in August. Increasing reports of vandalism and pipeline sabotage puts downside risk on oil production in the short to medium term. However, the likely increase in investments in the Oil and Gas sector following the signing of PIA into Law could drive production growth over the medium to longer term

Notably, the Nigerian private sector activity remained strong with the index registering a score above 50.0 for the 15th consecutive month, a trend we expect to continue for the rest of the year given the lax public health restrictions and gradual improvement in economic activities.”

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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.

Data were collected 13-28 September 2021.

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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