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Stanbic IBTC Bank Nigeria PMI[®]

PMI hits nine-month high in May

Key findings

New orders rise at the fastest pace in nine months

Workforce numbers rise solidly

Overall input price inflation at series high

Data were collected 12-26 May 2021

Growth in the Nigerian private sector gained momentum in May, with business conditions improving to the greatest extent in nine months. Output and new order growth strengthened, with companies reporting marked rises in customer numbers. As a result, firms added to their headcounts, and at the strongest rate in almost three years. In response to greater output requirements, firms increased their buying activity, and raised inventory holdings for the eleventh month running. Plans to expand product offerings underpinned expectations for growth over the next 12 months, although sentiment moderated to a five-month low.

Meanwhile, overall input price inflation quickened to the sharpest in the series history. Rising staff and material costs were behind higher prices.

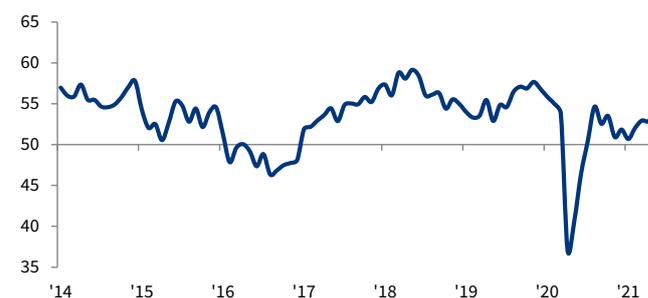
The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI[®]). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

At 54.4 in May, up from 52.9 in April, the headline PMI registered a rate of growth that was the sharpest since last August, and extended the current sequence of expansion to 11 months.

The stronger improvement in the health of the private sector was centred on a robust rise in new orders, with

PMI

sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, IHS Markit.

the rate of growth the strongest since last August. Exports meanwhile rose at the fastest pace since February 2020.

With new business up sharply, firms increased output levels for the sixth month in succession. The latest uptick was the strongest in the aforementioned sequence and in line with the series average. Sub-sector PMI readings indicated manufacturers saw the fastest rise, followed by agriculture, services and wholesale & retail, respectively. Meanwhile, larger output requirements encouraged increases in buying activity and inventory holdings.

To cater for growing demand, firms sought to increase their headcounts. The rate of expansion was solid, and reached a 35-month high in May. Rising staffing levels allowed firms to complete orders in a timely manner with backlogs falling at the third-quickest rate in the survey to date.

Overall input price inflation quickened to the sharpest in the series history. Higher raw material costs and unfavourable exchange rate movements were linked to the uptick. Increased input prices were often passed on to clients, with charge inflation the third-quickest since data collection began in January 2014.

Business sentiment remained in positive territory as plans to expand operations fuelled optimism. That said, sentiment was weak in the context of the historical average.

Comment

Gbolahan Taiwo, Economist at Stanbic IBTC Bank commented:

“The Nigerian private sector business environment continues to show strong signs of improvement in May as the PMI rose to 54.4, the highest print in nine months. For one, the easing of stringent public health restrictions since the second quarter of last year continues to pave the way for some level of broad macro-economic recovery this year. That said, the economy still faces some idiosyncratic factors of heightened insecurity situation and seemingly low FX liquidity. We believe the Agricultural and ICT sectors will still drive growth this year. However, as the recently published quarter one GDP numbers showed, the manufacturing sector is back in positive territory, growing by 3.4% y/y from a contraction of 1.5% y/y during the fourth quarter of 2020. This is very much in alignment with persistent recovery we have seen in the PMI numbers since last year. We think that the Nigerian economy will grow by 3.1% y/y this year, partly helped by lower base effects occasioned by the contraction during the second and third quarters of 2020. Inflation continues to remain high and as the recent PMI series suggests, both input and output prices have been on the rise. This potentially could impact the recovery in aggregate demand and purchasing power of the consumer, in light of sticky wages.”

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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 12-26 May 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

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