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Stanbic IBTC Bank Nigeria PMI[®]

Output growth at 13-month high in October

Key findings

Sharper rise in activity amid strong new order expansion

Solid increase in employment

Inflation of input costs and output prices both accelerate

The rate of output growth in the Nigerian private sector gathered pace in October amid reports of ongoing improvements in customer demand. Higher new orders were recorded, and companies responded by taking on additional staff and expanding input buying. Meanwhile, the rate of input cost inflation quickened, with firms raising their output prices accordingly.

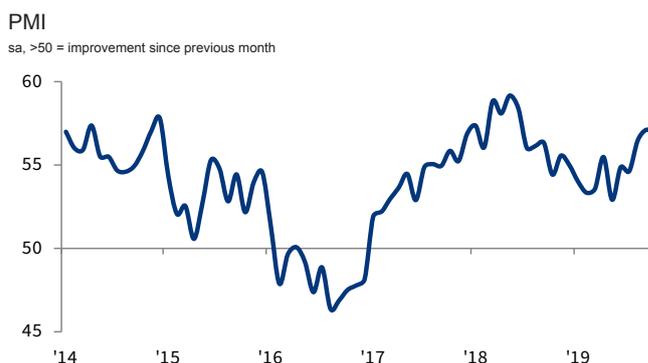
The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI[®]). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

The headline PMI posted at 56.9 in October, little-changed from the reading of 57.1 in September and signalling another marked improvement in business conditions across the Nigerian private sector. Operating conditions have now strengthened in each of the past 34 months.

The rate of output growth quickened for the third month running in October and was the fastest since September last year. Stronger client demand reportedly fed through to higher sales and customer numbers, thereby encouraging companies to expand their business activity.

New orders also continued to rise sharply amid improving demand conditions, despite the rate of expansion softening slightly over the month.

Companies responded to higher new orders by taking



Sources: Stanbic IBTC Bank, IHS Markit.

on additional staff, extending the current sequence of job creation to two-and-a-half years. The pace of increase was faster than that seen in September, but growth of employment was weaker than that seen for new orders. As a result, backlogs of work continued to rise, and at the sharpest pace in the year-to-date.

A further sharp increase in purchasing activity was recorded in October, helping support ongoing inventory building. Despite greater demand for inputs, suppliers' delivery times continued to shorten amid reports of competition among vendors to keep hold of business.

Purchase prices increased at a marked pace that was the fastest in ten months. Panellists reported higher costs for raw materials, sometimes reflecting supply shortages. The closure of the border was also mentioned as a factor pushing up purchase prices. Staff costs, meanwhile, rose slightly again.

With input prices increasing in October, companies raised their selling prices accordingly. The rate of output price inflation was solid, and the fastest since last December.

Business expansion plans were central to continued optimism among companies that activity will increase over the coming year. Sentiment ticked down from September, but remained strongly positive.

Comment

Gbolahan Taiwo, Economist at Stanbic IBTC Bank commented:

“Business activities in the Nigerian private sector continued to show levels of improvement in October as the Stanbic IBTC Nigeria PMI recorded a 56.9 reading; barely changed from the 57.1 reading recorded in September. The output sub-index rose to its highest level in 13 months at 62.5 in October on increased demand. Sure, the fiscal authorities only began 2019 capital releases in September as most of the year had been spent around the electioneering processes and appointment of cabinet members. Hence, it is not unusual that we are seeing some level of increased demand from the manufacturing sectors and other sectors alike. We expect the pace of demand to remain strong into the rest of year. However, the recent border closures is expected to put upward pressure on input prices and purchase costs as already alluded to by some of the panelists. The fiscal authorities remain firm on the decision to keep the borders closed owing to revenue gains accrued over the period. So, it is very likely that input prices and purchase costs will remain elevated into the next year. But, there is only so much scope for producers to keep taking prices owing to a fairly depressed consumer environment.”

Contact

Stanbic IBTC Bank

Gbolahan Taiwo
 Economist, Research
 T: +234 (1) 422 8290
gbolahan.taiwo@stanbicibtc.com

Usman Imanah
 Communications Manager
 T: +234 7066 3172 67
usman.imanah@stanbicibtc.com

IHS Markit

Andrew Harker
 Associate Director
 T: +44 1491 461 016
andrew.harker@ihsmarkit.com

Joanna Vickers
 Corporate Communications
 T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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.

October 2019 data were collected 11-29 October 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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