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Stanbic IBTC Bank Nigeria PMI[®]

PMI hits six-month low in January amid sharp price pressures

Key findings

Softer increases in output and new orders

Solid contraction in workforce numbers

Output prices increase at substantial rate

Data were collected 12-27 January 2021

Latest data signalled an expansion at the Nigerian private sector in January, with a solid rise in new orders underpinning growth. However, substantial increases in input costs and selling prices contributed to a moderation in expansions of output and purchasing activity. As a result, firms looked to cut costs by reducing their workforce numbers. Nevertheless, the degree of positive sentiment improved to the highest since April last year, with hopes of greater demand fuelling optimism.

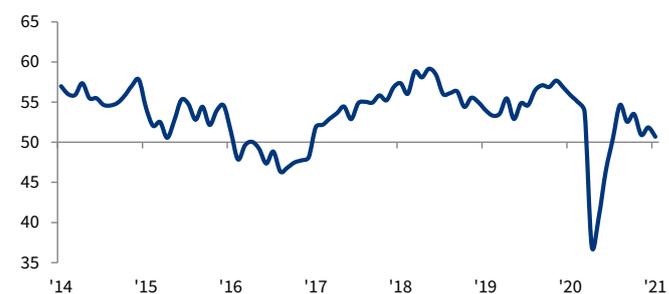
The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI[®]). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

The headline PMI registered at 50.7 in January, down from 51.8 in December, but signalling an improvement in business conditions at the Nigerian private sector. That said, the latest reading indicated the softest rate of expansion since July.

New order inflows rose solidly in January, despite the pace of growth moderating from that in December. According to firms, new client wins and an improving demand environment led to the uptick. Output rose marginally, which extended the current period of growth to two months. Anecdotal evidence suggested that a rise in demand offset the negative impacts of higher prices.

PMI

sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, IHS Markit.

Average cost burdens faced by private sector firms in Nigeria rose at a substantial pace. According to panel members, material shortages, unfavourable exchange rate movements, and higher wages drove the latest uptick. Firms passed higher expenses onto clients, with the rate of charged inflation the sharpest since August and one of the fastest in the survey's seven-year history.

As part of efforts to reduce cash outflows, firms cut workforce numbers at the start of the year. The rate of job shedding was solid and the second sharpest in the series. Despite this, firms were able to complete existing orders, with backlogs reducing for the eighth month running.

Higher activity led companies to increase their purchasing activity, albeit at a softer rate. Stocks of inputs also rose with panellists reporting efforts to build their inventories following material shortages. Meanwhile, quieter road conditions and competition amongst suppliers prompted shorter lead times.

Looking ahead, sentiment regarding output over the next 12 months remained in positive territory, and was the strongest since last April. Business expansion plans and hopes of greater demand underpinned optimism in January. That said, sentiment was weak compared to the historical average, as the longer-term economic impact of the coronavirus disease 2019 (COVID-19) pandemic hampered expectations.

Comment

Gbolahan Taiwo, Economist at Stanbic IBTC Bank commented:

“The Nigerian private sector PMI remained in expansion territory for the sixth straight month in January, printing at 50.7. However, the pace of growth in output and new orders softened during the month. The Nigerian private sector has been faced with a barrage of challenges over the past year, mostly owing to the fall-out impact of the pandemic on the Nigerian economy. FX liquidity constraints have been a major bottleneck for manufacturers and that mixed with a significant depreciation of the currency, particularly in the parallel market have made the operating environment much tougher. On the other hand, consumer purchasing power has weakened significantly given stagnant wages, rising unemployment and higher inflation, impacting the pace of growth in output and new orders. Nigeria’s headline inflation rose by 15.75% year-on-year in December 2020- a 38-month high amid rising food prices. We believe inflation headwinds could yet impact the pace of growth in output and new orders over the coming months, limiting the pace of economy activities. That said, we believe Nigeria still faces some idiosyncratic factors of FX illiquidity, insecurity challenges, port inefficiencies, to mention a few. These factors, amongst others, could dampen the expected rebound to growth in 2021.”

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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 12-27 January 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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