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Stanbic IBTC Bank Nigeria PMI[®]

Business conditions continue to improve during December

Key findings

Solid expansions in output and new orders

Backlogs deplete markedly

Input price inflation quickens to three-month high

A return to growth in output following protest disruption and a solid rise in new orders helped to support a further improvement in business conditions in the Nigerian private sector at the end of 2020. Businesses increased their purchasing activity which in turn led to a stronger accumulation in stocks of inputs. The rate of job creation meanwhile eased to the softest in four months, although the level of incomplete work fell sharply, showing signs of sufficient capacity. Business expansion plans fuelled optimism surrounding firms' output in 2021.

At the same time, unfavourable exchange rate movements contributed to a solid uptick in the rate of overall input price inflation. Firms passed on higher cost burdens, which led to an increase 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 51.8 in December, up marginally from 50.9 in November, signalling an overall improvement in business conditions in the Nigerian private sector.

Stronger client demand underpinned growth in output volumes during December. The uptick in activity was sharp and signalled a renewed expansion in the final month of the year after protests had hampered

PMI

sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, IHS Markit.

operations in November. That said, the continuation of the coronavirus disease 2019 (COVID-19) pandemic impacted on demand from abroad with exports falling substantially.

To support higher production, companies increased their purchasing activity for the sixth month running. Consequently, stocks of purchases rose markedly as firms made efforts to build up their inventories. Vendor performance improved in December, as panellists mentioned quieter roads had prompted shorter delivery times.

Meanwhile, further signs of spare capacity were evident with outstanding work falling for the seventh month running. Backlogs fell at a marked rate, surpassed only by that seen in September. As a result, workforce numbers increased only slightly.

Despite a reduction in staff costs, unfavourable exchange rate movements and rising prices for materials drove overall input price inflation. Firms passed on higher cost burdens by raising selling prices. Both output and input price inflation were among the sharpest in the respective series histories.

Finally, Sentiment regarding the year ahead reached a five-month high in the final month of 2020. Plans to expand operations, improve marketing and hopes of greater client demand supported positive sentiment in December.

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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.

December data were collected 4-21 December 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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