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Stanbic IBTC Bank Nigeria PMI[®]

PMI hits two-year high amid stronger output and new order growth

Key findings

Robust expansions in output and new orders

Inventories rise at survey-record rate

Purchase cost inflation hits fresh series high

Data were collected 6 - 21 December 2021

The final month of 2021 revealed a robust expansion in Nigeria's private sector with the PMI[®] improving to a 24-month high. Quicker uplifts in output and new orders as well as record inventory building were central to the improvement. Despite the surge in new orders, firms added to their headcounts at the softest pace for 11 months but were still able to keep backlogs at bay.

Meanwhile, purchase cost inflation accelerated to a fresh series high, and for the fourth month running. Output price inflation followed suit, also quickening to a new survey peak in December.

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 56.4 in December, up from 55.0 in November, the latest expansion pointed to a robust overall improvement in business conditions. Moreover, the latest quarterly reading was at 55.2, the highest since the final quarter of 2019.

A key driver of growth was the quickest rise in new orders for over two years. Firms mentioned fruitful marketing efforts and a general improvement in domestic and international demand.

Subsequently, firms boosted output for the thirteenth month running, and at the quickest rate since August 2020.

PMI

sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, IHS Markit.

Sub-sector data revealed expansions across the board, although manufacturers recorded by far the strongest increase. Wholesale & retail, services and agriculture followed, respectively.

Despite robust expansions in output, firms added to their headcounts at only a slight pace. Panel comments suggested that whilst sales had increased, firms were able to keep up with demand leading to a marked reduction in backlogs.

Meanwhile, historically elevated rates of new order growth led firms to engage in stockpiling strategies during the month. In fact, inventories increased at the quickest rate in eight years of data collection. Buying levels also increased substantially, and at the fourth-most marked rate in the series.

As for prices, purchase costs rose at a survey-record rate for the fourth month running. Higher raw material prices, fuel costs and unfavourable exchange rate movements drove the increase. Favourable demand conditions allowed for costs to be passed on to clients at a record rate in December.

Finally, firms were optimistic for output growth in 2022 amid plans to broaden product offerings, increase advertisements and expand operations to new locations.

Comment

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

"Throughout 2021, we have seen consistent improvement in business conditions as evidenced by the PMI index which averaged 53.5 from Jan to Dec 21 compared to 50.2 for the same period in 2020. The PMI reaching a two-year high in Dec 21 reflects the impact of relaxed public health restrictions. Indeed, strong demand and output levels have persisted over the last few months, even though growth has been somewhat constrained by significant price pressures impacting input and selling prices. Notably, firms have been able to pass through the increased cost without it dampening overall demand and output. The report indicated that manufacturers recorded the strongest expansion during the month. The manufacturing sector has been one of the main drivers of growth in recent times. Truly, the sector has recorded gradual growth through the year as evidenced by the Q2:21 and Q3:21 sector growth in real terms of 3.5% y/y and 4.3% y/y respectively. The sector's Q3:21 growth appeared to be the highest since 2014 reflecting the relatively improved FX supply to corporates during the period and the relaxed public health restrictions. While infrastructure challenges, FX illiquidity concerns and high inflation have weighed on the sector, the sector's performance has shown resilience."

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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 6 - 21 December 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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