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Stanbic IBTC Bank Nigeria PMI[®]

Rebound in activity continues in August

Key findings

Steep growth of activity amid higher new orders

Staffing levels stabilise

Output prices increase at record pace

Data were collected 12-26 August 2020

The recovery in the Nigerian private sector gathered momentum in August as demand improved following the easing of restrictions related to the coronavirus disease 2019 (COVID-19). Output and new orders rebounded, rising sharply from July. Employment was broadly stable, although excess capacity remained as a result of the severe declines in new business during the second quarter.

Currency weakness led to another record increase in purchase costs, in turn feeding through to a rise in selling prices unprecedented since the survey began in January 2014.

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 rose sharply in August to 54.6, up from 50.4 in July. The reading signalled a marked improvement in business conditions, following a return to growth in the previous month.

The rebound in new orders continued midway through the third quarter as client demand strengthened following the easing of COVID-19 restrictions. New business increased for the second month running, and to the greatest extent since January.

PMI

sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, IHS Markit.

A similar picture was evident with regards to business activity, which rose at a substantial pace that was much stronger than seen in the previous month.

Despite strong rises in workloads during August, data suggested that the steep contractions seen during the second quarter left residual spare capacity. Companies were therefore able to continue depleting backlogs of work while leaving staffing levels broadly unchanged. The stability of employment did bring a four-month sequence of job cuts to an end, however.

Spare capacity was also reported at suppliers. This, alongside relatively quiet road conditions, meant that vendors were able to speed up deliveries in spite of a marked increase in purchasing activity. Stocks of purchases meanwhile rose sharply for the second month running.

Overall input cost inflation quickened to a fresh series record in August, despite a reduction in staff costs. The rise in overall input prices was driven by a record increase in purchase costs, in turn largely the result of currency weakness. In response to higher raw material prices, companies raised their own charges. As was the case with input costs, the increase in selling prices was the quickest since the survey began.

Subdued business sentiment was registered again amid concerns around the lasting impact of COVID-19.

Comment

Gbolahan Taiwo, Economist at Stanbic IBTC Bank commented:

“Business activities in the Nigerian private sector remained in the expansion territory for the second consecutive month following three months on contraction from April to June owing to the slowdown in economic activities necessitated by the containment measures put in place to combat the Covid-19 pandemic. Output and new orders rebounded sharply from July amid continued easing of the lockdown protocols in the country. While the Employment index showed a positive trend in August, we note that the much slower recovery in the services sector could be a dampener. The National Bureau of Statistics recently released unemployment figures for the second quarter of 2020 which shows unemployment rate at 27.1% with underemployment at 28.6%. Furthermore, economic growth data showed that only 3 sectors recorded positive growth in Q2:20- Agriculture, ICT and Financial services as the economy contracted by 6.1%. Whilst we expect business activities will continue to pick up over the coming months, we believe a recession this year seems almost inevitable particularly as business activities continue to be hampered by FX illiquidity constraints.”

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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.

August data were collected 12-26 August 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.

ihsmarkit.com/products/pmi.html

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