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Stanbic IBTC Bank Nigeria PMI[®]

Sharper rises in output and new orders

Key findings

Output growth rebounds at end of second quarter

Inflationary pressures ease further

Employment up only slightly

The Nigerian private sector experienced a positive end to the second quarter of 2019, with output and new orders both rising more quickly than was seen in May. The rate of job creation slowed and was only marginal, however, contributing to a build-up of outstanding business.

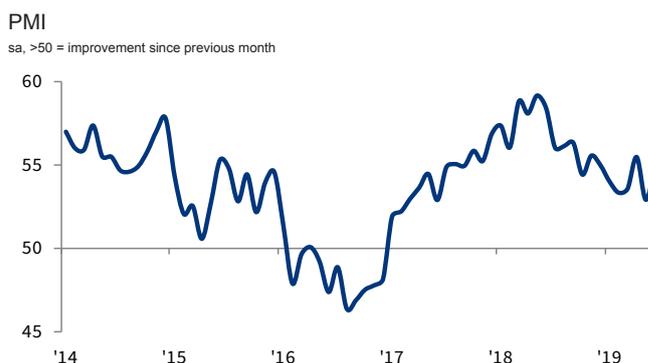
On the price front, cost inflationary pressures showed further signs of softening, and output prices increased at the weakest pace for almost a year.

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 54.8 in June, the headline PMI pointed to a marked monthly improvement in business conditions in the Nigerian private sector. The reading was up from May's 23-month low of 52.9. Although picking up, growth remained weaker than during 2018.

Higher customer numbers were widely reported by panellists in June, helping lead to stronger growth of both output and new orders. In both cases, continuous expansion has now been seen throughout the past two-and-a-half years.

Rising new orders imparted pressure on capacity at Nigerian companies, resulting in a second successive monthly increase in backlogs of work. Some panellists



Sources: Stanbic IBTC Bank, IHS Markit.

reported that slower hiring contributed to the accumulation of outstanding business. Employment increased at only a marginal pace at the end of the second quarter, with job creation at a two-year low.

There was a further easing of inflationary pressures in June, with all four of the survey's price indices lower than in May. Overall input costs rose only marginally and at the slowest pace since January 2015. Purchase prices increased more quickly than staff costs, with some panellists reporting higher agricultural prices.

Rising input prices encouraged companies to increase their charges again in June. However, the rate of inflation was at an 11-month low as some firms offered discounts to attract customers.

Purchasing activity was scaled up again in June in response to greater client demand. The rate of expansion was sharp and the fastest since January. Stocks of purchases also rose at a stronger pace.

Despite improving demand for inputs, suppliers' delivery times continued to shorten markedly. Panellists often linked improved vendor performance to competition among suppliers.

Business expansion plans, including the opening of new outlets, were key to continued confidence among companies that output will increase over the coming year.

Comment

Gbolahan Taiwo, Economist at Stanbic IBTC Bank commented:

“The Stanbic IBTC Nigeria PMI reading at 54.8 in June, although showed a marked improvement from May’s 52.9, was still lower than the series average of 55.9 over the past 18 months. The month recorded considerable growth in output and new orders in June to 59.7 and 60 respectively. At its peak, the output sub-index was at 66.8 in May 18 while the new orders index peaked at 65.2 during the same month. All these goes to confirm that business activities are still yet to pick up as expected. The Central bank is clearly concerned about the slow pick-up in growth and is expected to intensify its developmental activities to the critical sectors of the economy in a bid to drive a faster level of growth. Also, the CBN is also looking for ways and means to get the deposit money banks to further extend credit to these critical sectors. Ultimately, an improvement in the credit to private sector will be positive for the economic growth dynamics in the medium to long term.”

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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.

June 2019 data were collected 12-26 June 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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