News Release

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Stanbic IBTC Bank Nigeria PMI®

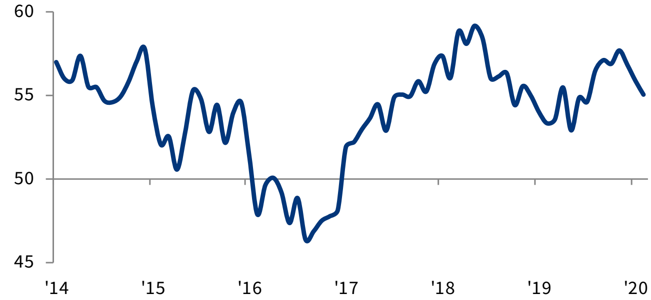
New order growth remains marked, but softens for fifth month running

Key findings

Slower, but still sharp, rises in output and new orders

VAT increase leads to stronger purchase cost inflation

Business sentiment improves



Sources: Stanbic IBTC Bank, IHS Markit.

The Nigerian private sector remained in solid growth territory in February, although there were some signs of moderation as rates of expansion in output and new orders softened. Companies continued to expand their purchasing activity and employment in line with higher new orders.

Meanwhile, the recent rise in the rate of VAT added to inflationary pressures, and output prices increased at the sharpest pace since the end of 2018.

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 55.0 in February, solidly above the 50.0 no-change mark but dipping from 55.9 in January to signal a softer expansion. The rate of improvement in business conditions has now eased in three successive months and was the weakest since last July in the latest survey period.

The overall moderation in growth reflected softer expansions in both output and new orders during February. New business continued to rise sharply, but the rate of growth eased for the fifth month running. That said, panellists continued to record solid demand.

Improving demand and higher customer numbers led companies to expand business activity again in February, albeit to a lesser extent than was seen at the start of the year.

Employment continued to rise modestly, with the rate of job creation broadly in line with that seen in the previous month. Data showed that efforts to keep on top of workloads were largely successful as outstanding business decreased. The fall in backlogs was the first in ten months.

Purchasing activity also increased sharply, contributing to a further marked accumulation of inventories. Despite rising demand for inputs, prompt orders and competition among suppliers meant that delivery times continued to shorten.

The rate of purchase cost inflation accelerated to a 16-month high in February, with respondents often linking this to the recent rise in the rate of VAT. Staff costs, meanwhile, increased only slightly.

The passing on of higher purchase costs to customers resulted in an accelerated increase in output prices, with the rate of inflation quickening to the sharpest since the end of 2018.

Business confidence hit a 33-month high on the back of plans to invest in and expand operations over the coming year. Almost all respondents predicted that output will be higher than current levels in 12 months' time.

Comment

Gbolahan Taiwo, Economist at Stanbic IBTC Bank commented:

"The Nigerian private sector recorded a softer pace of expansion in February as the PMI declined to 55 from 55.9 in January. Output and new orders sub-indexes also declined during the period. The demand dynamics for the Nigerian economy have remained pressured for quite some time and this is wholly reflected in the trade sector of the GDP which has mostly been in contraction territory since the recession in 2016. However, more pertinent are price pressures emanating from the increase in VAT which took effect in February 2020. Purchase costs and output prices rose to 16-month and 14-month highs respectively during the period. Nigerian corporates have mostly been operating on thin margins in the past few years owing to the somewhat depressed consumer environment. Our initial conversations with some of these corporates have showed that they are still limited in their ability to take price increases due to the consumer environment. This could ultimately lead to even thinner margins. We believe a combination of rising prices and low consumer demand in the short to medium term do not augur well for the PMI dynamics over the next few months."

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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.

February data were collected 12-26 February 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.

About Stanbic IBTC Bank

Stanbic IBTC Bank is a subsidiary of Stanbic IBTC Holdings Plc, a full service financial services group with a clear focus on three main business pillars - Corporate and Investment Banking, Personal and Business Banking and Wealth Management. Standard Bank Group, to which Stanbic IBTC Holdings belongs, is rooted in Africa with strategic representation in 20 key sub-Saharan countries and other emerging markets; Standard Bank has been in operation for over 151 years and is focused on building first-class on-the-ground banks in chosen countries in Africa and connecting other selected emerging markets to Africa and to each other.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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