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Stanbic IBTC Bank Nigeria PMI[®]

PMI hits 18-month high in July, amid strong demand conditions

Key findings

Output and new order growth gains momentum

Inflation of input and output prices remain historically elevated

Sentiment moderates to ten-month low

Data were collected 12-28 July 2021

Nigeria's private sector began the second half of the year on a positive footing as they continued the run of expansion that began in July 2020. Quicker upticks in output, new orders, purchases and employment supported growth. Despite this, firms were able to keep backlogs at bay, though sentiment did moderate to the weakest since last September.

On the price front, higher raw material, wage and transportation prices were linked to another robust rate of overall input price inflation. Output prices also rose sharply.

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 in July to 55.4, up from 53.6 in June. The reading signalled a marked improvement in business conditions, and one which was the strongest since January 2020.

The uptick was centred on stronger demand conditions, with new orders rising at the fastest rate in one-and-a-half years. As a result, firms raised their output levels, and at the joint-quickest rate since August 2020.

Greater output requirements led firms to raise their buying activity during the month, which they did so at the sharpest rate in one-and-a-half years. The sustained period of output

PMI

sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, IHS Markit.

and new order growth encouraged firms to add to their inventory holdings. Anticipation of greater demand was also linked to stockpiling efforts.

To cater for higher workloads, firms raised their headcounts. Job creation has now been seen in each month since February. This allowed firms to clear their backlogs for the fourteenth month in a row. The rate of backlog depletion eased to the softest in four months, but was still among the quickest in the series history.

Meanwhile, vendor performance improved again, a trend observed throughout much of the series history. That said, the rate at which lead times shortened was the softest in 15 months. According to firms, busier road conditions and material scarcity affected supplier delivery times.

Material shortages drove higher costs, with firms also mentioning rising transportation and staff expenses. Overall input price inflation eased to a seven-month low, but was still strong in the context of the historical average. Output price inflation meanwhile quickened, with the improving demand environment allowing firms to raise their charges.

Finally, sentiment remained positive amid plans to raise exports and expand business operations. That said, the degree of positivity moderated to the fourth-weakest in the series.

Comment

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

“The private sector business environment continued to show steady improvement with the PMI increasing to 55.4, the highest point in the past 18-months. Output, new orders and exports increased. The easing of restrictions since the height of the lockdown in Q1 2020 continue to support economic recovery. Q1 GDP growth rate of 0.51% y/y, was slightly higher than 0.11% in Q4 2020, driven by Agriculture, ICT and Manufacturing sectors. The Manufacturing sector swung to positive, growing by 3.4% y/y after contracting between Q2-Q4 2020. These sectors have continued to spur growth, demonstrating steady resilience in the face of economic downtime. However, likely restrictions due to rising covid-19 cases causes concerns of a third wave which remains a downside risk to economic recovery and our growth projections of 3.1% y/y this year. Inflation continues to remain high and as the recent PMI series suggests, both input and output prices have been on the rise. This potentially could impact the recovery in aggregate demand and purchasing power of the consumer, considering sticky wages. Nevertheless, we have started to see a declining trend. The headline inflation rose from 16.47% y/y in January to 18.17% y/y in March 2021 but saw a gradual moderation in inflation in Q2:21, taking it to 17.75% y/y in June. In Q1:21 inflation averaged 1.5% m/m, while the 3-m average till June was 1% m/m. Nevertheless, concerns of rising insecurity which could limit food supply poses an upside risk to food inflation.”

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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 12-28 July 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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