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Stanbic IBTC Bank Nigeria PMI[®]

Business activity falls amid record increase in selling prices

Key findings

Output down for first time in five months

Record rises in overall input costs and output prices

Marginal expansion in new orders

Nigerian private sector business activity dipped into contraction midway through the third quarter of the year as severe and strengthening price pressures acted to diminish demand. Both overall input costs and output charges increased to the largest extent since the survey began almost a decade ago. Inflation again reflected higher transportation costs as a result of the removal of the fuel subsidy, plus currency weakness. Rising transportation costs also caused supplier delivery delays.

Meanwhile, rates of expansion in both new orders and employment eased and were only marginal.

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 dropped for the third month running to 50.2 in August, from 51.7 in July, and was the lowest in the current five-month sequence of improving business conditions. The index signalled only a marginal monthly strengthening of the health of the private sector.

Marked inflationary pressures remained a key hindrance to businesses in August. Overall input costs increased to the greatest extent since the survey began in January 2014 as close to three-fifths of respondents posted a rise over the month. Rates of increase in both purchase prices and staff costs accelerated, the latter hitting a new survey peak. Higher transportation costs were central to rising prices, while there were also reports of currency weakness adding to inflationary pressures.

In turn, companies also increased their selling prices at a record pace, with the rate of inflation surpassing the previous peak from December 2021.

Steep price rises presented a challenge for firms to secure new orders. August saw only a marginal increase in new

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sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, S&P Global PMI.
Data were collected 10-29 August 2023.

Comment

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

"Nigerian private sector business activity slowed further in August reflecting strengthening price pressures which in turn diminished consumer demand. The headline PMI dropped for the third month to 50.2 in August, from 51.7 in July, the lowest in 5-m. Marked inflationary pressures remained a major hindrance to businesses in August. Both overall input costs and staff costs increased at the largest pace since the survey began. Inflation again reflected higher transportation costs as a result of the removal of the fuel subsidy, and exchange rate devaluation. Rising transportation costs also caused supplier delivery delays. Meanwhile, rates of expansion in both new orders and employment eased and were only marginal. Consequently, companies also increased their selling prices at a record pace, with the rate of inflation surpassing the previous peak from December 2021."

"Real GDP growth rose to 2.51% y/y in Q2:23, from 2.31% y/y in Q1:23 this however undershot 3.54% y/y recorded in Q2:22. The slower growth in Q2:23 reflects the slowdown in consumer spending and economic activities due to the combined impact of petrol subsidy removal and, to some extent, exchange-rate devaluation. The knee-jerk reaction to the over 200% increase in petrol prices impelled a slowdown in transportation across the country; the transportation sub-sector contracted by 50.6% y/y. Road transportation contracted by 55% y/y. Price pressures is likely to keep growth subdued, we however see the non-oil sector supporting growth into Dec."

business, with the rate of expansion the softest in the current five-month sequence of growth. Similarly, employment also rose only marginally.

Meanwhile, business activity decreased slightly midway through the third quarter, ending a four-month period of expansion. Sector data pointed to a drop in activity in wholesale & retail and no change in services. Meanwhile, agriculture and manufacturing continued to see output increase.

Companies continued to expand their purchasing activity, with stocks of inputs rising accordingly. There were some difficulties in the receipt of inputs caused by high transportation costs. As a result, suppliers' delivery times shortened only fractionally in August, following a period of marked improvements in recent months.

Business sentiment picked up from the previous survey period's record low, but was still historically weak. Those panellists predicting a rise in output over the year ahead often linked this to business expansion plans and advertising activity.

Survey methodology

The Stanbic IBTC Bank Nigeria PMI® is compiled by S&P Global 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. Data were first collected January 2014.

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.

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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