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Stanbic IBTC Bank Nigeria PMI[®]

Output prices rise at second-fastest pace on record

Key findings

Charges up sharply as currency weakness adds to cost pressures

Strong demand leads to fastest rise in new orders in eight months

Sentiment remains relatively muted

Customer demand improved again in the Nigerian private sector at the end of 2022, supporting further rapid increases in both new orders and business activity. In turn, firms took on additional staff, albeit only slightly. Meanwhile, currency weakness continued to exacerbate cost pressures, subsequently feeding through to the second-fastest rise in selling prices since the survey began in 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 reached 54.6 in December, up from 54.3 in November and signalling a marked monthly improvement in business conditions across the Nigerian private sector. Moreover, operating conditions strengthened to the greatest extent since April 2022.

The rate of growth in new orders quickened to an eight-month high in December, linked by firms to stronger customer demand. With customer numbers and new orders rising, firms also increased their business activity at a sharper pace at the end of last year.

Output rose across each of the agriculture, manufacturing, wholesale & retail and services sectors.

Improvements in demand were sustained despite ongoing strong inflationary pressures. In particular, purchase costs increased at the fastest pace in four months amid rising prices for fuel and raw materials, exacerbated by currency weakness.

In turn, companies increased their own selling prices at a much faster pace, and one that was only surpassed by that seen in December 2021.

Policies to help staff with higher living costs, particularly those related to transportation, as well as efforts to motivate

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sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, S&P Global.
Data were collected 06-21 December 2022.

Comment

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

"The headline PMI rose 54.6 in Dec, up from 54.3 in Nov which continues to reflect an improvement in private sector business conditions. The improvement was essentially driven by stronger customer demand which consequently resulted in new orders growth rate reaching an 8-m high in Dec. As a result of the higher level of demand, firms increased business conditions and output levels across various sectors (agriculture, manufacturing, wholesale & retail and services sectors).

"Remarkably, stronger demand was sustained despite persistent inflationary pressures. Notably, purchase costs increased at the fastest pace in 4-m leading to companies increasing their output prices. Throughout the year 2022, headline inflation continued to rise till it reached 21.47% y/y in Nov, driven by elevated energy and food prices, exacerbated by the Russia-Ukraine crisis. In near term, inflation will likely remain elevated, significantly above the central Bank's target range of 6% -9%, which would keep the monetary policy authorities hawkish aiming at containing surging price levels."

staff led firms to raise salaries solidly again. Companies also increased employment levels to try to alleviate some pressure on existing staff members, though workforce numbers were up only slightly overall.

Purchasing activity rose sharply again, but the rate of accumulation in inventories softened to a 22-month low amid cost pressures and the use of inputs to support output.

Meanwhile, suppliers' delivery times shortened to the least extent since July 2022. While prompt payments and competition among vendors led deliveries to speed up, fuel scarcity reportedly caused delays in some cases.

Finally, business confidence remained relatively muted, rising from November's series low but still the second-weakest on record. Those firms that expressed optimism linked this to planned investment and business expansions.

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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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