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## Stanbic IBTC Bank Nigeria PMI<sup>®</sup>

### Cash shortages lead to sharp decline in business activity

#### Key findings

Steep reductions in output and new orders

Purchasing and employment scaled back

Fuel shortages cause longer suppliers' delivery times

February PMI data indicated that cash shortages across the Nigerian economy had a severe impact on the private sector midway through the first quarter of the year. Substantial declines were seen in both output and new orders, while firms scaled back their purchasing activity and employment.

Companies were also impacted by shortages of fuel, which added to price pressures and led to supplier delivery delays.

The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI<sup>®</sup>). 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 below the 50.0 no-change mark in February, posting 44.7 from 53.5 in January. Business conditions deteriorated markedly, ending a 31-month sequence of expansion. The decline in operating conditions was the sharpest since the survey began in January 2014, excluding the opening wave of the COVID-19 pandemic in the second quarter of 2020.

The most severe impacts of cash shortages were seen with regards to output and new orders, which both fell substantially as customers were often unable to secure the funds to commit to spending. The decline in new orders was the first since June 2020, while the fall in output ended a seven-month sequence of growth. In both cases, the reductions were the most pronounced in the survey's history, apart from during the opening wave of the COVID-19 pandemic.

With new orders and output falling, companies reduced their input buying and staffing levels accordingly. The declines were the first in 32 and 25 months respectively. The decrease in purchasing reflected not only a drop in customer demand but also difficulties for companies to find the funds to pay for items.

Alongside cash shortages, the private sector was also impacted by a scarcity of fuel in February. This had a notable

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sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, S&P Global.  
Data were collected 10-24 February 2023.

#### Comment

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

“Stanbic IBTC Bank headline PMI declined to 44.7 in Feb from 53.5 in Jan. This indicates the first contraction in private sector business conditions in over two years. The steep decline is attributed to the cash shortage challenges experienced across the country during the month. This consequently resulted to contraction in both outputs and consumer orders, which made firms scale back on purchasing and hiring activities. Furthermore, persistent fuel shortages from the beginning of the year saw petrol pump prices increase, which both increased production cost for firms and led to supplier delivery delays. Sure, the lingering cash shortages will likely continue to dampen economic activities and could depress economic growth in Q1:23.

“Notably, Nigeria’s GDP grew by 3.52% y/y in Q4:22 from 2.25% y/y in Q3:22. Growth in Q4:22 was driven largely by the services sector increasing by 5.69% y/y – contributing 56.3% to overall GDP. Indeed, the lingering cash shortages will likely continue to dampen economic activities in Q1:23. We project the Nigerian economy growing at 3% in 2023.”

impact on suppliers' delivery times, which lengthened for the first time in close to six-and-a-half years and to the greatest extent since April 2016.

In turn, shortages led to a rise in fuel costs which were widely mentioned as having been behind a further marked increase in purchase prices. Higher raw material costs and currency weakness were also factors pushing up purchase prices. The rate of inflation was the softest since June 2020, but marked nonetheless and stronger than the series average. Staff costs also rose again in February, but at a modest pace.

The passing on of higher input costs to customers resulted in a further sharp rise in output prices, albeit one that was the weakest in four months.

Hopes that economic conditions will improve, alongside business expansion and investment plans, led to confidence in the year-ahead outlook for business activity. Sentiment was at a five-month high but still relatively muted.

### Survey methodology

The Stanbic IBTC Bank Nigeria PMI<sup>®</sup> 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<sup>™</sup> (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](mailto:economics@ihsmarkit.com).

### About PMI

Purchasing Managers' Index<sup>™</sup> (PMI<sup>®</sup>) 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](https://ihsmarkit.com/products/pmi.html)

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