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Stanbic IBTC Bank Nigeria PMI®

Business conditions improve in July amid strong client demand

Key findings

Output growth resumes in July

Stocks of purchases rise at marked and accelerated pace

Purchase cost and output price inflation quicken to four-month highs

Data were collected 12-27 July 2022

A return to growth in output and stronger inflows of new orders helped underpin a further improvement in operating conditions in the Nigerian private sector during July. In turn, businesses increased their purchasing activity at the strongest rate for five months while stocks increased sharply. Despite stronger inflows of new work, employment growth eased and was marginal amid elevated costs and subsequent pressures on profits. Purchase and output price inflation accelerated to four-month highs in July, with unfavourable exchange rate movements and higher fuel costs behind the latest round of inflation.

Nevertheless, sentiment improved from June, and firms reported hopes of securing greater business investments.

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 at 53.2 in July, up from 50.9 in June, signalling an improvement in business conditions in Nigeria's private sector. The latest figure rose from June's 17-month low but was still muted compared to the historical average.

A renewed increase in output supported the latest improvement in business conditions in July. Output rose solidly, albeit at a rate that was weak by historical standards. Agriculture recorded the strongest uplift in output during July,

PMI

sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, S&P Global.

followed closely by manufacturing. Services and wholesale & retail followed, where rates of growth quickened from those seen in June. Stronger client demand was behind the uplift in output with new orders rising sharply across all four sectors in July.

To support higher output, companies increased their purchasing activity for the twenty-fifth month in a row. Consequently, stocks of purchases rose markedly as firms intensified efforts to build up their inventories. Moreover, the rate of growth was the steepest for seven months.

Vendor performance improved in July, but to the least extent for over two years amid reports of busier road conditions.

Outstanding business fell at the softest rate since August 2020 in July. Sufficient capacity combined with rising costs led firms to raise their headcounts at the slowest pace for seven months.

Turning to prices, overall input price inflation was robust amid a quicker uptick in purchase costs. Staff costs rose only marginally, however. Firms passed on a large part of the burden by lifting their selling prices at the quickest rate in four months.

Finally, firms remained optimistic of output growth in the year ahead amid hopes of acquiring greater investment and expanding business operations.

Comment

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

"The headline PMI signaled an improvement in the private sector business environment, registering at 53.2 in July, up from 50.9 in June. This is owing to the strong output levels driven by improved demand during the period. New orders increased sharply across key sectors: agriculture, manufacturing, services and wholesale and retail. Notably, producers experienced higher purchase costs hence increased their selling prices in order to support their margins. Key factors for the inflationary pressure experienced during the period were unfavourable currency movement and increased petrol costs.

"The Central Bank of Nigeria's MPC at the July meeting unanimously voted to raise the MPR by 100bps, to 14%, in order to combat inflation pressures. The CBN's however noted that the external shocks supply-chain challenges worsened by geopolitical tensions, high commodity prices and high inflation which could dampen economic growth in near term. The CBN still sees growth at 3.24% y/y in 2022, largely in line with our forecast.

The CBN continues to favour a gradual depreciation of the naira. Notably, during the month, we saw the NAFEX move to settle at 424 levels, compared to the 416 levels in January. Whilst we have a year-end forecast of 440, we still see a further depreciation risk to our forecast."

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.

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 12-27 July 2022.

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. <https://ihsmarkit.com/products/pmi.html>

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