News Release

Embargoed until 0945 WAT (0845 UTC) 1 August 2023

Stanbic IBTC Bank Nigeria PMI®

New order growth softens amid steep price pressures

Key findings

Weaker rises in output and new orders

Overall input costs increase at joint-fastest pace on record

Lowest business sentiment in survey's history

Stanbic IBTC Bank Nigeria PMI

sa, >50 = improvement since previous month

Sources: Stanbic IBTC Bank, S&P Global PMI.
Data were collected 12-27 July 2023.

Steep price pressures acted to limit the pace of growth in the Nigerian private sector in July. Overall input costs rose at a pace unsurpassed in more than nine-and-a-half years of data collection, with selling prices up rapidly in response. Rising price pressures impacted demand, with growth of both new orders and business activity softening as the second half of the year got underway. Meanwhile, business confidence hit a new low.

There was more positive news on the employment front, however, as the rate of job creation quickened to the fastest since January.

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 posted above the 50.0 no-change mark for the fourth month running in July and thereby signalled a further improvement in business conditions in the Nigerian private sector during the month. That said, at 51.7 the index was down from 53.2 in June and pointed to a modest strengthening of operating conditions that was the least pronounced in the current expansionary sequence.

The softer improvement in the health of the private sector reflected trends in output and new orders during July. In both cases, rates of growth eased to the weakest since the respective returns to expansion following the cash crisis at the start of the year.

While some firms reported having been able to secure new contracts amid rising customer numbers, others highlighted the negative impact on demand of rising prices.

July data signalled a steep increase in overall input prices, with the rate of inflation the joint-fastest since the series began in January 2014, equal with that posted in November 2021.

Comment

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

"Stanbic IBTC headline PMI posted at 51.7 in July down from 53.2 in June, indicating a modest improvement in private sector business conditions. The softer improvement in the health of the private sector was driven by softer growth in output and new orders in July. Notably, rates of growth eased to the weakest for both output and new orders. Elevated price pressures largely limited the pace of growth in business sector activities in the Nigerian private sector during the month. Overall input costs rose at a record high level while selling prices spiked rapidly in response. Consequently, business confidence hit a new low, being the lowest in just over 9-y of data collection.

"Indeed, inflation rose by less than expected in Jun, to 22.79% y/y, from 22.41% y/y in May. Core inflation rose by 22bps, to 20.27% y/y, while food inflation rose by 43bps, to 25.25% y/y. M/m basis inflation rose by 19bps, to 2.13%, with the food, transport and utility sub-basket driving the increase in headline inflation. Y/y, transport inflation rose the fastest of the inflation sub-baskets, by 96bps, to 24.86% y/y. We had expected inflation to rise faster due to the removal of petrol subsidy and its impact on transport inflation. The National Bureau of Statistics has however clarified that the June inflation data only accounts for the first and second week in Jun. Near term, inflation may still rise further due to the lagged impact of higher transport costs across the various inflation sub-baskets. Petrol prices have recently been increased further by about 18%. We still see inflation ending the year closer to 27% y/y levels, given the second-round effects of higher transport and food prices."

Purchase costs were a key driver of overall input price inflation. Higher fuel costs following the subsidy removal and currency weakness were the main factors leading purchase prices to rise. Meanwhile, staff cost inflation hit a six-month high as firms increased pay to help staff deal with rising transport costs.

With input costs up rapidly, companies increased their output prices accordingly, and at one of the strongest rates on record. More than half of companies increased their charges over the month.

More positively, employment increased for the third month running in July, and at a solid pace that was the fastest since the start of the year. Backlogs of work continued to rise, however, as some firms reported delays while checks were made to make sure customers were able to pay for orders.

Input buying and stocks of purchases rose further, but rates of increase softened.

Finally, business confidence continued to trend downwards in July and was the lowest in just over nine-and-a-half years of data collection.

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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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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NATIONAL BUREAU OF STATISTICS

The Nigeria PMI is endorsed and adopted by NBS.