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

### Inflationary pressures mount following fuel subsidy removal

#### Key findings

Sharp accelerations in input cost and output price inflation

Output rises for third month running

Business confidence second-lowest on record

The removal of the fuel subsidy in Nigeria caused a sharp strengthening of price pressures in June. In turn, rates of expansion in output and new orders softened, but remained marked nonetheless. Business confidence dipped to a near record low.

Intensifying inflationary pressures encouraged companies to expand inventories to try and get ahead of further price increases. Meanwhile, employment was up modestly for the second month running.

The headline figure derived from the survey is the Purchasing Managers' Index<sup>™</sup> (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 remained above the 50.0 no-change mark in June. Although dipping slightly to 53.2 from 54.0 in May, the reading signalled a solid monthly improvement in the health of the private sector.

While overall business conditions remained on a positive trajectory, firms faced a much stronger inflationary environment at the end of the second quarter of the year, linked to the removal of the fuel subsidy.

Purchase prices increased at the fastest pace since last August, while the rate of selling price inflation accelerated sharply to the steepest in the year-to-date as firms passed higher costs on to their customers.

Issues around the ending of the fuel subsidy also acted to limit the pace of output growth, according to respondents, although activity was still up markedly in the latest survey period. Output has now risen in each of the past three months amid higher customer numbers and growth of new orders. Wholesale & retail bucked the wider trend and posted a drop in activity.

New business was also up for the third successive month. The rate of expansion was marked, albeit the softest in the

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sa, >50 = improvement since previous month



Sources: Stanbic IBTC Bank, S&P Global PMI.  
Data were collected 12-28 June 2023.

#### Comment

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

*"The Stanbic IBTC headline PMI dipped slightly to 53.2 in Jun from 54.0 in May, which still indicates expansion in private sector business environment. Though, overall business conditions remained on a positive trajectory, firms faced a much stronger inflationary environment in June following the removal of the fuel subsidy. Input prices increased at the fastest pace since Aug 22, while the rate of selling price inflation accelerated sharply as firms passed higher costs on to their customers. Consequently, rates of expansion in output and new orders softened during the month. Notably, business confidence dipped to a near record low while companies expand inventories to try and get ahead of further price increases.*

*"Indeed, petrol pump prices have increased by an average 176% countrywide. This may drive transport inflation further up (it contributes 7.5% to the inflation basket) as major transportation vehicles 'intra-state' use petrol. This may also spill over to inflation sub-baskets. We forecast inflation at 27.5% by year-end."*

current sequence of growth.

Higher new orders encouraged firms to expand employment for the second month running, although the pace of job creation was again only modest. Despite increasing staffing levels, firms recorded a build-up of backlogs of work, due to an expansion in new business and some difficulties securing inputs.

Some companies reported having brought forward purchasing and expanded inventories ahead of predicted increases in costs of materials in the months ahead. This, allied with increasing workloads, meant that stocks of purchases were accumulated to the largest degree in eight months.

Business confidence dropped to the second-lowest on record in June and was only fractionally above last November's nadir. Companies remained optimistic that output will increase over the coming year, however, linked to investment, business expansion plans and proposed marketing drives.

#### 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](mailto: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](https://ihsmarkit.com/products/pmi.html)

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## Contact

Muyiwa Oni	Fadeke Awolesi
Head Equity Research, West Africa	Corporate Communications
Stanbic IBTC Bank	Stanbic IBTC Bank
T: +234 (1) 422 8667	T: +234 701 0179 108
<a href="mailto:muyiwa.oni@stanbicibtc.com">muyiwa.oni@stanbicibtc.com</a>	<a href="mailto:fadeke.awolesi@stanbicibtc.com">fadeke.awolesi@stanbicibtc.com</a>
Andrew Harker	Sabrina Mayeen
Economics Director	Corporate Communications
S&P Global Market Intelligence	S&P Global Market Intelligence
T: +44 134 432 8196	T: +44 7967 447 030
<a href="mailto:andrew.harker@spglobal.com">andrew.harker@spglobal.com</a>	<a href="mailto:sabrina.mayeen@spglobal.com">sabrina.mayeen@spglobal.com</a>

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