

Purchasing Managers' Index (PMI)

Relative to the preceding month, the Manufacturing and Non-Manufacturing PMI, which measures business performance, declined in January 2016. The Manufacturing PMI declined by 4 percentage points to 47.2 percent, while the Non-manufacturing PMI declined by 6.5 points to 46.9 points in January². Importantly, out of the 16 subsectors comprising the manufacturing sector, 14 recorded a significant decline in performance. A similar level of underperformance was also recorded in the Non-Manufacturing sector. The decline of both indices reflects a general slowdown in economic activities in January, 2016 which is likely to be associated with scarcity of forex for importation. There is an urgent need for the fiscal and monetary authorities to align their policies towards improving the business environment to enhance the much-needed economic diversification.



Capital Inflow

Recent data from the National Bureau of Statistics (NBS) show that total capital importation in 2015 fell steeply by 53.5 per cent from \$20,750.76 million in 2014 to \$9,643.01 million in 2015². This decline was largely driven by a substantial drop in portfolio investment (the largest component of Capital Inflows), which fell by 59.74 percent. The exclusion of Nigeria from the JP Morgan EM Bond index, the slump in crude oil prices, the decision of the US Federal Reserve to raise interest rates and the capital control measures imposed by the Central Bank of Nigeria (CBN) are the notable drivers of the reduced inflow of capital. Going forward, improving the business environment, especially easing foreign exchange controls, would determine the extent to which the economy can attract increased capital inflows.



Crude Oil

OPEC's weekly basket price continued its recovery. Between January 29th to February 5th, the basket price increased by 8.6 per cent, from \$26.90 per barrel to \$29.2 per barrel³. In the same period, Brent price closed higher at \$32.18 per barrel from \$31.75 per barrel⁴. The strong prospects of a cut in crude oil production by major oil producers, including OPEC member countries and key non-OPEC countries such as Russia, as well as the slight depreciation in the US dollar⁵ contributed to the moderation in the price of crude oil. Despite the slight increase in price, growth and profitability in the oil industry remain bleak. Major oil companies operating in Nigeria are increasingly taking cost cutting measures such as the retrenchment of staff⁶. These measures are expected to add more pressure to the already saturated labour market. Similarly, financial institutions with credit exposures to the oil industry are anticipated to cut jobs in efforts to maintain liquidity and profitability in the near term.



Exchange rate and External reserves

Exchange rate remained at N197/\$ at the official market, while it depreciated marginally from N304/\$ to N305/\$ at the BDC market segment between January 29th and February 5th, 2016⁷. The persistent depreciation of the Naira continues to be associated with the scarcity in dollar relative to the increasing demand, despite the CBN control measures. The external reserves have also continued to decline. The reserve fell by 0.5 percent, between January 29th and February 5th from \$28.16 billion to \$27.99 billion⁸. While the use of the reserves to defend the Naira has been subsided, the high dependence on imports has continued to place downward pressures on the reserves.



- ¹CBN. "Purchasing Managers' Index: January 2016 Report". Accessed February 5, 2016 http://cbn.gov.ng/Out/2016/SD/January%202016%20PMI_Draft-Final-Jan28.pdf
- ²NBS. "Nigeria Capital Importation Summary Report: Quarters Three and Four 2015". NBS February 2, 2016. Accessed
- ³OPEC Weekly Oil Price. Accessed January 28, 2016. http://www.opec.org/opec_web/en/data_graphs/40.htm
- ⁴EIA. "Petroleum & Other Liquids: Weekly Europe Brent Spot Price FOB". Accessed February 15, 2016 <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=rbrte&f=w>
- ⁵Yell Tyler. "WTI Crude Oil Price Forecast: Oil bulls May Soon Have Reason to Cheer". DailyFx, February 4, 2016. Accessed February 8, 2016 <https://www.dailyfx.com/forex/technical/home/analysis/usoil/2016/02/04/WTI-Crude-Oil-Price-Forecast-Oil-Bulls-May-Soon-Have-Reason-to-Cheer.html>
- ⁶Alohan Juliet. "Oil Price: Shell Puts \$12 billion on Nigeria Bonga Project on Hold". Leadership, February 5, 2016. Accessed February 5, 2016 <http://www.leadership.ng/business/498202/oil-price-shell-puts-12bn-nigeria-bonga-project-hold>
- ⁷Lagos Black Market Rates. Abokifx2016. Accessed February 5, 2016. <http://abokifx.com/>
- ⁸CBN Statistical database 2015. Accessed February 8, 2016. <http://cbn.gov.ng/IntOps/Reserve.asp>