Nigerian Economy Gathers More Momentum

We believe more policies are required to achieve sustainable growth.

A review of the latest Purchasing Managers' Index (PMI) that the Central Bank of Nigeria (CBN) published for the month of April 2017 suggests that the Nigerian economy is on the way out of recession. However, we believe more policies are required to achieve sustainable growth. The PMI report shows that the Composite Manufacturing Index (CMI) expanded for the first time in the year 2017 and attained the highest level so far in the year 2017. The CMI increased to 51.1points in April 2017 from 47.7 points in March 2017. Although the Composite Non-Manufacturing Index (CNMI) is slightly below 50 points level, it increased to 49.5 points in April 2017 from 47.1 points recorded in March 2017 to attain the highest level in 16 months. This represents the first month-on-month (MoM) increase after 16 consecutive months of decline.

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The PMI report also shows that the production level in the manufacturing sector expanded for the second consecutive month, increasing to 58.5 points in April 2017 from 50.8 points in March 2017. PMI below 50 points level suggests a decline in business activity, PMI higher than 50 points level suggests an expansion while PMI at the 50 point level suggests no change. We believe the increase in PMI is sustainable in the short to medium-term provided policies that increase access to credit and create an enabling business environment are pursued.

The drop in M1 is due to the drop in demand deposits which in turn can be linked to a drop in private sector deposits with the CBN.

The monetary aggregates in Nigeria as at March 2017 show that the annualised growth rate in the money supply is below the target the CBN sets for the year 2017. In Nigeria, narrow money supply (M1) is the sum of demand deposits and currency in circulation less the cash currency held in deposit money banks' vault. Quasi money supply (QM) is the savings deposits plus time deposits. Broad money supply (M2) is the sum of M1 and QM (M2 = M1 + QM). The M2 decreased by 7.17% to N22trillion in March 2017 from N23.7trillion in December 2016. The major drop is from M1 which dropped by 12.71% to N10trillion in March 2017 from N11.4trillion in December 2016. The QM also dropped marginally by 2.03% to N12.1trillion from N12.3trillion in December 2016. We attribute the drop in M1 to the drop in demand deposits which in turn can be linked to a drop in private sector deposits with the CBN.

Demand deposits dropped by 13.46% to N8.3trillion in March 2017 from N9.6trillion in December 2016. Private sector deposits dropped by 36.68% to N2.1trillion in March 2017 from N3.4trillion in December 2016. The CBN's growth target for M2 in 2017 is 10.29%, thus the contraction in Q1 2017 is at variance with the growth target for the year. **The efforts to combat high inflation rate, increase the supply of foreign exchange through foreign investment in the fixed income securities, and to sustain investment from the domestic investors, are responsible for the drop in money supply in Q1 2017.** Net domestic credit increased marginally by 1.17% to N27.45trillion in March 2017 from N27.15trillion in December 2016, much lower than the growth target of 17.93% for 2017. The annualised growth rate in net domestic credit in Q1 2017 is 4.7%, also significantly below the target growth rate of 17.93% for 2017. While net credit to the Federal Government increased in Q1 2017, the net credit to the private sector dropped. Net domestic credit to the Federal Government increased by 8.17% to N5.29trillion in March 2017 from N4.81trillion in December 2016 but the net domestic credit to private sector dropped by 0.33% to N22.27trillion in March 2017 from N22.35trillion in December 2017. Policies to increase money supply will be required when there is stability in the foreign exchange market and the inflation rate is moderated.

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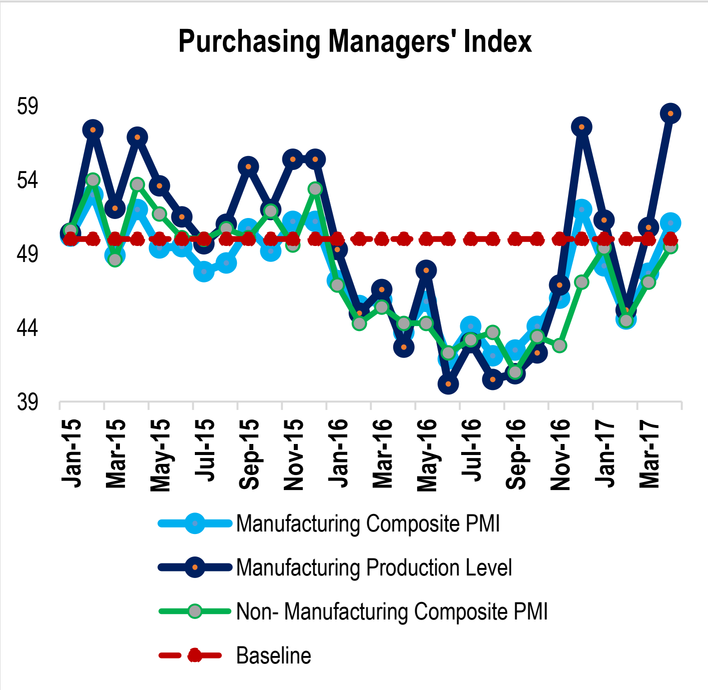
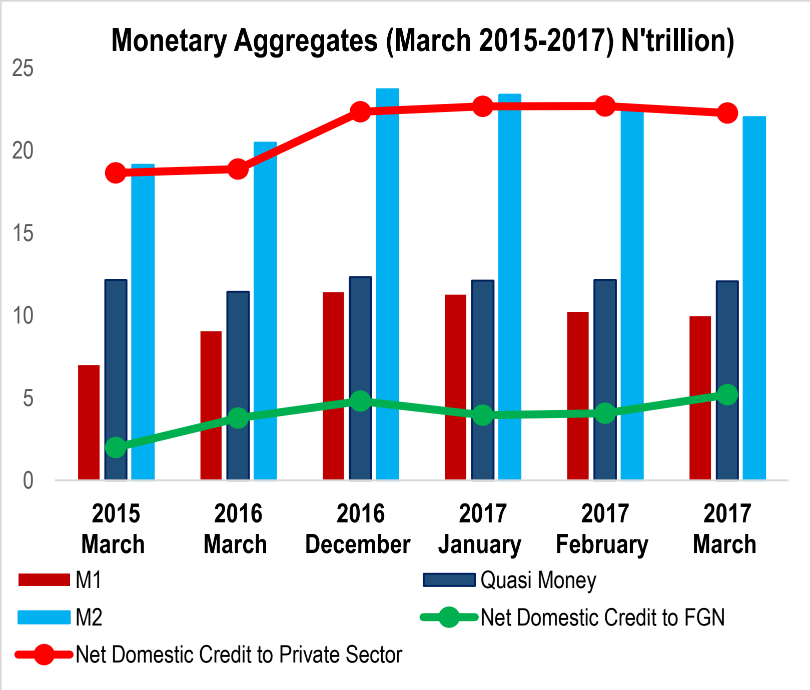


Source: The Central Bank of Nigeria (CBN)



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For enquiries please contact us at our offices:

Lagos Office: 5th-8th floors UAC House, 1/5 Odunlami Street, Lagos. Tel: 234-1-2702880-2; 234-1-2702887

Port Harcourt Office: 2nd Floor, Skye Bank Building (Former Mainstreet Bank Building) 5 Trans Amadi Road, Port Harcourt. Tel: 234-8024081331

Abuja Office: Leadway House (First Floor), Plot 1061 Herbert Macaulay way, Central Business District, Abuja-Nigeria. Tel.: 234-9-2918821

Website: www.fsdhgroup.com **email: research@fsdhgroup.com**

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