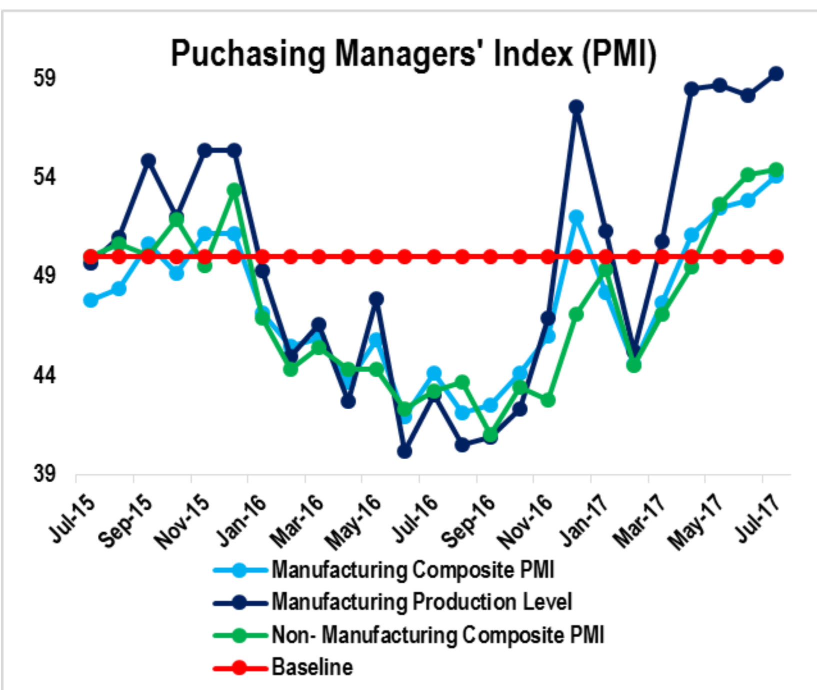
Nigerian Economy Signals a Turnaround

The PMI supports our view that the Nigerian economy may exit the current recession in Q3, 2017.

A review of the latest Purchasing Managers' Index (PMI) report that the Central Bank of Nigeria (CBN) published for the month of July 2017 shows that the Nigerian economy is gathering more momentum for a turnaround. The PMI increased consistently between March 2017 and July 2017. The PMI supports our view that the Nigerian economy may exit the current recession in Q3, 2017. The manufacturing and non-manufacturing activities increased in the month of July 2017 compared with the level of activities recorded in the month of June 2017. The PMI report shows that the Composite Manufacturing Index (CMI) expanded for the fourth consecutive month in the year 2017 to attain the highest level since July 2014. The CMI accelerated to 54.1 points in July 2017 from 52.9 points in June 2017. The Composite Non-Manufacturing Index (CNMI) also expanded to 54.4 points in July 2017 from 54.2 points in June 2017 to attain the highest level since December 2014. The month of June 2017 is the third consecutive month of increase in the CNMI. A PMI below the 50 points level suggests a decline in business activity while a PMI higher than the 50 points level suggests an expansion. When the PMI is at the 50 point level, it means that the degree of business activity in the economy is unchanged.

The capital importation data from the CBN as at May 2017 shows that foreign investors have increased their investments in the Nigerian economy.

We believe that manufacturing and non-manufacturing activities in the country have increased in the last few months largely because of the CBN's strategy to increase the supply of foreign exchange. This strategy has improved businesses' and consumers' confidence in the economy. The capital importation data from the CBN as at May 2017 shows that foreign investors have increased their investments in the Nigerian economy; thus increasing the supply of foreign exchange into the country. The total capital imported into the Nigerian economy between January 2017 and May 2017 stood at US$2.09billion, an increase of 82.78% over the

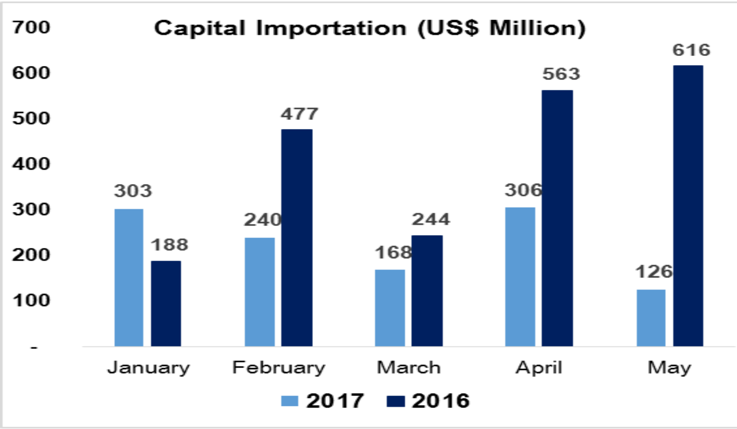


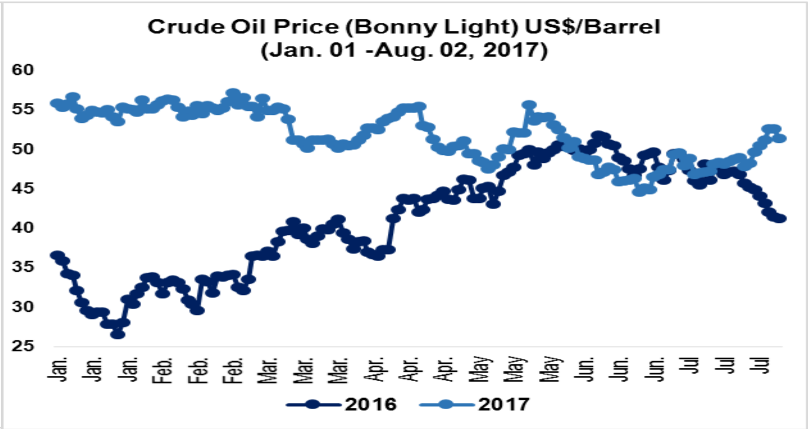
Source: Central bank of Nigeria (CBN)

amount of US$1.14billion recorded in the corresponding period of 2016. The implementation of the Investors' and Exporters' Foreign Exchange (I&E) window has attracted foreign investors to the economy. About 57% of the total foreign capital inflows into the Nigerian economy between January and May 2017 was recorded in April 2017 and May 2017 following the commencement of the I&E window on April 24, 2017. In addition to the foreign exchange inflows into Nigeria from foreign investors, the inflows of foreign exchange from the sale of crude oil have increased as a result of the increase in crude oil price and production. The average price of crude oil between January 01 and August 02, 2017 stood at US$51.83/barrel an increase of 25.88% over the average crude oil price of US$41.18/barrel in the corresponding period of 2016.

The IMF recommended the implementation of the following: social protection, and private sector credit; unified and market-based exchange rate amongst others.

In a related development, the International Monetary Fund (IMF) visited Nigeria between July 20 and 31, 2017 to discuss recent economic and financial developments, update macroeconomic projections, and review reform implementation. The IMF identified the following major near-term vulnerabilities and risks: slow growth in 2017 at 0.8%; delays in policy implementation; possible reversal of favourable external market conditions; possible shortfalls in agricultural and oil production; and additional fiscal pressures. The IMF made the following recommendations: fiscal consolidation through a sustainable increase in non-oil revenues to create space for infrastructure spending, social protection, and private sector credit; monetary policy that avoids direct financing of the government and is kept sufficiently tight; unified and market-based exchange rate; a rapid implementation of structural reforms and creation of an environment for a diversified private-sector led economy. If the current efforts of the Federal Government of Nigeria (FGN) to drive tax revenue is sustained and institutions are strengthened to ensure that revenues are properly allocated to priority sectors, the Nigerian economy should rebound to the pre-crisis level within a short period of time.





Sources: The Central Bank of Nigeria (CBN), and Thomson Reuters

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**

Our Reports and Prices are also Available on Bloomberg {FSDH<GO>}

Disclaimer Policy