Business and Consumer Expectations in Nigeria Improve

The major drivers of the improved optimism in Q2, 2017 were services, wholesale/retail trade, industrial and construction sectors.

The Business Expectations Survey (BES) and the Consumer Expectations Survey (CES) Reports that the Central Bank of Nigeria (CBN) published for Q2, 2017 show that confidence of both the firms and consumers about the Q3, 2017 and the next 12 months has improved. The BES shows that the respondents' overall confidence index on the macroeconomy in Q2, 2017 was less pessimistic when compared with the level recorded in Q1, 2016. The major drivers of the improved optimism in Q2, 2017 were services, wholesale/retail trade, industrial and construction sectors. The respondent firms identified the following as major business constraints: insufficient power supply, financial problem, high interest rate, unfavourable economic climate, competition, unclear economic laws, and unfavourable political climate. Most of the surveyed firms expect the value of the Naira to appreciate against the US Dollar in the next two quarters. The report also shows that businesses with expansion plans are in the following sectors: wholesale/retail trade, services, construction and industrial. The BES added that respondent firms expect inflation rate and interest rate to moderate in the next two quarters.

The consumer outlook for the next quarter and that of the next 12 months were positive.

The CES shows that the respondents' overall confidence outlook moderated in Q2, 2017. According to the survey, some respondents attributed the improved outlook to the increased confidence in the economy. Despite the improved confidence the overall outlook was negative, majority of the respondents ascribed this development to a decline in their net income leading to draw-down on savings/getting into debt. The consumer outlook for the next quarter and that of the next 12 months were positive. The outlook is attributed to the anticipated improvement in the Nigerian economic conditions, expected increase in net household income and expectation to save in the next 12 months. On the expectation of consumer expenditure, the survey says more households across the country expect some increase in their expenditure on basic commodities and services in the next 12 months. Most consumers expect to spend a substantial amount of their income on food and other household needs, education, savings, purchase of consumer durables, medical expenses and investment. Nevertheless, they do not plan to spend on large ticket items such as purchase of car/motor vehicle and house.

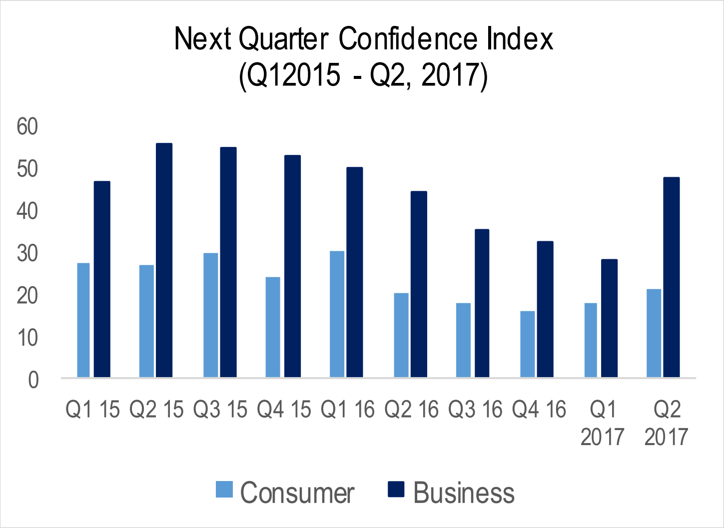
The surveyed consumers expect inflation rate to rise in the next 12 months, they expect exchange rate to appreciate and interest rate (borrowing rate) to drop.

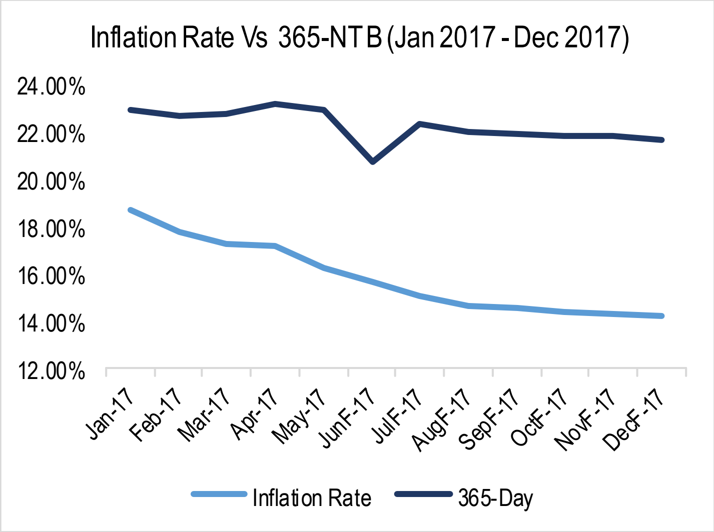
Most surveyed consumers expect the prices of goods and services to increase in the next 12 months. The major drivers are: house rent, education, medical care, transport and electricity. On the consumer buying outlook, consumers believe Q2, 2017 was not the ideal time to buy consumer durables like motor vehicle and house.

It also added that the next 12 months are not the best time to buy items such as furniture, gas cooker, refrigerator, air conditioners, television and other durables. However the next 12 months seem to be an ideal time to buy big-ticket items like motor vehicles and house. Although consumers expect inflation rate to rise in the next 12 months, they expect exchange rate to appreciate and interest rate (borrowing rate) to drop.

We expect inflation rate to decline for the rest of 2017 (but still in double digits). We also expect the MPC of the CBN to adopt a more accommodating monetary policy stance.

We note that there are still some challenges in the economy that need to be addressed. However, our review of the Nigerian economy shows that the worst performance may be over. Thus the economy is ready for a recovery. We are of the view that inflation rate will decline for the rest of the year 2017 (but still in double digits). We also expect the Monetary Policy Committee (MPC) of the CBN to adopt a more accommodating monetary policy stance when there is sustainable stability in the foreign exchange rate and inflation expectation is properly anchored within the level that is not growth retarding. Such a change in the monetary policy stance will lead to a drop in the interest rates (both deposit and lending) and yields on the fixed income securities. **The Federal Government of Nigeria (FGN) needs to address the challenges in the power sector in order to reduce firms' operating cost and increase the spendable and investible income of consumers. Other areas that need attention in order to improve business and consumer confidence are the political and policy uncertainties in the country.**





Sources: The Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS) and FSDH Analysis

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