

Central Bank of Nigeria



Business Expectations Survey Report

Q₄ 2017

Statistics Department

December 2017

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1.0 Highlights

The highlights of the Business Expectations Survey (BES) report are as follows:

- Respondent firms expressed more optimism on the macro economy in Q₄ 2017, when compared with the level recorded in the corresponding quarter of 2016.
- Respondents' outlook on the volume of total order, business activity and internal liquidity positions (financial conditions) in the review quarter improved in relation to that of the corresponding quarter of 2016.
- The surveyed firms identified insufficient power supply, high interest rate, financial problems, unfavourable economic climate, unclear economic laws, insufficient demand and competition as the major constraints to their business activities in Q₃ 2017.
- Respondent firms expect the Naira to appreciate in the current and next quarters. Inflation and borrowing rates were expected to rise in the current quarter but fall in the next quarter.

2.0 Introduction

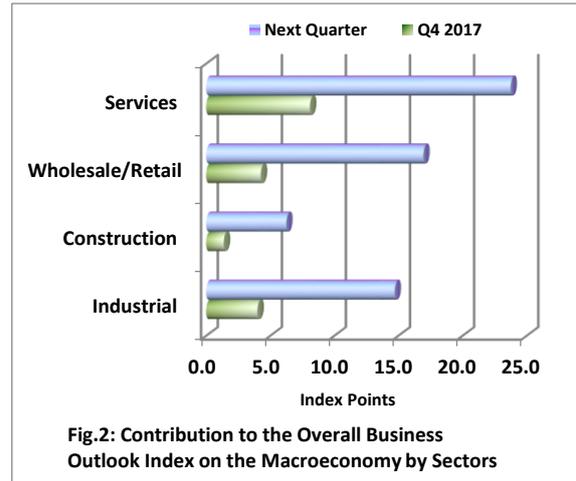
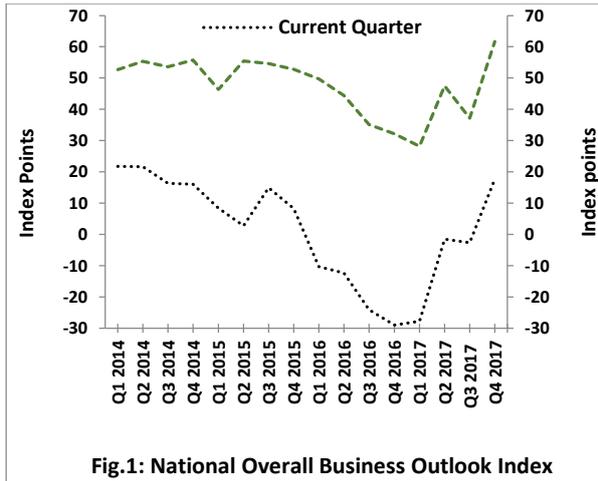
The Q₄ 2017 Business Expectations Survey (BES) was carried out during the period November 20 to December 01, 2017 with a sample size of 1,950 businesses nationwide. A response rate of 97.6 per cent was achieved during the reporting quarter, and the sectors covered were services, industry, wholesale/retail trade and construction sectors. The services sector is made up of Financial Intermediation, Hotels & Restaurants, Renting & Business activities and Community & Social Services. The respondent firms were made up of small, medium and large organisations covering both import- and export-oriented businesses (Table 1).

3.0 Business Outlook

At 17.7 index points, respondents' overall confidence index (CI) on the macro economy in Q₄ 2017 improved, when compared with the level of -29.0 index points recorded in Q₄ 2016. This was driven by the opinion of respondents from services (8.1 points), wholesale/retail trade (4.3 points), industrial (4.0 points) and construction (1.4 points) sectors (Fig. 1).

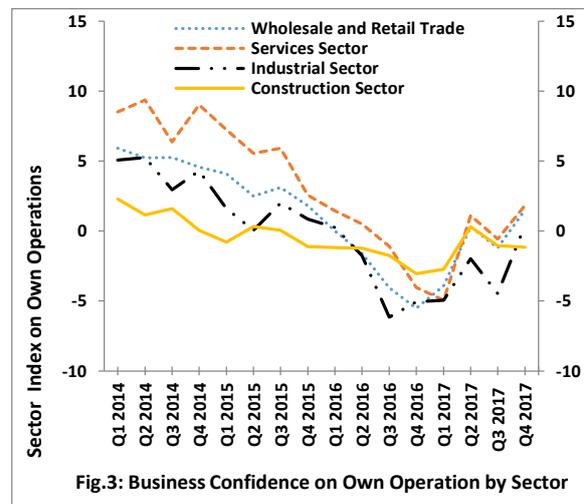
The outlook of businesses for the next quarter however, indicated greater confidence on the macro economy at 61.7 points. The drivers for this optimism were services (23.8 points), wholesale/retail trade (17.0 points), industrial (14.7 points) and construction (6.3 points) sectors (Fig. 2).

Furthermore, the positive outlook by type of business in the next quarter was driven by businesses that are neither import- nor export-oriented (42.0 per cent), import-oriented businesses (12.2 per cent), both import- and export-oriented businesses (6.5) and export-related businesses (1.0 per cent) (Table 1).



3.1 Business Confidence on Own Operations by Sector

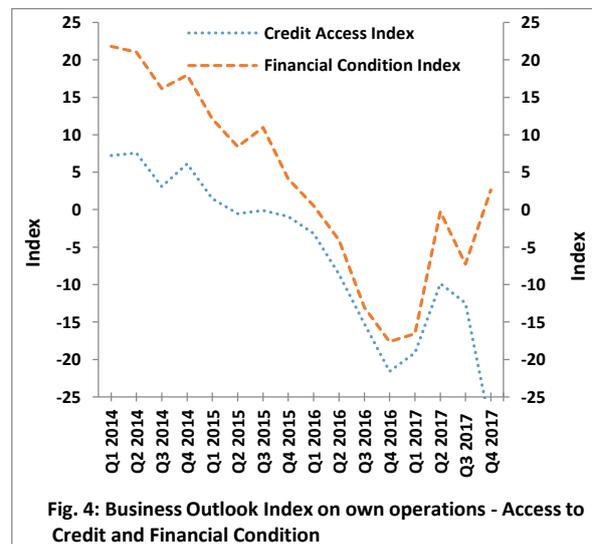
Respondents from industrial, construction, wholesale & retail trade and services sectors expressed more optimism on own operations in the current quarter with indices of 0.4, -1.2, 1.5 and 1.8, respectively, when compared with -5.1, -3.0, -5.5 and -4.0 in the corresponding quarter of 2016, respectively (Fig 3, Table 1).



3.2 Financial Condition and Access to Credit

Respondents' outlook on the volume of total order, business activity and internal liquidity positions (financial conditions) with indices of 8.5, 9.5, and 2.6 in the review quarter improved in relation to -18.5, -17.4, and -17.6 respectively of the corresponding quarter of 2016 (Table 1). The credit access index at -29.2 in the review quarter however deteriorated when compared with the -21.6 points recorded in the corresponding period of 2016

These positive developments led to improvement in the average capacity utilization index (CUI) by 12.3 points in Q4 2017, when compared with the level recorded in the corresponding quarter of 2016 (Fig. 4, Table 1).



3.3 Employment and Expansion Plans

The positive outlook in the volume of business activities (67.2 index points) and employment index (35.7 index points) indicated a favourable outlook in the next quarter. The employment outlook index by sector showed that the services sector (38.2 per cent) indicates higher prospects for creating jobs, followed by wholesale/retail trade (36.8 per cent), construction (32.7 per cent) and industrial (32.1 per cent) sectors.

An analysis of businesses by sector with expansion plans in the next quarter showed that the services and wholesale/retail trade sectors indicate greater disposition for expansion with indices of 48.4 and 47.3 points respectively. Similarly, construction and industrial sector firms registered expansion plans for Q₁ 2018 with indices of 34.5 and 23.3 points, respectively (Fig. 5, Table 1)

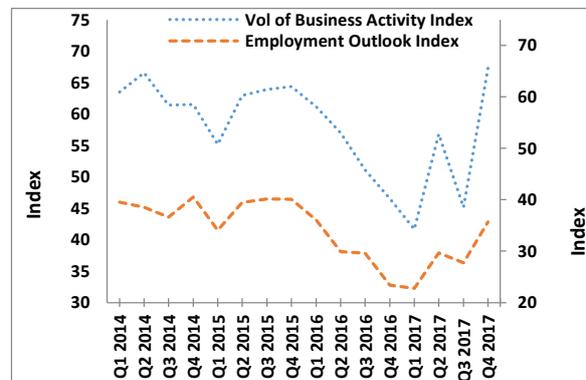


Fig. 5: Employment Outlook and Volume of Business Activity Indices Next Quarter

3.4 Business Constraints

The surveyed firms identified insufficient power supply (62.6 per cent), high interest rate (58.6 per cent), financial problems (56.8 per cent), unfavourable economic climate (46.1 per cent), unclear economic laws (42.7 per cent), insufficient demand (42.6 per cent) and competition (41.0 per cent) as the major factors constraining business activity in the current quarter (Fig. 6, Table 1).

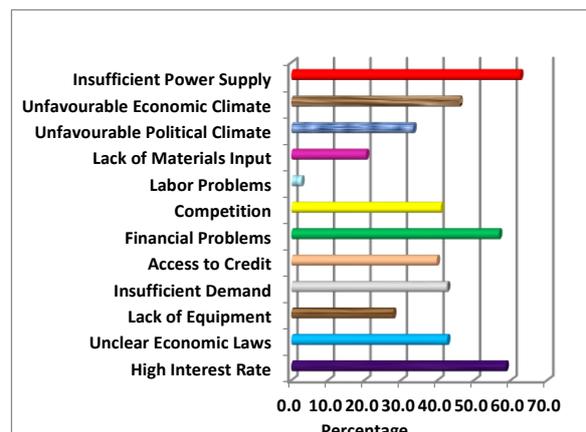


Fig. 6: Business Constraints

3.5 Expectations on Exchange Rate

Majority of the respondent firms expect the naira to appreciate in the current and next quarters as the confidence indices stood at 1.1 and 39.2 points, respectively (Fig. 7, Table 1).

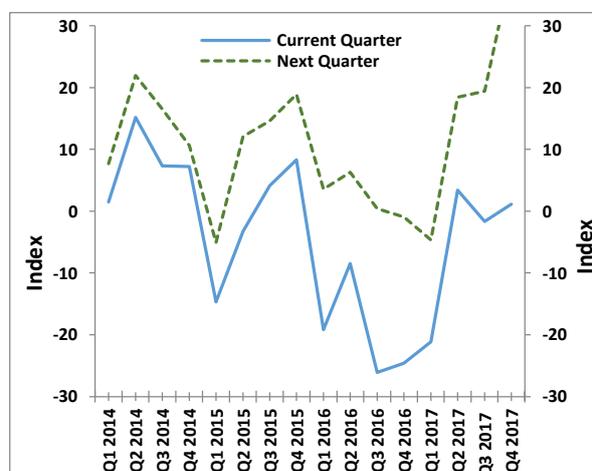
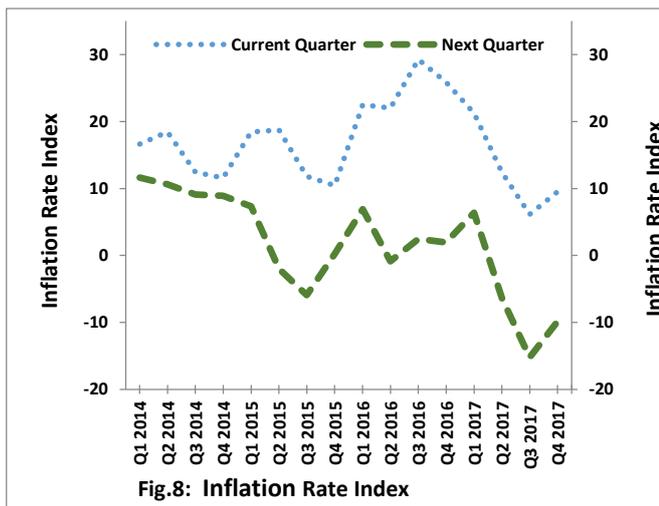


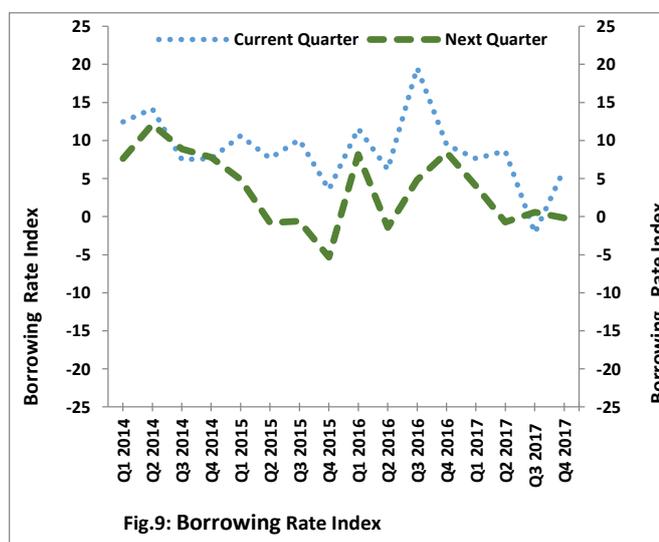
Fig. 7: Exchange Rate Index N/\$

3.6 Expectations on Inflation and Borrowing Rates

Respondent firms expect inflation rate to rise in the current quarter but fall in the next quarter, with confidence indices of 9.5 and -9.8 points for the current and next quarters, respectively (Fig. 8).



Similarly, respondent firms expect the borrowing rate to increase in the current quarter, but rise in the next quarter as the confidence indices stood at 6.3 and -0.2 points, respectively (Fig. 9, Table 1).



ANNEX: TABLES

TABLE 1
BUSINESS EXPECTATIONS SURVEY DATA

Year	2015	2016				2017			
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Overall Business Outlook on the Macroeconomy									
Confidence Index: All Sectors									
Current Quarter	8.3	-10.3	-12.3	-24.1	-29.0	-27.7	-1.5	-2.6	17.7
Next Quarter	52.8	49.7	44.4	35.1	32.2	28.2	47.5	37.2	61.7
2. Business Outlook Index on the Macroeconomy by Sector: Current Quarter									
Industrial Sector	9.0	-10.8	-15.7	-38.7	-32.4	-36.2	-4.4	-12.5	16.2
Construction Sector	-2.9	-10.6	-19.0	-25.0	-29.3	-26.3	-3.7	5.9	12.0
Wholesale and Retail Trade	11.2	-12.0	-11.9	-26.0	-28.7	-24.7	-2.3	0.6	15.6
Services Sector of which:	9.5	-8.6	-7.5	-11.8	-26.6	-24.8	2.1	-1.0	22.1
Financial Intermediation	9.3	-17.2	-12.9	-5.3	-8.3	-20.9	20.9	8.5	49.6
Hotels and Restaurants	7.8	-23.9	-18.2	-18.8	-29.7	-34.6	-13.5	2.9	23.9
Renting and Business Activities	11.8	1.3	-5.0	-9.2	-33.6	-17.0	-2.9	-1.3	0.5
Community and Social Services	9.5	5.1	4.8	-11.6	-30.3	-24.8	6.5	-13.8	24.6
3. Business Outlook Index on the Macroeconomy by Sector: Next Quarter									
Industrial Sector	51.0	44.8	38.0	17.0	26.9	25.6	43.3	36.0	59.6
Construction Sector	43.2	48.2	42.2	39.1	28.3	28.7	42.0	24.8	54.8
Wholesale and Retail Trade	56.6	48.0	44.9	41.6	31.9	28.5	48.5	44.9	62.3
Services Sector of which:	54.5	55.0	49.6	41.9	34.9	31.5	56.4	37.1	64.8
Financial Intermediation	60.5	55.2	51.1	52.6	43.2	23.0	71.2	21.2	78.7
Hotels and Restaurants	47.2	54.3	39.2	33.0	37.8	50.4	66.2	50.6	56.7
Renting and Business Activities	54.2	50.0	57.8	37.4	28.8	29.1	50.0	39.5	63.0
Community and Social Services	57.7	59.9	51.3	47.0	31.7	27.7	45.1	38.8	64.9
4. Business Confidence Index on Own Operations by Sector: Current Quarter									
Industrial Sector	3.4	1.1	-7.0	-24.3	-20.8	-20.5	-7.4	-17.6	1.7
Construction Sector	-8.6	-8.0	-9.0	-13.3	-21.4	-21.5	2.4	-7.9	-10.1
Wholesale and Retail Trade	6.6	0.0	-6.0	-15.6	-21.1	-14.8	1.2	-4.8	5.6
Services Sector	7.4	4.1	1.5	-3.1	-11.4	-13.6	3.1	-1.6	5.0
5. Business Outlook Index on Own Operations : Current Quarter									
Volume of Business Activity Index	11.2	-0.2	-3.8	-16.8	-17.4	-17.6	-0.2	-6.2	9.5
Volume of Total Order Book Index	11.0	2.1	-3.8	-15.2	-18.5	-18.4	-1.4	-5.6	8.5
Credit Access Index	-0.9	-3.2	-8.6	-15.2	-21.6	-19.1	-9.9	-12.5	-29.2
Financial Condition Index	4.1	0.5	-4.1	-13.0	-17.6	-16.6	-0.3	-7.3	2.6
Average Capacity Utilization	10.5	7.4	2.4	-7.8	-8.9	-10.2	3.5	3.1	3.4
6. Business Outlook Index on Own Operations : Next Quarter									
Volume of Business Activity Index	64.4	61.2	57.0	51.1	46.5	41.7	56.8	45.1	67.2
Employment Outlook Index	40.1	36.0	29.9	29.6	23.4	22.8	29.7	27.8	35.7
7. Employment Outlook Index on Own Operations by Sector: Next Quarter									
Industrial Sector	38.1	31.6	25.8	20.2	18.6	19.2	24.8	26.2	32.1
Construction Sector	35.0	33.9	34.3	33.6	19.2	19.8	31.0	20.5	32.7
Wholesale and Retail Trade	43.7	35.7	30.1	31.5	21.9	21.0	30.7	25.9	36.8
Services Sector	40.6	40.1	30.8	33.5	29.5	27.5	32.1	32.7	38.2
8. Business with Expansion Plans (in per cent): Next Quarter									
Industrial Sector	62.2	57.1	56.0	46.2	55.3	56.2	50.6	54.5	23.3
Construction Sector	60.5	61.7	64.6	57.4	58.3	58.6	57.4	50.0	34.5
Wholesale and Retail Trade	69.6	63.7	64.2	54.9	61.0	60.8	58.7	62.7	47.3
Services Sector of which:	68.2	66.6	64.4	59.2	56.5	60.5	58.5	62.7	48.4
Financial Intermediation	60.5	67.2	63.0	58.6	58.8	70.4	63.0	66.3	53.8
Hotels and Restaurants	66.7	62.5	60.2	56.0	55.7	51.4	52.4	60.9	30.3
Renting and Business Activities	72.5	66.9	69.6	67.3	55.5	61.5	57.9	60.5	57.7
Community and Social Services	71.4	70.1	65.1	56.1	56.4	59.0	61.1	62.8	52.4

TABLE 1 (Continued)
BUSINESS EXPECTATIONS SURVEY DATA

Year	2015	2016				2017			
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
9. Business Constraints: Current Quarter									
High Interest Rate	46.9	47.1	45.8	51.0	53.8	50.1	53.6	45.0	58.6
Unclear Economic Laws	31.6	33.4	36.2	39.6	43.5	38.6	40.7	34.6	42.7
Lack of Equipment	15.5	20.6	25.2	24.5	26.3	27.2	29.1	20.6	27.9
Insufficient Demand	25.6	31.4	34.8	40.2	36.5	33.8	35.4	31.6	42.6
Access to Credit	32.8	31.5	38.2	36.4	37.3	36.6	40.0	35.4	39.8
Financial Problems	46.9	48.3	54.3	58.2	55.6	52.7	58.0	51.7	56.8
Competition	39.4	42.0	39.4	41.3	44.1	35.0	41.6	37.7	41.0
Labor Problems	4.6	5.1	6.2	6.5	14.9	8.7	8.8	4.3	2.8
Lack of Materials Input	6.7	17.4	23.3	21.2	29.5	23.8	25.5	21.4	20.4
Unfavourable Political Climate	27.6	28.1	36.3	36.9	38.5	36.0	40.5	34.6	33.4
Unfavourable Economic Climate	37.5	39.4	51.0	51.4	52.7	48.0	52.5	45.1	46.1
Insufficient Power Supply	53.7	55.9	68.7	69.1	62.4	62.7	66.9	54.7	62.6
10. Business Expectation Index on Selected Economic Indicators: Current Quarter									
N/\$ Exchange Rate	8.3	-19.2	-8.5	-26.1	-24.6	-21.1	3.4	-1.7	1.1
Inflation Rate	10.4	22.5	22.0	29.2	25.9	21.2	12.4	6.1	9.5
Borrowing Rate	3.6	11.6	6.2	19.5	9.4	7.6	8.6	-2.1	6.3
11. Business Expectation Index on Selected Economic Indicators: Next Quarter									
N/\$ Exchange Rate	18.9	3.5	6.3	0.4	-0.9	-4.6	18.4	19.4	39.2
Inflation Rate	0.2	6.9	-0.9	2.5	2.0	6.4	-6.4	-15.2	-9.8
Borrowing Rate	-5.3	8.2	-1.4	4.8	8.4	4.0	-0.7	0.6	-0.2
12. Business Outlook index on the Macroeconomy by Type of Business: Current Quarter									
Importer	2.4	-13.1	-20.3	-40.7	-28.4	-29.7	-11.6	-7.2	19.4
Exporter	21.8	-18.8	4.5	0.0	-12.8	-31.5	31.4	-3.0	41.2
Both Importer and Exporter	7.2	-26.2	-20.4	-37.9	-35.8	-42.2	-1.2	11.8	26.0
Neither Importer nor exporter	9.1	-7.7	-10.1	-19.5	-28.8	-25.6	-0.2	-3.3	15.4
13. Business Outlook index on the Macroeconomy by Type of Business: Next Quarter									
Importer	50.3	46.1	38.2	28.3	16.4	6.4	32.0	23.7	63.3
Exporter	61.8	25.0	61.4	54.1	28.2	-5.6	34.3	15.2	55.9
Both Importer and Exporter	57.2	38.4	42.2	29.3	39.7	9.7	48.8	48.9	64.1
Neither Importer nor exporter	52.4	52.3	45.6	36.9	33.1	36.4	50.9	40.3	61.0
14. Business Outlook index on the Macroeconomy by Size of Business: Current Quarter									
Small (<50)	8.2	-11.4	-12.7	-24.3	-29.1	-30.0	-4.0	-5.6	14.5
Medium (50 and <200)	12.2	-6.8	-9.8	-18.5	-30.1	-12.6	9.7	11.1	27.0
Large (200 and Up)	-0.9	-6.7	-13.3	-35.8	-23.0	-36.2	7.9	0.0	37.1
15. Business Outlook index on the Macroeconomy by Size of Business: Next Quarter									
Small (<50)	52.2	52.0	43.0	35.7	30.8	29.8	47.3	41.3	60.1
Medium (50 and <200)	60.7	42.6	50.3	34.1	32.6	42.5	47.2	38.2	67.0
Large (200 and Up)	41.2	41.0	50.0	30.3	34.5	-16.8	50.5	1.1	70.5
16. Percentage Distribution of Respondent Firms by Type of Business									
Importer	15.8	15.1	17.0	15.4	13.8	16.3	15.7	20.8	19.2
Exporter	2.9	1.7	2.3	1.9	2.0	2.8	1.8	1.7	1.8
Both Importer and Exporter	8.8	8.8	7.6	9.0	7.8	7.9	8.7	9.6	10.1
Neither Importer nor exporter	72.5	74.4	73.2	73.7	76.4	73.0	73.7	67.8	68.9
17. Percentage Distribution of Respondent Firms by Employment Size									
Small (<50)	79.6	76.4	80.6	79.5	81.3	76.3	80.7	75.9	79.5
Medium (50 and <200)	14.4	17.9	14.7	14.8	14.2	16.0	14.0	14.9	15.0
Large (200 and Up)	6.1	5.6	4.6	5.6	4.5	7.7	5.2	9.1	5.5
No Response	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

TABLE 1 (Continued)
BUSINESS EXPECTATIONS SURVEY DATA

Year	2015	2016				2017			
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
18. Distribution of Respondent Firms by Sector									
Sample Size (N)	1900	1900	1950	1950	1950	1950	1950	1950	1950
Response Rate(%)	98.8	98.5	99.5	99.1	99.5	99.5	98.8	98.9	97.6
All Sectors	1878	1872	1941	1933	1940	1940	1927	1929	1903
Industrial Sector	465	446	484	489	472	469	517	489	470
Construction Sector	243	274	268	256	276	247	245	254	217
Wholesale and Retail Trade	519	499	519	503	508	515	485	483	518
Services Sector of which:	<u>651</u>	<u>653</u>	<u>670</u>	<u>685</u>	<u>684</u>	<u>709</u>	<u>680</u>	<u>703</u>	698
Financial Intermediation	129	134	139	133	132	187	139	189	127
Hotels and Restaurants	180	184	181	191	185	185	185	174	180
Renting and Business Activities	153	157	161	163	146	135	140	152	200
Community and Social Services	189	178	189	198	221	202	216	188	191
19. Business Outlook Index on the Macroeconomy by Sector Contribution: Current Quarter									
Industrial Sector	2.2	-2.6	-3.9	-9.8	-7.9	-8.8	-1.2	-3.2	4.0
Construction Sector	-0.4	-1.5	-2.6	-3.3	-4.2	-3.4	-0.5	0.8	1.4
Wholesale and Retail Trade	3.1	-3.2	-3.2	-6.8	-7.5	-6.5	-0.6	0.2	4.3
Services Sector	3.3	-3.0	-2.6	-4.2	-9.4	-9.1	0.7	-0.4	8.1
	8.3	-10.3	-12.3	-24.1	-29.0	-27.7	-1.5	-2.6	17.7
20. Business Outlook Index on the Macroeconomy by Sector Contribution: Next Quarter									
Industrial Sector	12.6	10.7	9.5	4.3	6.5	6.2	11.6	9.1	14.7
Construction Sector	5.6	7.1	5.8	5.2	4.0	3.7	5.3	3.3	6.3
Wholesale and Retail Trade	15.7	12.8	12.0	10.8	8.4	7.6	12.2	11.2	17.0
Services Sector	18.9	19.2	17.1	14.8	12.3	11.5	19.9	13.5	23.8
	52.8	49.7	44.4	35.1	31.2	28.9	49.1	37.2	61.7
21. Business Confidence Index on Own Operations by Sector: Current Quarter									
Industrial Sector	0.9	0.3	-1.8	-6.2	-5.1	-4.9	-2.0	-4.5	0.4
Construction Sector	-1.1	-1.2	-1.2	-1.8	-3.0	-2.7	0.3	-1.0	-1.2
Wholesale and Retail Trade	1.8	0.0	-1.6	-4.1	-5.5	-3.9	0.3	-1.2	1.5
Services Sector	2.6	1.4	0.5	-1.1	-4.0	-5.0	1.1	-0.6	1.8
	4.1	0.5	-4.1	-13.1	-17.6	-16.6	-0.3	-7.3	2.6
22. Employment Outlook Index on Own Operations by Sector: Next Quarter									
Industrial Sector	9.4	7.5	6.4	5.1	4.5	4.6	6.6	6.6	7.9
Construction Sector	4.5	5.0	4.7	4.4	2.7	2.5	3.9	2.7	3.7
Wholesale and Retail Trade	12.1	9.5	8.0	8.2	5.7	5.6	7.7	6.5	10.0
Services Sector	14.1	14.0	10.6	11.9	10.4	10.1	11.3	11.9	14.0
Employment Outlook Index	40.1	36.0	29.8	29.7	23.4	22.8	29.6	27.7	35.7
23. Drivers of macroeconomic Outlook by type of business: Current Quarter									
Importer	0.4	-2.0	-3.5	-6.3	-3.9	-4.8	-1.8	-1.5	3.7
Exporter	0.6	-0.3	0.1	0.0	-0.3	-0.9	0.6	-0.1	0.7
Both Importer and Exporter	0.6	-2.3	-1.5	-3.4	-2.8	-3.4	-0.1	1.1	2.6
Neither Importer nor exporter	6.6	-5.7	-7.4	-14.3	-22.0	-18.7	-0.2	-2.2	10.6
Macroeconomic Outlook Index	8.3	-10.3	-12.3	-24.0	-29.0	-27.7	-1.5	-2.6	17.7
24. Drivers of macroeconomic Outlook by type of business: Next Quarter									
Importer	7.9	7.0	6.5	4.3	2.3	1.0	5.0	4.9	12.2
Exporter	1.8	0.4	1.4	1.0	0.6	-0.2	0.6	0.3	1.0
Both Importer and Exporter	5.1	3.4	3.2	2.6	3.1	0.8	4.3	4.7	6.5
Neither Importer nor exporter	38.0	38.9	33.3	27.2	25.3	26.5	37.5	27.3	42.0
Macroeconomic Outlook Index: Next Quarter	52.8	49.7	44.4	35.2	31.2	28.2	47.5	37.2	61.7
25. Drivers of macroeconomic Outlook by Size of Business: Current Quarter									
Small (<50)	6.5	-8.7	-10.3	-19.3	-23.7	-22.9	-3.2	-4.3	11.5
Medium (50 and <200)	1.8	-1.2	-1.4	-2.7	-4.3	-2.0	1.4	1.7	4.1
Large (200 and Up)	-0.1	-0.4	-0.6	-2.0	-1.0	-2.8	0.4	0.0	2.1
Macroeconomic Outlook Index: Current Quarter	8.3	-10.3	-12.3	-24.1	-29.0	-27.7	-1.4	-2.6	17.6
26. Percentage Distribution of Respondent Firms by Sector									
Industrial Sector	24.8	23.8	24.9	25.3	24.3	24.2	26.8	25.3	24.7
Construction Sector	12.9	14.6	13.8	13.2	14.2	12.7	12.7	13.2	11.4
Wholesale and Retail Trade	27.6	26.7	26.7	26.0	26.2	26.5	25.2	25.0	27.2
Services Sector	34.7	34.9	34.5	35.4	35.3	36.5	35.3	36.4	36.7