

Central Bank of Nigeria



Business Expectations Survey Report

Q₃ 2017

Statistics Department

September 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 Q₃ 2017, when compared with the level recorded in the corresponding quarter of 2016.
- Respondents' outlook on the volume of total order, access to credit, 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, financial problems, unfavourable economic climate, high interest rate, competition, access to credit, unclear economic laws and unfavourable political climate as the major constraints to their business activities in Q₃ 2017.
- Respondent firms expect the Naira to depreciate in the current quarter but appreciate in the next quarter. Inflation rate was expected to rise in the current quarter but fall in the next quarter, while borrowing rate was expected to decline in the current quarter but moderately rise in the next quarter.

2.0 Introduction

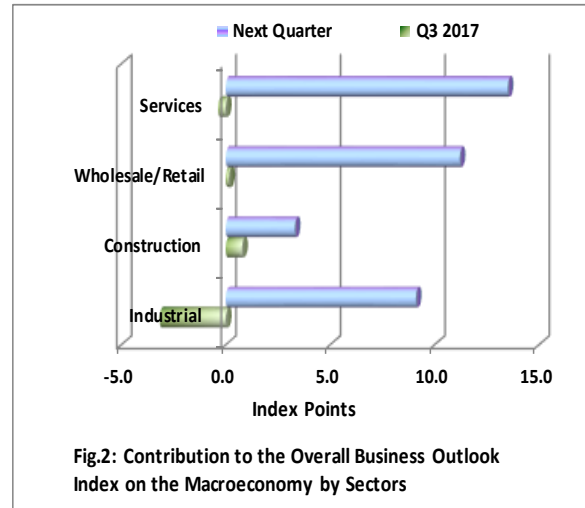
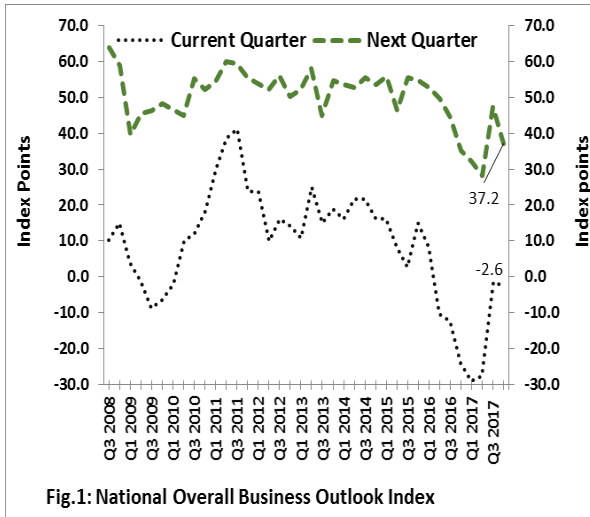
The Q₃ 2017 Business Expectations Survey (BES) was carried out during the period August 21 to September 01, 2017 with a sample size of 1,950 businesses nationwide. A response rate of 98.9 per cent was achieved during the reporting quarter, and covered were services, industry, wholesale/retail trade and 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 -2.6 index points, respondents' overall confidence index (CI) on the macro economy in Q₃ 2017 improved, when compared with the level of -24.1 index points recorded in Q₃ 2016. This was driven by the opinion of respondents from construction (0.8 points) and wholesale/retail trade (0.2 points) sectors (Fig. 1).

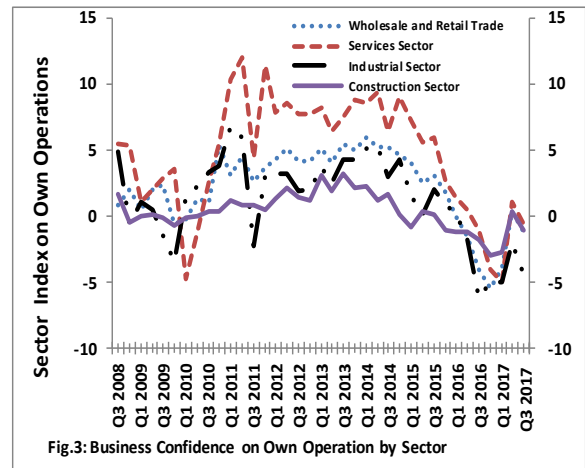
The outlook of businesses for the next quarter however, indicated greater confidence on the macro economy at 37.2 points. The drivers for this optimism were services (13.5 points), wholesale/retail trade (11.2 points), industrial (9.1 points) and construction (3.3 points) sectors (Fig. 2).

Furthermore, the positive outlook by type of business in the next quarter was driven by businesses that are neither import- nor export-oriented (27.3 per cent), import-oriented businesses (4.9 per cent), both import- and export-oriented businesses (4.7) and export-related businesses (0.3 per cent) (Table 1).



3.1 Business Confidence on Own Operations by Sector

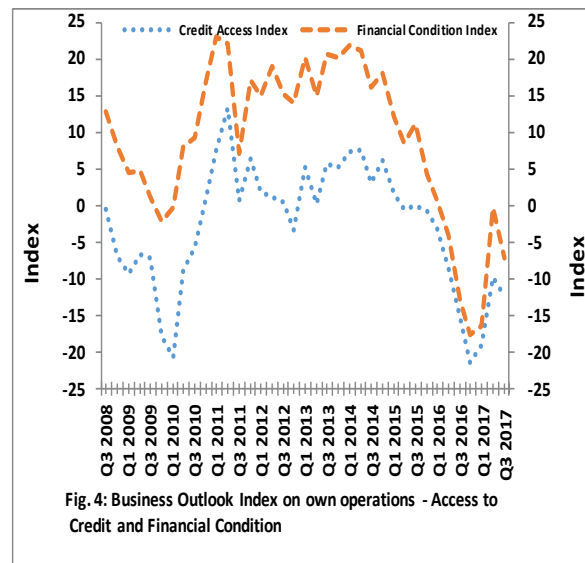
Respondents from industrial, construction, wholesale & retail trade and services sectors expressed more optimism on own operations in the current quarter with indices of -4.5, -1.0, -1.2 and -0.6, respectively, when compared with -6.2, -1.8, -4.1 and -1.1 in the corresponding quarter of 2016, respectively (Fig 3, Table 1).



3.2 Financial Condition and Access to Credit

Respondents' outlook on the volume of total order, access to credit, business activity and internal liquidity positions (financial conditions) with indices of -5.6, -12.5, -6.2, and -7.3 in the review quarter improved in relation to -15.2, -15.2, -16.8, and -13.0 respectively of the corresponding quarter of 2016 (Table 1).

These developments led to improvement in the average capacity utilization index (CUI) by 10.9 points in Q₃ 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 (45.1 index points) and employment index (27.8 index points) indicated a favourable outlook in the next quarter. The employment outlook index by sector showed that the services sector (32.7 per cent) indicates higher prospects for creating jobs, followed by industrial (26.2 per cent), wholesale/retail trade (25.9 per cent) and construction (20.5 per cent) sectors.

An analysis of businesses by sector with expansion plans in the next quarter showed that the wholesale/retail trade and services sectors indicate disposition for expansion with an index of 62.7 points. Similarly, industrial and construction sector firms registered expansion plans for Q₃ 2017 with indices of 54.5 and 50.0 points, respectively (Fig. 5, Table 1)

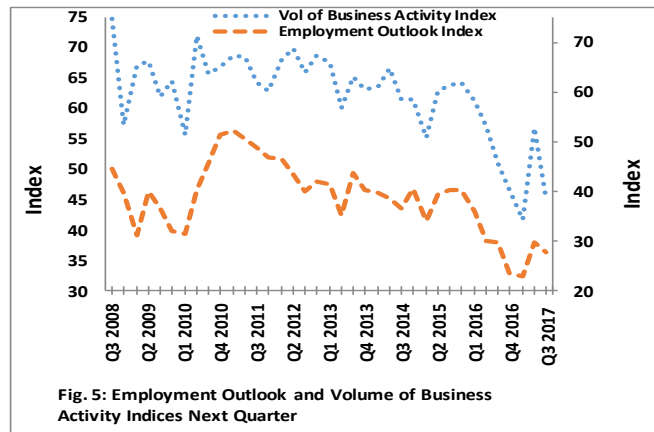


Fig. 5: Employment Outlook and Volume of Business Activity Indices Next Quarter

3.4 Business Constraints

The surveyed firms identified insufficient power supply (54.7 per cent), financial problems (51.7 per cent), financial problems (51.7 per cent), unfavourable economic climate (45.1 per cent), high interest rate (45.0 per cent), competition (37.7 per cent), access to credit (35.4 per cent), unclear economic laws and unfavourable political climate (34.6 per cent) as the major factors constraining business activity in the current quarter (Fig. 6, Table 1).

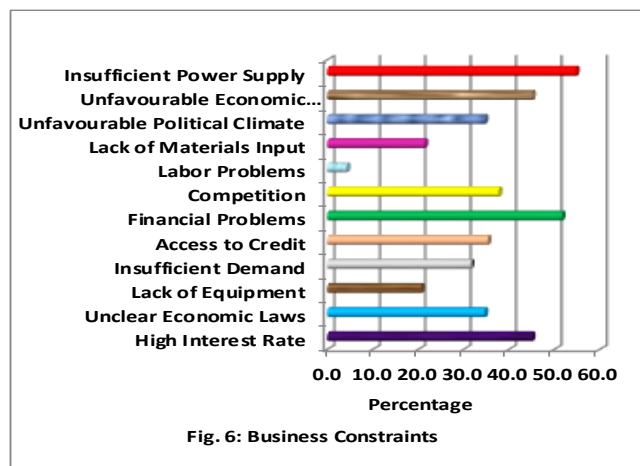


Fig. 6: Business Constraints

3.5 Expectations on Exchange Rate

Majority of the respondent firms expect the naira to depreciate in the current quarter, but appreciate in the next quarter, as the confidence indices stood at -1.7 and 19.4 points, respectively (Fig. 7, Table 1).

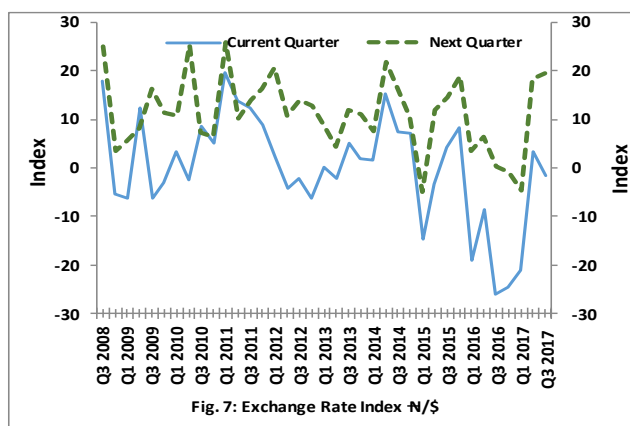
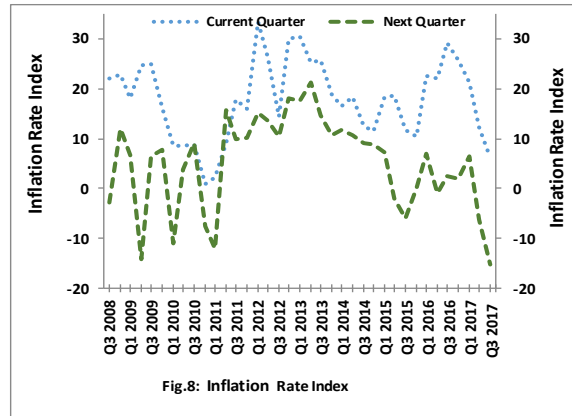


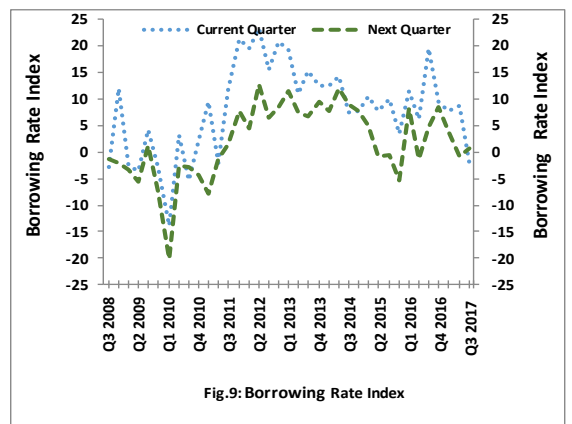
Fig. 7: Exchange Rate Index N/\$

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 6.1 and -15.2 points for the current and next quarters, respectively (Fig. 8).



Similarly, respondent firms expect the borrowing rate to decline in the current quarter, but rise moderately in the next quarter as the confidence indices stood at -2.1 and 0.6 points, respectively (Fig. 9, Table 1).



ANNEX: TABLES

TABLE 1
BUSINESS EXPECTATIONS SURVEY DATA

Year	2015		2016				2017		
Quarter	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Overall Business Outlook on the Macroeconomy									
Confidence Index: All Sectors									
Current Quarter	14.9	8.3	-10.3	-12.3	-24.1	-29.0	-27.7	-1.5	-2.6
Next Quarter	54.6	52.8	49.7	44.4	35.1	32.2	28.2	47.5	37.2
2. Business Outlook Index on the Macroeconomy by Sector: Current Quarter									
Industrial Sector	11.8	9.0	-10.8	-15.7	-38.7	-32.4	-36.2	-4.4	-12.5
Construction Sector	5.6	-2.9	-10.6	-19.0	-25.0	-29.3	-26.3	-3.7	5.9
Wholesale and Retail Trade	10.6	11.2	-12.0	-11.9	-26.0	-28.7	-24.7	-2.3	0.6
Services Sector of which:	23.2	9.5	-8.6	-7.5	-11.8	-26.6	-24.8	2.1	-1.0
Financial Intermediation	45.1	9.3	-17.2	-12.9	-5.3	-8.3	-20.9	20.9	8.5
Hotels and Restaurants	8.5	7.8	-23.9	-18.2	-18.8	-29.7	-34.6	-13.5	2.9
Renting and Business Activities	24.3	11.8	1.3	-5.0	-9.2	-33.6	-17.0	-2.9	-1.3
Community and Social Services	15.5	9.5	5.1	4.8	-11.6	-30.3	-24.8	6.5	-13.8
3. Business Outlook Index on the Macroeconomy by Sector: Next Quarter									
Industrial Sector	54.9	51.0	44.8	38.0	17.0	26.9	25.6	43.3	36.0
Construction Sector	53.6	43.2	48.2	42.2	39.1	28.3	28.7	42.0	24.8
Wholesale and Retail Trade	47.4	56.6	48.0	44.9	41.6	31.9	28.5	48.5	44.9
Services Sector of which:	60.2	54.5	55.0	49.6	41.9	34.9	31.5	56.4	37.1
Financial Intermediation	54.9	60.5	55.2	51.1	52.6	43.2	23.0	71.2	21.2
Hotels and Restaurants	61.6	47.2	54.3	39.2	33.0	37.8	50.4	66.2	50.6
Renting and Business Activities	66.2	54.2	50.0	57.8	37.4	28.8	29.1	50.0	39.5
Community and Social Services	59.1	57.7	59.9	51.3	47.0	31.7	27.7	45.1	38.8
4. Business Confidence Index on Own Operations by Sector: Current Quarter									
Industrial Sector	8.1	3.4	1.1	-7.0	-24.3	-20.8	-20.5	-7.4	-17.6
Construction Sector	0.4	-8.6	-8.0	-9.0	-13.3	-21.4	-21.5	2.4	-7.9
Wholesale and Retail Trade	11.9	6.6	0.0	-6.0	-15.6	-21.1	-14.8	1.2	-4.8
Services Sector	16.2	7.4	4.1	1.5	-3.1	-11.4	-13.6	3.1	-1.6
5. Business Outlook Index on Own Operations : Current Quarter									
Volume of Business Activity Index	13.9	11.2	-0.2	-3.8	-16.8	-17.4	-17.6	-0.2	-6.2
Volume of Total Order Book Index	14.4	11.0	2.1	-3.8	-15.2	-18.5	-18.4	-1.4	-5.6
Credit Access Index	-0.1	-0.9	-3.2	-8.6	-15.2	-21.6	-19.1	-9.9	-12.5
Financial Condition Index	11.0	4.1	0.5	-4.1	-13.0	-17.6	-16.6	-0.3	-7.3
Average Capacity Utilization	18.1	10.5	7.4	2.4	-7.8	-8.9	-10.2	3.5	3.1
6. Business Outlook Index on Own Operations : Next Quarter									
Volume of Business Activity Index	63.9	64.4	61.2	57.0	51.1	46.5	41.7	56.8	45.1
Employment Outlook Index	40.1	40.1	36.0	29.9	29.6	23.4	22.8	29.7	27.8
7. Employment Outlook Index on Own Operations by Sector: Next Quarter									
Industrial Sector	35.0	38.1	31.6	25.8	20.2	18.6	19.2	24.8	26.2
Construction Sector	42.9	35.0	33.9	34.3	33.6	19.2	19.8	31.0	20.5
Wholesale and Retail Trade	38.2	43.7	35.7	30.1	31.5	21.9	21.0	30.7	25.9
Services Sector	44.0	40.6	40.1	30.8	33.5	29.5	27.5	32.1	32.7
8. Business with Expansion Plans (in per cent): Next Quarter									
Industrial Sector	59.8	62.2	57.1	56.0	46.2	55.3	56.2	50.6	54.5
Construction Sector	65.4	60.5	61.7	64.6	57.4	58.3	58.6	57.4	50.0
Wholesale and Retail Trade	66.7	69.6	63.7	64.2	54.9	61.0	60.8	58.7	62.7
Services Sector of which:	62.5	68.2	66.6	64.4	59.2	56.5	60.5	58.5	62.7
Financial Intermediation	60.1	60.5	67.2	63.0	58.6	58.8	70.4	63.0	66.3
Hotels and Restaurants	60.4	66.7	62.5	60.2	56.0	55.7	51.4	52.4	60.9
Renting and Business Activities	64.4	72.5	66.9	69.6	67.3	55.5	61.5	57.9	60.5
Community and Social Services	64.9	71.4	70.1	65.1	56.1	56.4	59.0	61.1	62.8

TABLE 1 (Continued)
BUSINESS EXPECTATIONS SURVEY DATA

Year	2015		2016				2017		
Quarter	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
9. Business Constraints: Current Quarter									
High Interest Rate	42.2	46.9	47.1	45.8	51.0	53.8	50.1	53.6	45.0
Unclear Economic Laws	28.6	31.6	33.4	36.2	39.6	43.5	38.6	40.7	34.6
Lack of Equipment	16.5	15.5	20.6	25.2	24.5	26.3	27.2	29.1	20.6
Insufficient Demand	22.9	25.6	31.4	34.8	40.2	36.5	33.8	35.4	31.6
Access to Credit	29.4	32.8	31.5	38.2	36.4	37.3	36.6	40.0	35.4
Financial Problems	42.2	46.9	48.3	54.3	58.2	55.6	52.7	58.0	51.7
Competition	34.8	39.4	42.0	39.4	41.3	44.1	35.0	41.6	37.7
Labor Problems	2.6	4.6	5.1	6.2	6.5	14.9	8.7	8.8	4.3
Lack of Materials Input	10.3	6.7	17.4	23.3	21.2	29.5	23.8	25.5	21.4
Unfavourable Political Climate	29.7	27.6	28.1	36.3	36.9	38.5	36.0	40.5	34.6
Unfavourable Economic Climate	39.1	37.5	39.4	51.0	51.4	52.7	48.0	52.5	45.1
Insufficient Power Supply	61.8	53.7	55.9	68.7	69.1	62.4	62.7	66.9	54.7
10. Business Expectation Index on Selected Economic Indicators: Current Quarter									
N/\$ Exchange Rate	4.1	8.3	-19.2	-8.5	-26.1	-24.6	-21.1	3.4	-1.7
Inflation Rate	11.8	10.4	22.5	22.0	29.2	25.9	21.2	12.4	6.1
Borrowing Rate	10.1	3.6	11.6	6.2	19.5	9.4	7.6	8.6	-2.1
11. Business Expectation Index on Selected Economic Indicators: Next Quarter									
N/\$ Exchange Rate	14.6	18.9	3.5	6.3	0.4	-0.9	-4.6	18.4	19.4
Inflation Rate	-5.9	0.2	6.9	-0.9	2.5	2.0	6.4	-6.4	-15.2
Borrowing Rate	-0.6	-5.3	8.2	-1.4	4.8	8.4	4.0	-0.7	0.6
12. Business Outlook index on the Macroeconomy by Type of Business: Current Quarter									
Importer	15.0	2.4	-13.1	-20.3	-40.7	-28.4	-29.7	-11.6	-7.2
Exporter	4.7	21.8	-18.8	4.5	0.0	-12.8	-31.5	31.4	-3.0
Both Importer and Exporter	7.4	7.2	-26.2	-20.4	-37.9	-35.8	-42.2	-1.2	11.8
Neither Importer nor exporter	16.1	9.1	-7.7	-10.1	-19.5	-28.8	-25.6	-0.2	-3.3
13. Business Outlook index on the Macroeconomy by Type of Business: Next Quarter									
Importer	42.9	50.3	46.1	38.2	28.3	16.4	6.4	32.0	23.7
Exporter	44.2	61.8	25.0	61.4	54.1	28.2	-5.6	34.3	15.2
Both Importer and Exporter	49.7	57.2	38.4	42.2	29.3	39.7	9.7	48.8	48.9
Neither Importer nor exporter	58.3	52.4	52.3	45.6	36.9	33.1	36.4	50.9	40.3
14. Business Outlook index on the Macroeconomy by Size of Business: Current Quarter									
Small (<50)	15.6	8.2	-11.4	-12.7	-24.3	-29.1	-30.0	-4.0	-5.6
Medium (50 and <200)	16.3	12.2	-6.8	-9.8	-18.5	-30.1	-12.6	9.7	11.1
Large (200 and Up)	2.9	-0.9	-6.7	-13.3	-35.8	-23.0	-36.2	7.9	0.0
15. Business Outlook index on the Macroeconomy by Size of Business: Next Quarter									
Small (<50)	55.4	52.2	52.0	43.0	35.7	30.8	29.8	47.3	41.3
Medium (50 and <200)	56.5	60.7	42.6	50.3	34.1	32.6	42.5	47.2	38.2
Large (200 and Up)	37.9	41.2	41.0	50.0	30.3	34.5	-16.8	50.5	1.1
16. Percentage Distribution of Respondent Firms by Type of Business									
Importer	17.5	15.8	15.1	17.0	15.4	13.8	16.3	15.7	20.8
Exporter	2.3	2.9	1.7	2.3	1.9	2.0	2.8	1.8	1.7
Both Importer and Exporter	8.0	8.8	8.8	7.6	9.0	7.8	7.9	8.7	9.6
Neither Importer nor exporter	72.2	72.5	74.4	73.2	73.7	76.4	73.0	73.7	67.8
17. Percentage Distribution of Respondent Firms by Employment Size									
Small (<50)	81.6	79.6	76.4	80.6	79.5	81.3	76.3	80.7	75.9
Medium (50 and <200)	12.8	14.4	17.9	14.7	14.8	14.2	16.0	14.0	14.9
Large (200 and Up)	5.5	6.1	5.6	4.6	5.6	4.5	7.7	5.2	9.1
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	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
18. Distribution of Respondent Firms by Sector									
Sample Size (N)	1900	1900	1900	1950	1950	1950	1950	1950	1950
Response Rate(%)	97.8	98.8	98.5	99.5	99.1	99.5	99.5	98.8	98.9
All Sectors	1859	1878	1872	1941	1933	1940	1940	1927	1929
Industrial Sector	457	465	446	484	489	472	469	517	489
Construction Sector	233	243	274	268	256	276	247	245	254
Wholesale and Retail Trade	489	519	499	519	503	508	515	485	483
Services Sector of which:	<u>680</u>	<u>651</u>	<u>653</u>	<u>670</u>	<u>685</u>	<u>684</u>	<u>709</u>	<u>680</u>	<u>703</u>
Financial Intermediation	173	129	134	139	133	132	187	139	189
Hotels and Restaurants	165	180	184	181	191	185	185	185	174
Renting and Business Activities	148	153	157	161	163	146	135	140	152
Community and Social Services	194	189	178	189	198	221	202	216	188
19. Business Outlook Index on the Macroeconomy by Sector Contribution: Current Quarter									
Industrial Sector	2.9	2.2	-2.6	-3.9	-9.8	-7.9	-8.8	-1.2	-3.2
Construction Sector	0.7	-0.4	-1.5	-2.6	-3.3	-4.2	-3.4	-0.5	0.8
Wholesale and Retail Trade	2.8	3.1	-3.2	-3.2	-6.8	-7.5	-6.5	-0.6	0.2
Services Sector	8.5	3.3	-3.0	-2.6	-4.2	-9.4	-9.1	0.7	-0.4
	14.9	8.3	-10.3	-12.3	-24.1	-29.0	-27.7	-1.5	-2.6
20. Business Outlook Index on the Macroeconomy by Sector Contribution: Next Quarter									
Industrial Sector	13.5	12.6	10.7	9.5	4.3	6.5	6.2	11.6	9.1
Construction Sector	6.7	5.6	7.1	5.8	5.2	4.0	3.7	5.3	3.3
Wholesale and Retail Trade	12.5	15.7	12.8	12.0	10.8	8.4	7.6	12.2	11.2
Services Sector	22.0	18.9	19.2	17.1	14.8	12.3	11.5	19.9	13.5
	54.7	52.8	49.7	44.4	35.1	31.2	28.9	49.1	37.2
21. Business Confidence Index on Own Operations by Sector: Current Quarter									
Industrial Sector	2.0	0.9	0.3	-1.8	-6.2	-5.1	-4.9	-2.0	-4.5
Construction Sector	0.1	-1.1	-1.2	-1.2	-1.8	-3.0	-2.7	0.3	-1.0
Wholesale and Retail Trade	3.1	1.8	0.0	-1.6	-4.1	-5.5	-3.9	0.3	-1.2
Services Sector	5.9	2.6	1.4	0.5	-1.1	-4.0	-5.0	1.1	-0.6
	11.1	4.1	0.5	-4.1	-13.1	-17.6	-16.6	-0.3	-7.3
22. Employment Outlook Index on Own Operations by Sector: Next Quarter									
Industrial Sector	8.6	9.4	7.5	6.4	5.1	4.5	4.6	6.6	6.6
Construction Sector	5.4	4.5	5.0	4.7	4.4	2.7	2.5	3.9	2.7
Wholesale and Retail Trade	10.1	12.1	9.5	8.0	8.2	5.7	5.6	7.7	6.5
Services Sector	16.1	14.1	14.0	10.6	11.9	10.4	10.1	11.3	11.9
Employment Outlook Index	40.1	40.1	36.0	29.8	29.7	23.4	22.8	29.6	27.7
23. Drivers of macroeconomic Outlook by type of business: Current Quarter									
Importer	2.6	0.4	-2.0	-3.5	-6.3	-3.9	-4.8	-1.8	-1.5
Exporter	0.1	0.6	-0.3	0.1	0.0	-0.3	-0.9	0.6	-0.1
Both Importer and Exporter	0.6	0.6	-2.3	-1.5	-3.4	-2.8	-3.4	-0.1	1.1
Neither Importer nor exporter	11.6	6.6	-5.7	-7.4	-14.3	-22.0	-18.7	-0.2	-2.2
Macroeconomic Outlook Index	14.9	8.3	-10.3	-12.3	-24.0	-29.0	-27.7	-1.5	-2.6
24. Drivers of macroeconomic Outlook by type of business: Next Quarter									
Importer	7.5	7.9	7.0	6.5	4.3	2.3	1.0	5.0	4.9
Exporter	1.0	1.8	0.4	1.4	1.0	0.6	-0.2	0.6	0.3
Both Importer and Exporter	4.0	5.1	3.4	3.2	2.6	3.1	0.8	4.3	4.7
Neither Importer nor exporter	42.1	38.0	38.9	33.3	27.2	25.3	26.5	37.5	27.3
Macroeconomic Outlook Index: Next Quarter	54.6	52.8	49.7	44.4	35.2	31.2	28.2	47.5	37.2
25. Drivers of macroeconomic Outlook by Size of Business: Current Quarter									
Small (<50)	12.7	6.5	-8.7	-10.3	-19.3	-23.7	-22.9	-3.2	-4.3
Medium (50 and <200)	2.1	1.8	-1.2	-1.4	-2.7	-4.3	-2.0	1.4	1.7
Large (200 and Up)	0.2	-0.1	-0.4	-0.6	-2.0	-1.0	-2.8	0.4	0.0
Macroeconomic Outlook Index: Current Quarter	15.0	8.3	-10.3	-12.3	-24.1	-29.0	-27.7	-1.4	-2.6
26. Percentage Distribution of Respondent Firms by Sector									
Industrial Sector	24.6	24.8	23.8	24.9	25.3	24.3	24.2	26.8	25.3
Construction Sector	12.5	12.9	14.6	13.8	13.2	14.2	12.7	12.7	13.2
Wholesale and Retail Trade	26.3	27.6	26.7	26.7	26.0	26.2	26.5	25.2	25.0
Services Sector	36.6	34.7	34.9	34.5	35.4	35.3	36.5	35.3	36.4