

Nigerian Business Confidence Index (BCI) Q1, 2013

LCCI Business Confidence Index Q1, 2013





Business Confidence Index (BCI) REPORT - Q1 2013

SUMMARY OF NIGERIAN BCI - Q1, 2013

- *The Lagos Chamber of Commerce and Industry (LCCI), is pleased to present the Maiden edition (Q1, 2013) of Business Confidence Index (BCI).*

Highlights

- Using the OECD methodology and integrating the peculiar factors that impact domestic business outcomes in Nigeria, we covered 14 sectors, 37 subsectors and 844 (top business executives) respondents over the period, 15th November to 20th December 2012.
- Aggregate BCI scores show that Business expectation in Nigeria is currently less confident with a weighted score of 10.5%. This is the aggregate of OECD index indicators score and the localised BCI indicators.
- Kindly note that, BCI indicators are designed so that the score fluctuates between -100% and 100%. For Instance, as investment optimism grows, the indicator would increase from 1% to 100% with a similar decline from -1% to -100% if business leaders become more pessimistic.
- We ensured that a Nigerian survey take account of the local context that impact businesses in our model. For now, Nigeria lags far behind the 50% minimum benchmark for high business confidence level.
- The Q1, 2013 BCI outcome shows that business executives in the Hotel, telecoms/IT, oil & gas and finance sectors were positive about future expectations while business executives in the extractive, processing and trade sectors held negative expectations for the ongoing quarter.
- We also discovered that BCI scores fluctuate significantly in line with the age, size and location of firms in Nigeria. For instance, newer companies (1-5years old) and bigger companies (250 - over 1,000 employees and over N500 million turnover per annum) tended to be more optimistic.
- When ask whether they will hire new employees in 2013, 85% of business leaders confirmed that they are considering to either keep their current work force size or slash it down. This suggests that the County's worrisome job market with an official unemployment figure of 23.9% is expected to remain sticky in months to come.



- The business executive (98.5%) who are planning to expand or open new plant/shop (other than in Lagos) in 2013 tend to be looking mainly at the FCT and the Southern cities (PH, Ogun, Ibadan and Aba topped the list). Sadly, no Northern state/city was mentioned among the top 15 alternative investment destinations in 2013.
- Given that the BCI has not been in place in Nigeria before now, it is difficult to say with any certainty which variables are better predictors of economic behaviour than the others at this stage.
- Over the medium term, our plan in LCCI is to employ a time series cross-sectional analysis on all the control variables (weighted aggregate, sectors, firms size, age and company location) to gauge seasonality and business confidence over different political regimes.
- We hope that the LCCI Nigerian BCI initiative will find the interest of sustainable financiers (sponsors) as obtained in most jurisdictions across the world.

Thank you for your interest in LCCI Research.

Vincent Nwani

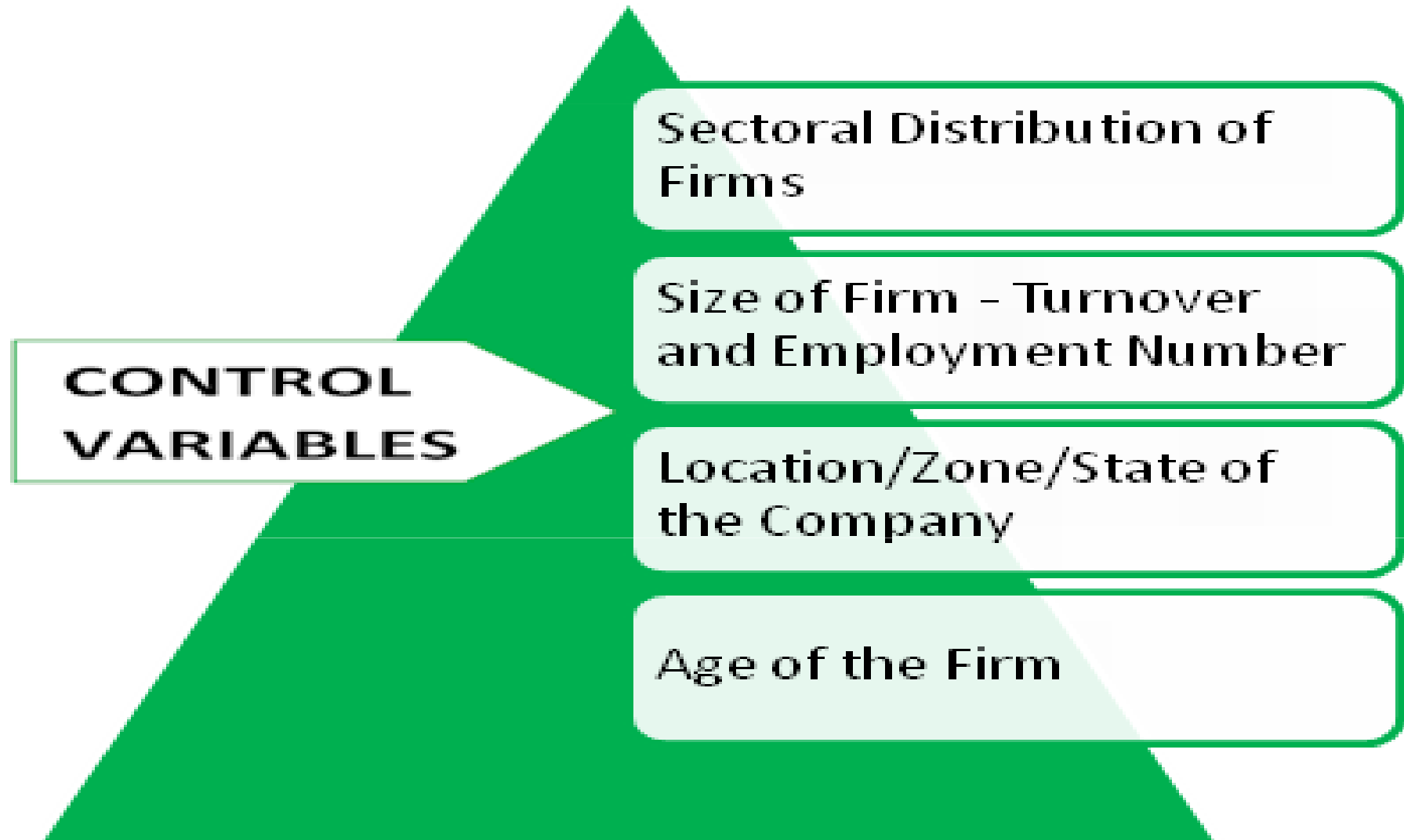
Director, Research and Advocacy

Sample Analysis

Sectors	GDP Contribution	Achieved No: Respondents	% of Total Respondents
Agriculture	45%	64	8%
Oil & Gas	15%	103	12%
Distributive Trade	19%	73	9%
Telecoms / Postal	4%	33	4%
Solid Minerals	0.3%	4	0%
Manufacturing	3%	126	15%
Finance & Insurance	4%	159	19%
Building & Construction	2%	73	9%
Others	7%	195	23%
Hotel & Restaurant	0.1%	15	2%
Total	100%	844	100%

- We achieved a total of 844 respondents in this BCI edition.
- Agriculture, Oil & Gas and Distributive trade (retail and wholesale) contributed most to the economy in 2011.
- While ideally the sample would reflect the sectoral composition of the economy, gathering the responses per sector, this may not be absolutely feasible.
- We used GDP contribution weighting for each sector to balance the sample outcomes.
- The survey covered most sectors sufficiently, though Solid mineral sector in particular is a concern.
- We secured the participation of top Private players across all the sectors in a responsible fashion.

NIGERIAN BCI COVERAGE





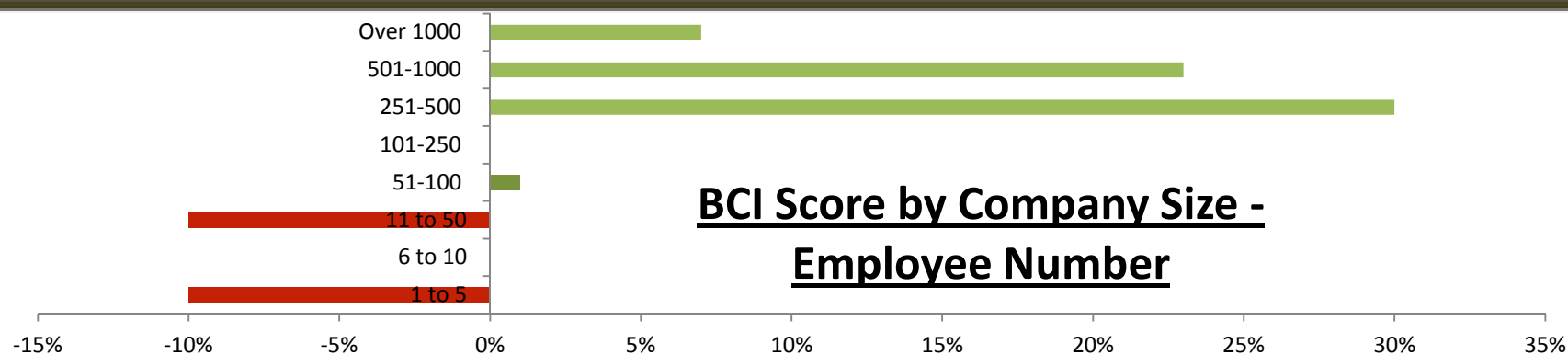
Business Confidence Dash Board	
Assessment	Aggregate Index Range
Significantly Less Confident	-100 to -50
Slightly Less Confident	-50 to -1
No Change	0
Slightly More Confident	1 to 50
Significantly More Confident	50 to 100
Current BCI Score	10.5

- Aggregate BCI scores show that Business expectation in Nigeria is currently less confident with a weighted score of 10.5%.
- This is the mean of OECD index indicators score and the localised BCI indicators. Localised index score (all questions is 1% while OECD index score recorded 20%
- Kindly note that, BCI indicators are designed so that the score fluctuates between -100% and 100%.
- For Instance, as investment optimism grows, the indicator would increase from 1% to 100% with a similar decline from -1% to -100% if business leaders become more pessimistic.
- We ensured that a Nigerian survey take account of the local context that impact businesses in our model.
- For now, Nigeria lags far behind the 50% minimum benchmark for high business confidence level.

Aggregate BCI

Sectors	All questions (Weighted)	OECD Questions (Only)
Hotel & Restaurant	37%	57%
Telecoms / Postal	8%	17%
Oil & Gas	7%	22%
Finance & Insurance	7%	26%
Others	4%	23%
Distributive Trade	-1%	10%
Agriculture	-1%	24%
Building & Construction	-8%	1%
Manufacturing	-11%	3%
Solid Minerals	-15%	0%
Scores	1%	20%
Aggregate Index Score	10.5%	

- Hotel, Telecoms/IT, Oil & Gas and the Finance sector posted positive but slightly less confidence level.
- Firms in the extractive, processing, manufacturing and trade sectors registered negative business expectation for Q1, 2013.
- Hotel/Restaurant sector recorded the highest optimism of with 37% BCI score.

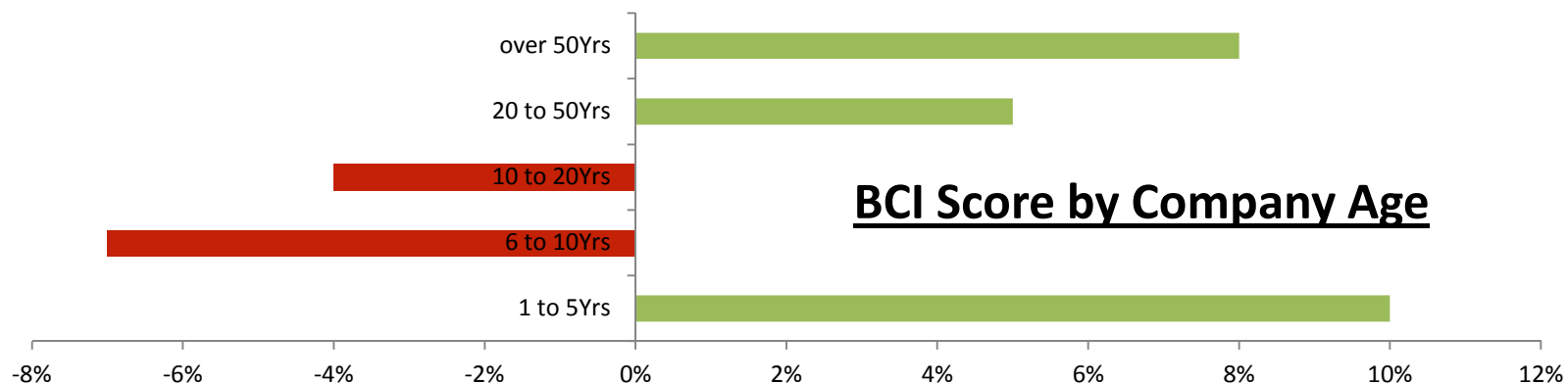


BCI Score by Company Size - Employee Number

- We also discovered that BCI score fluctuate significantly in line with the size of firms in Nigeria.
- For instance, smaller companies (51-over 1,000 employees) tend to have exhibited a higher optimism relative to smaller firms.
- In the same vein, firms that reported sizable annual turnover (N100 million to over N1 billion) posted a positive but insignificant confidence level relative to smaller firms that exhibited pessimism all the way.
- In all, Q1, 2013 doing business expectations for both small and large firms in Nigeria continue to lag behind the high confidence mark of 50%.

Company Size – By No. of Employees	BCI Score
None	-13%
1-5	-10%
6-10	0%
11-50	-10%
51-100	1%
101-250	0%
251-500	30%
501-1000	23%
Over 1000	7%

Company Size – By Turnover	BCI Score
0-N1 million	-22%
N1million – N10million	-11%
N10 million – N50 million	-2%
N50 million – N100 million	-1%
N100 million – N250 million	7%
N250 million – N500 million	13%
N500 million – N1 billion	6%
Over N1 billion	6%



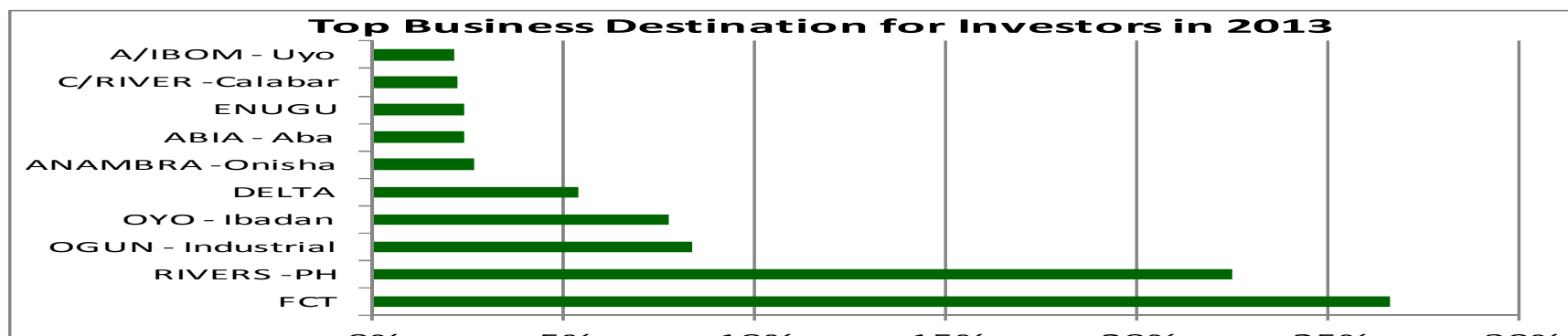
- There is evidence that newer firms (1-5years old) exhibited a surprising 10% rise in confidence relative to 6-20 years old companies with the average of -5% pessimism.
- New comers syndrome, youthful exuberance, illusive political and funding connections may potentially explain the unique optimism found in newer entities.
- However, as firms grow older, it appears that confidence lost during its consolidation years (6-20 years old) tends to resurface though in a modest fashion.

Age of Company		
Company Age	Achieved Sample	BCI Score
1 to 5 yrs	9%	11%
6 to 10 yrs	15%	-7%
10 to 20 yrs	39%	-4%
20 to 50 yrs	35%	5%
over 50 yrs	2%	8%



Alternative Business/Investment Destinations in 2013			
S/N	STATE	No of Responses	% of Total
1 st	FCT	392	27%
2 nd	RIVERS -PH	332	23%
3 rd	OGUN - Industrial	123	8%
4 th	OYO - Ibadan	114	8%
5 th	DELTA	80	5%
6 th	ANAMBRA -Onitsha	39	3%
7 th	ABIA - Aba	35	2%
8 th	ENUGU	35	2%
9 th	C/RIVER -Calabar	33	2%
10 th	A/IBOM - Uyo	32	2%
	Total	1,475	100%

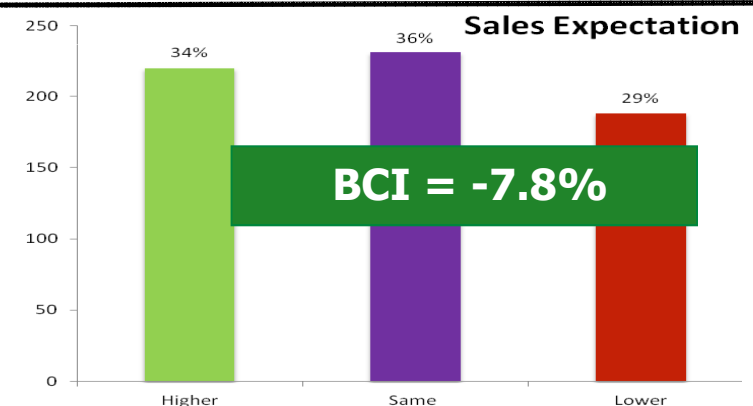
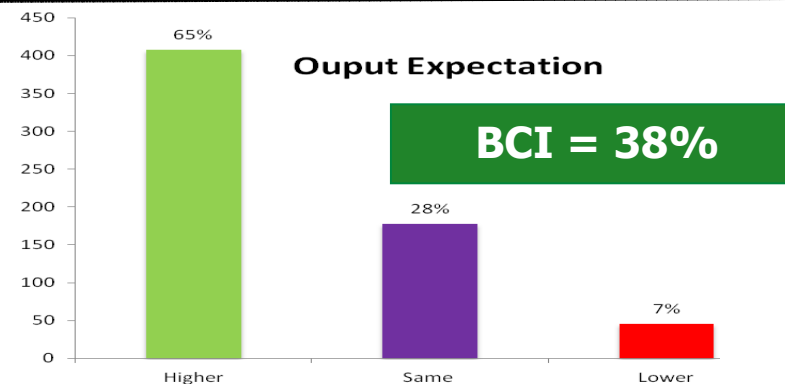
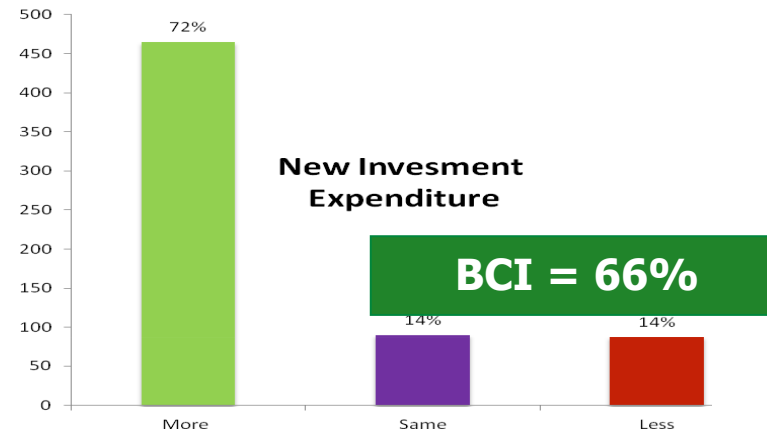
- When asked to state three cities other than Lagos where they will like to site their new investments in 2013, 98.5% opted for cities mainly in the Nation’s Capital and Southern part of the country.
- Abuja and Port Harcourt alone accounted for 50% of alternative business destinations in Nigeria in 2013.
- Sadly, no Northern city made it to the top 15 alternative investment destinations in 2013.





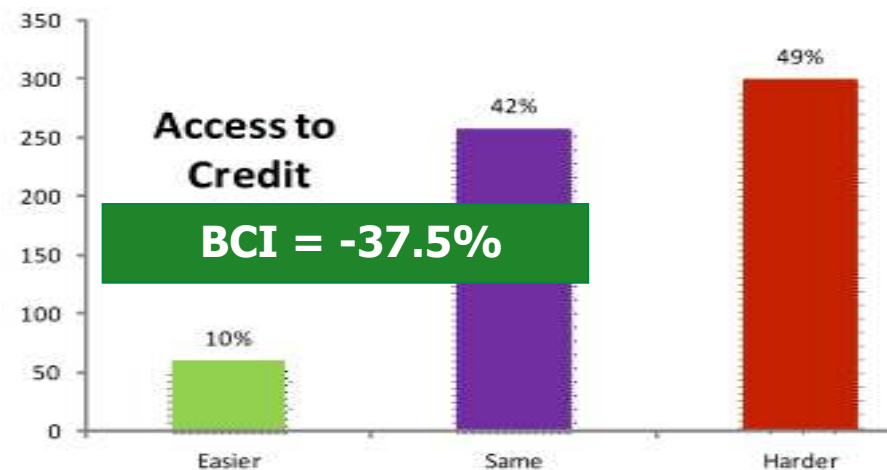
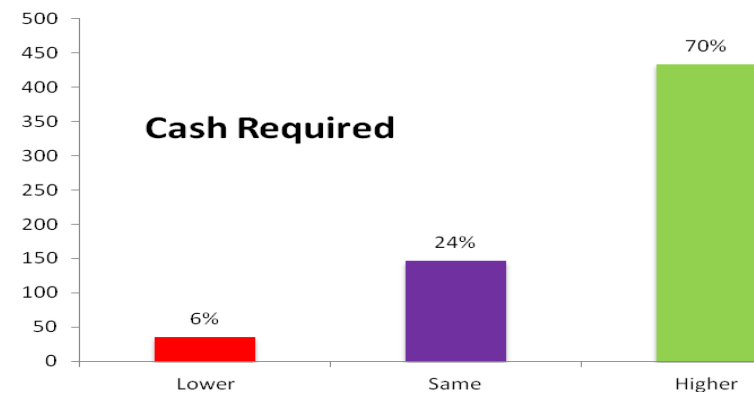
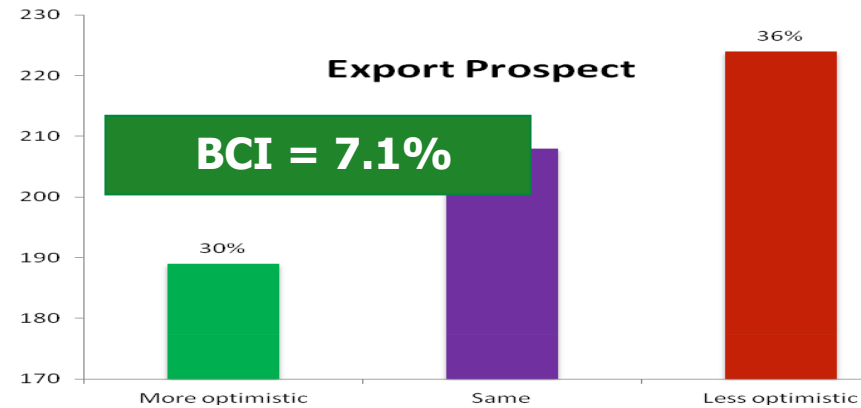
New investment, Output and turnover Expectations

- Interestingly, 72% of top business executives plan to make significant new investment expenditure in Q1, 2013.
- In the same vein, 65% of them are looking to expand production and services within the same period.
- However, their turnover expectation for Q1, 2013 failed to mirror their plan to boost output and investment.
- Sales across all sectors, locations, size and age of firm is expected to remain flat with 36% and 29% of the respondents expecting a flat and lower sales respectively.



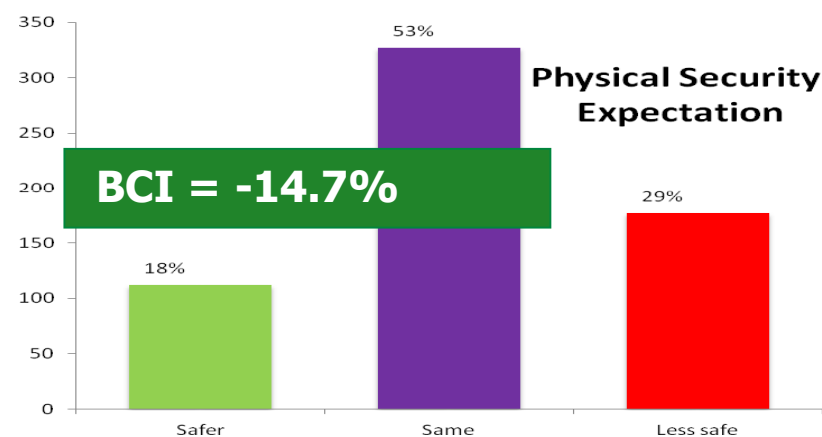
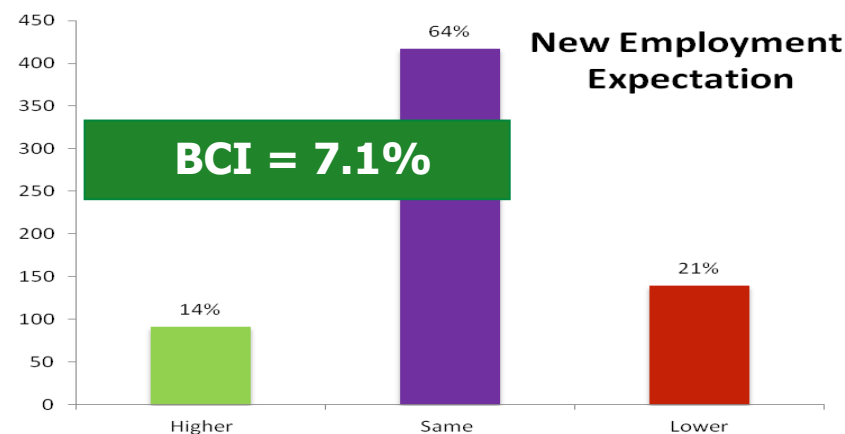
Export Prospects, Cash Requirement & Access to Credit

- There is less optimism towards boosting export prospects across the sectors. 69% of the respondents are neck deep into serving the local market in the months to come.
- We are happy to see that about 30% of business leaders are looking towards the external market in an import dominated economy.
- Finance is hugely required to achieve the expected boost of new investment and output.
- Unfortunately, access to credit remains a clog in the wheel of new investment and productivity across all the sectors.
- 90% of business leaders expect access to credit to either remain tight at its 2012 level or even tighter in 2013.
- This is “bad news” to all the stakeholders in the Nigerian private sector.



Employment and Security Expectation

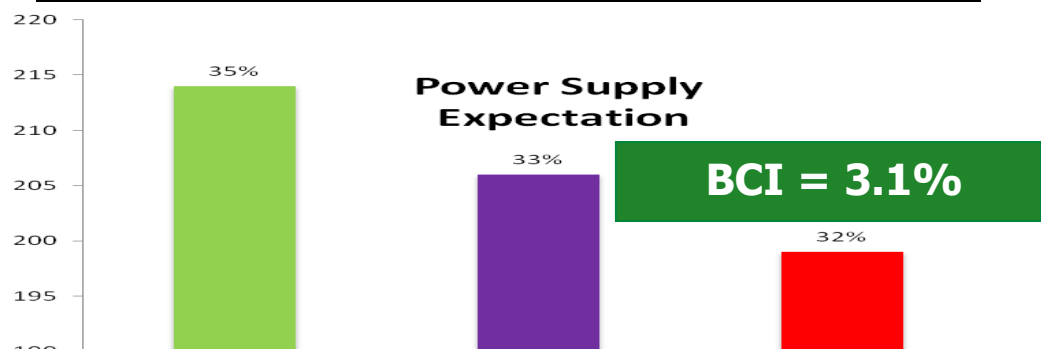
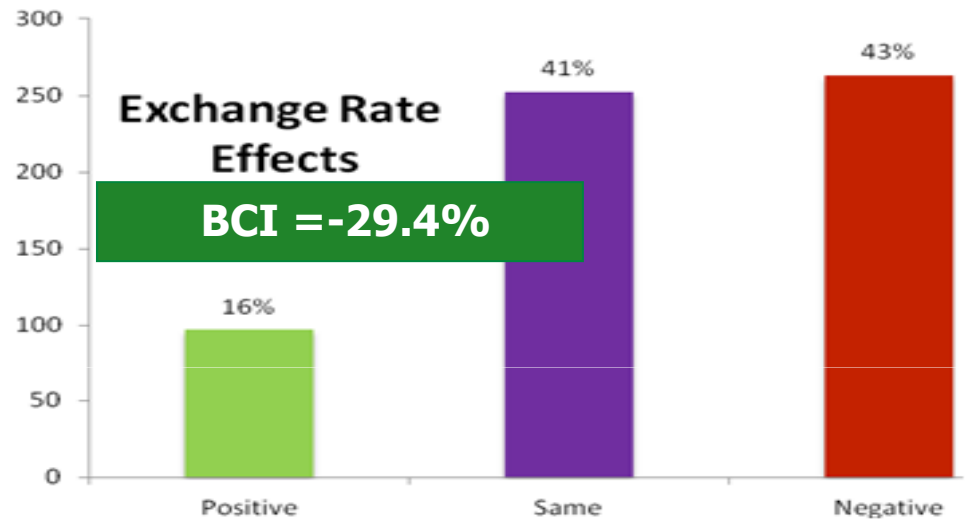
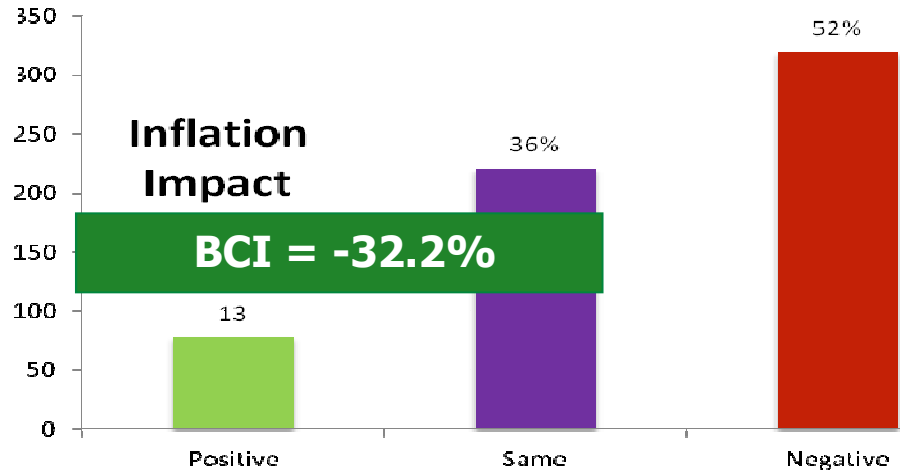
- New employment in the private sector is expected to remain sticky in the coming months.
- When asked whether they will hire new employees in 2013, 85% of business leaders confirmed that they are considering to either keep their current work force size or slash it down.
- With official unemployment number already put at 23.9%, the job market in 2013 look ominous
- The security situation in the country remains a major concern to all investors.
- It has profound long term effect on investment destination and perception of the country.
- 82% of business executive expect the security situation to either remain the same or get worse in 2013





Inflation, Exchange Rate and Public Power Supply Outlook

- Business executives continue to see the current and future level of price and exchange rate as highly detrimental to their doing business in Q1, 2013 and beyond.
- Over 83% of respondents remain very pessimistic regarding the outcome of inflation and exchange rate in 2013 and its potential impact on their businesses.
- The good news is that 35% of business leaders for the first time are beginning to put their weight on public power supply.
- We are watching to see how much this expectation will hold over the full length of the current dry season.



ROBUSTNESS AND SUSTAINABILITY

- Given that the BCI has not been run in Nigeria, it is not possible to say with any certainty which variables are better predictors of economic behaviour than others at this stage.
- The next task would be to estimate the strength of correlations for each question and sectors in this survey relative to future BCI surveys in the country.
- Each survey (quarterly) will provide new data which can be analysed statistically to determine trends and correlations of BCI scores and indicators respectively. Specific analysis to be conducted includes:
 - Analysis of correlations between leading and lagging indicators and the predictive power of respondents: It will be possible to evaluate how accurate respondents prove in predicting their own businesses.
 - Analysis of correlations between responses and actual data: Data can be compared to actual statistics gather by the Nigerian Bureau for Statistics (NBS) and Central Bank of Nigeria.
- Our BCI model template is constructed robustly to analyse and correlate quarterly survey over the next 32 editions. Ongoing analysis will help to create a more efficient index for the country over the long-term.
- Many business confidence surveys and indices are monitored and tweaked as researchers learn more about how responses are reflective and correlated to the real world.
- We hope that the BCI initiative for Nigeria will find the interest of sustainable financiers (sponsors) as obtained in most jurisdictions across the world.

Please visit LCCI Website, www.lagoschamber.com
for the report and Q1, 2013 BCI Data sheet

Note:

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This report was prepared by LCCI Research and Advocacy Team

