HR's PERSPECTIVES OF ECONOMIC INDICATORS FOR 2018

JANUARY 2018

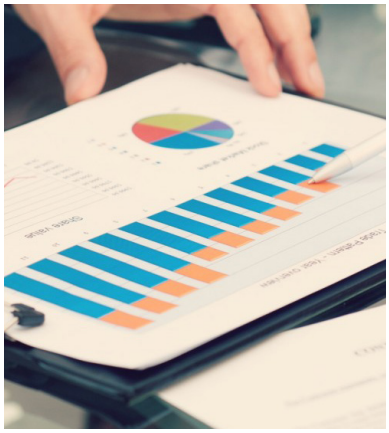
HR's FOCUS ON THE ECONOMY
ECONOMIC REVIEW: 2017
ECONOMIC OUTLOOK 2018 HR
OUTLOOK 2018
CIPM 2018 & BEYOND

Managing people and the economy has become a global phenomenon.

The changes in the pattern of work has positive correlation with the dynamic nature of global activities.

HR managers have shifted from the traditional reactive factor to proactive business partners.

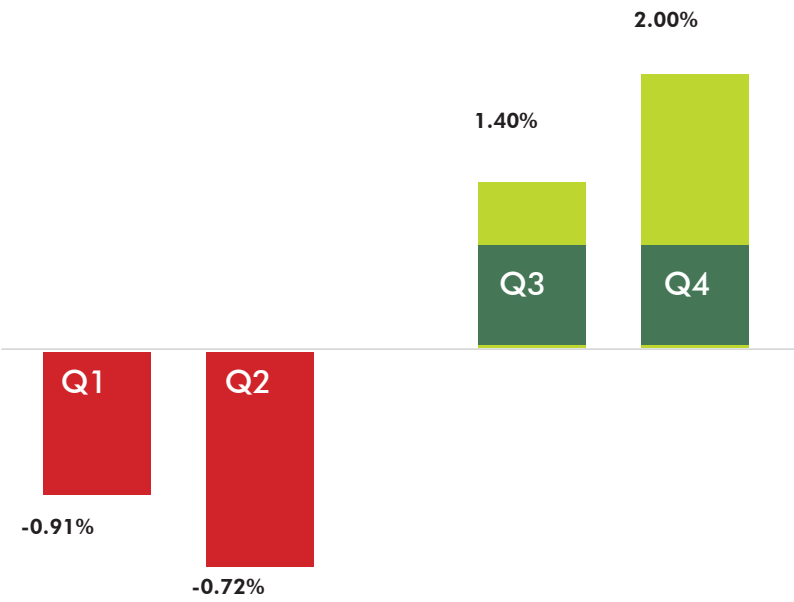
The knowledge of the Economy is vital in manpower planning, employee cost management, recruitment models, performance management and HR strategy.
The need to concentrate on the economy is vital in defining goals and setting strategies.



The journey into the future requires understanding of the drivers into the future.

HR functions cannot be divorced from organizational performance; and organization's performance depends on economic activities.

GROSS DOMESTIC PRODUCT



The country went into recession in Q2 2016 and this continued into Financial Year (FY) 2017.

There was recovery from Q3 2017, which was largely due to control of the foreign exchange rate, implementation of the Economic Recovery and Growth Plan, increase in Foreign Direct Portfolio by about $6.5bn between April and May 2017.

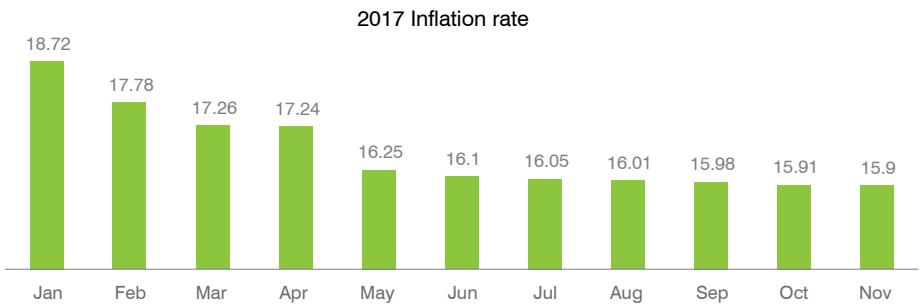
The GDP grew by about 2.1% (shifting from -0.72% in Q2 2017 to 1.4% in Q3 2017).

The Federal Government of Nigeria (FGN) and International Monetary Fund (IMF) projected a growth up to 2.0% by Q4 2017.

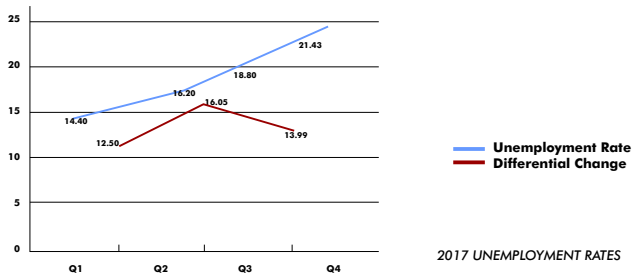
Inflation Rates

FY2017 started with high inflation which declined "insignificantly" through the year. This was responsible for high cost of operation for many organisations.

Inflation rate was considered to be a dominant factor in the reduction of employee costs and possible downsizing. Major causes of inflation include implementation of unfavourable exchange rates (especially with imported items) and poor government policies.



UNEMPLOYMENT RATES



2017 UNEMPLOYMENT RATES

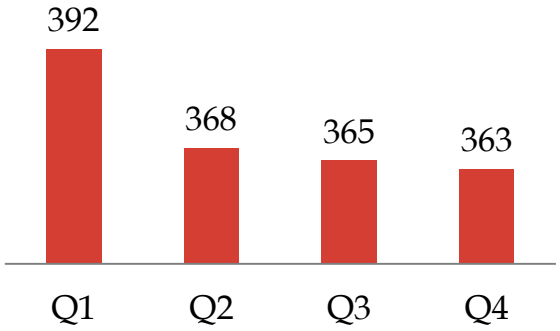
Increase in unemployment rate commenced in Q4 2014 and this hit an all-time high of 18.8% in Q3 2017.

This was expected to increase to 21.43% by extrapolation. However, with economic realities, this may decline slightly to 17.5%.

The differential change, however, shows that unemployment was increasing at a decreasing rate between Q3 and Q4 2017.

Major Cause
Slow recovery from recession, double digit inflation (responsible for high cost of operation), increase in graduate turnout, low level of job creation and weak implementation of the Economic Recovery and Growth Plan.

EXCHANGE RATES



CBN floated the Dollar against the Naira in 2016 due to illiquidity of the dollar. This created a wide gap in currencies between the official & the parallel market rates.

Changes in exchange rate impacted on the prices of items in the market. The exchange and inflation rates declined at almost the same rate.

The government re-adjusted the market with a push for defence of the Naira. This regulated the parallel market and closed the wide gap. This was a short-term measure that would add value in the long run.

The changes in exchange policies enabled government to support the payment of foreign services and opened windows for other transactions to ease the pressure on the Naira.

BUDGET ANALYSIS & HR'S PERSPECTIVE

2018 Budget Breakdown

6.61tn NAIRA

REVENUE BUDGET

Major Sources

Oil Revenue	N2.44tn
Non-Oil Revenue	N4.17tn

8.61tn NAIRA

EXPENDITURE BUDGET

Major Expenditure

Non Debt Recurrent Exp	N3.49tn
Debt Servicing	N2.01tn
Capital Expenditure	N2.43tn
Statutory Transfers	N456bn
Sinking Fund (Bonds)	N220bn

2tn NAIRA

BUDGET DEFICIT

THE NATION WILL RUN ON A DEFICIT BUDGET FOR THE FINANCIAL YEAR (FY) 2018

BUDGET ASSUMPTIONS

GDP Growth rate:	3.5%
Inflation Rate:	12.4%
Exchange Rate	N305/$
Oil Production	2.3mbpd
Oil price	$45pb

BUDGET ANALYSIS & HR'S PERSPECTIVE

HR's budget should be conservative with watchful eyes on the economy.

Personnel cost in the 2018 proposed budget stands at N2.12tn.

Experts allude to the position that the exchange rate is not likely to come lower than N390/$ due to possible mild 'dollarization' of the economy owing to elections.

Government will focus on taxes to support budget funding, hence all statutory payments must be taken seriously this year to avoid penalties for non remittance.

Organisations are encouraged to take advantage of the Voluntary Assets and Income Declaration Scheme (VAIDS).

The high exchange rate will keep foreign training at its lowest call, there will be increased substitution with high quality local offerings.

Local training organisations with the ability to mirror foreign training services may experience a boom in 2018.

There may be reduction of the labour gap i.e. possible decline in rates of unemployment, but not below 15%.

Due to the upcoming elections, Foreign Portfolio Investors may take temporary exit, leaving an employment gap in the financial sector (especially the capital market).

The combined effects of the temporary exit of foreign investors and declined unemployment rate will call for strong talent retention strategies in organisations.
Since budget is targeted at recovery and building the economy, there is no likelihood that employee costs will rise.

INFLATION RATE & HR'S PERSPECTIVE

FGN : 12.4%

IMF : 14.8%
A Farther forecast by 200bp from FGN's

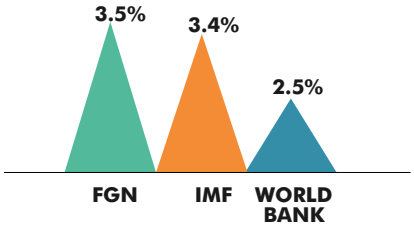
FY2018 INFLATION FORECASTS

Inflation expected to decline slowly in the year 2018.

There may be a slight decline in marginal propensity to consume. Producers of consumer goods are advised to closely monitor the elasticity coefficients of their products to take viable business decisions.

With the slight decline in inflation, there is no clear indication that wages or compensation will increase. Business owners are still on a 'watchful-mode' to ascertain the direction of events. It is cautionary to do so.
HR's cost of operations should be maintained to avoid unrealistic spending.

GDP & HR'S PERSPECTIVE



FY2018 PREDICTED GROWTH RATES

Deficits will be funded by local borrowing while settling foreign obligations. This may increase the domestic cost of borrowing. Organisations relying on domestic loans should take their loans before the approval of the 2018 budget.

2018 Budget implementation may be delayed.

The economy is to be largely driven by the non-oil sector, especially agriculture and taxation.

Budget will support recovery and mild growth, hence, HR Managers should maintain a manpower plan that is relatively conservative.

Government's focus on taxation to support budget funding will enhance the drive for remittance of various taxes, especially Personal Income Taxes.

Recoveries for businesses may not be as fast as expected due to possible concentration on elections by government and slow deployment of funds to the private sector.

There should be a very conservative growth expectation for organisations. This should reflect in organisations' business plans. 2018 business plan should come with business risk matrix to minimise chances of failure.

HR Managers are expected to design a strategy that will enhance employee engagement and optimal deployment of resources.

EXCHANGE RATE & HR'S PERSPECTIVE

FGN : N305/$

IMF & ECONOMIC EXPERTS : N390/$
Largely due to usual scarcity of Dollar in pre-election years

FY2018 EXCHANGE RATE FOR

The gap between the official and black market rates is expected to widen due to the push for sourcing of forex in the alternative market.

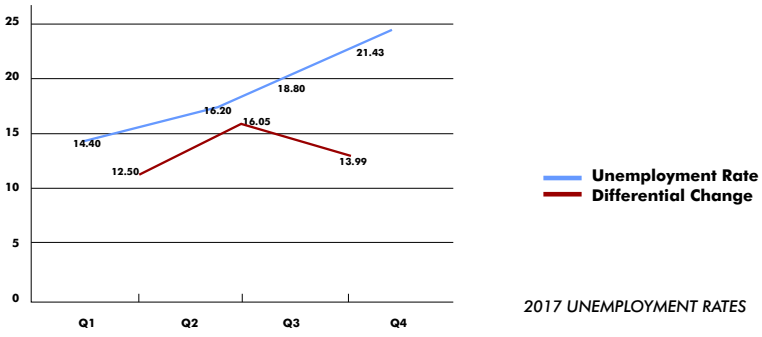
Government's policies in settlements of legitimate foreign transactions may not change significantly.
Since Nigeria is largely import dependent, high exchange rate may increase inflation beyond the initial projection.
Organisations with heavy reliance on importation may find it beneficial to place their order before the approval of the 2018 budget. This may minimise the impact of election induced foreign exchange scarcity on their businesses.

Changes in foreign exchange are expected; costs involving foreign currencies should be managed with a risk allowance.

Macro growth under the regime of high disparity between the official and parallel market exchange rates will not only be indeterminate and unreliable, but prone to speculations with negative impact on both foreign investment and domestic production.

Foreign training may still not be favourable due to fluctuating exchange rates.
Employment of expatriates may decline, while exit of many of them may increase.
HR related cuts, which are forex induced should be closely monitored.

UNEMPLOYMENT RATE & HR'S PERSPECTIVE



2017 UNEMPLOYMENT RATES

As at Q3 2017, unemployment rate was 18.8% (compared to Q2 16.2%) and youth unemployment increased tremendously.
The differential changes in unemployment rate between Q3 and Q4 2017 show that strategies for curbing unemployment in Nigeria are gradually working, other things being equal.

Unfortunately, the economic recovery is trending in opposite direction with job creation. Global phenomenon does allow a period of 5-8 months for unemployment to close gap with real growth, but this is often different with our reality in Nigeria.

While under-employment may reduce, overall unemployment is not expected to shrink significantly.

OUTLOOK FOR 2018
(GLOBAL & NATIONAL)

Technology will contribute to more job losses in FY2018.
But this will not make a significant difference.
Change in work pattern is expected with more flexibility.
The combined effect of expansion of artificial intelligence and change in work pattern will necessitate retooling of the workforce.

If election anxieties slow down the global workforce migration and there is effective implementation of the Nigerian local content policy, immigration of expatriates may decline significantly. Employees are advised to get involved in rigorous self development to occupy the positions previously occupied by the expatriates.

Performance management should be given prominent attention to identify talents and also build effective workforce.

Search for Talents at Workplace

Enhanced Performance Management

Artificial Intelligence and Robotics

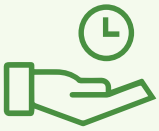
Competition from Emerging Markets

Automation of Learning & Developments

Disruptive Technology

Big Data Management & Analytics

Rise of Freelance Workforce



Flexible Work Conditions