

Economic Update

Nigeria | Economy | 2Q'18 GDP Report | August 29, 2018

PAC RESEARCH

Non-oil sector resurgence on the back of services sector's recovery

Nigeria's real gross domestic product (GDP) improved by 1.50% year-on-year in 2Q'18. In the second quarter to June 2018, Nigerian economy recorded real GDP growth rate of 1.50% lower than 1.95% in the first quarter of 2018 but higher than 0.72% recorded in the corresponding quarter of the previous year. In addition, in the review quarter aggregate nominal GDP stood at ₦30.69 trillion, up by 7.84% and 13.54% compared with ₦28.46 trillion and ₦27.03 trillion respectively in the first quarter of the year and the second quarter of 2017. In our opinion, the real GDP growth rate recorded in the review quarter is less than the expectation and it poses a concern on the strength of the economic recovery. Overall, out of the forty-six economic activities in the nation's GDP basket, thirty-one recorded growth in real GDP while fifteen recorded various levels of decline. This is a slightly weak performance compared with thirty-six economic activities that recorded growth and ten with various degree of decline in the first quarter of 2018.

Furthermore, the weakness in the performance of the economic output in the quarter was driven mainly by the oil sector with a contraction of 3.95% in the real GDP growth rate, relative to positive real GDP growth rate of 14.77% in the preceding quarter and 3.53% in the corresponding quarter of the previous year. The weakness in the oil sector in the review quarter was consequent to a drop in production volume in the period. In the review quarter, crude oil prices recorded improvements with Brent Crude Oil traded at an average price of US\$73.72 per barrel, up by 13.26% compared with an average price of US\$65.09 per barrel in the first quarter. Also, the quarter's Brent Crude Oil average price was higher by 41.33% compared with an average price of US\$52.16 in the second quarter of 2017.

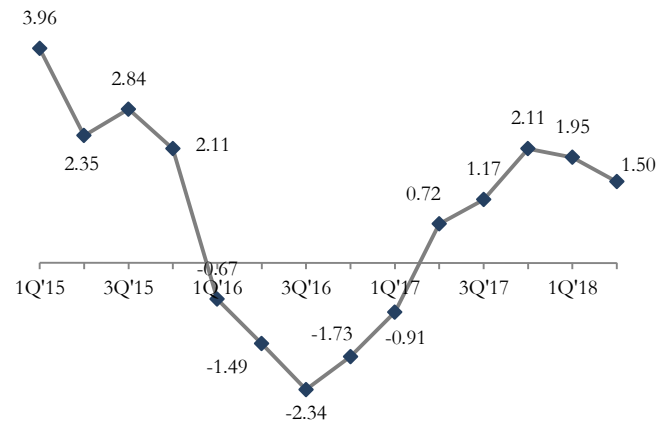
Table 1: Oil sector and non-oil sector – quarterly real GDP growth rates

	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18
Oil sector	+3.53%	+23.03%	+11.20%	+14.77%	-3.95%
Non-oil sector	+0.45%	-0.76%	+1.45%	+0.76%	+2.05%

Source: NBS, PAC Research

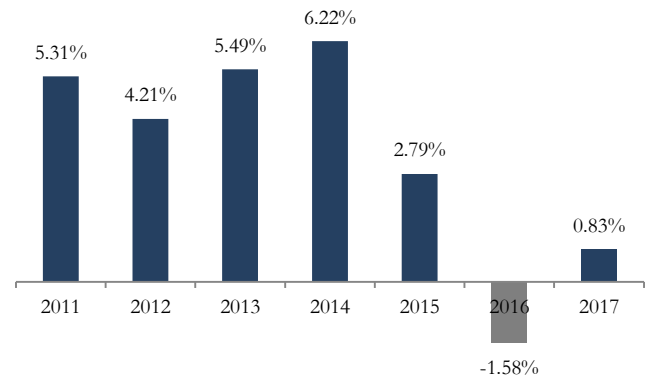
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Fig. 1: Quarterly real GDP growth rates (%)



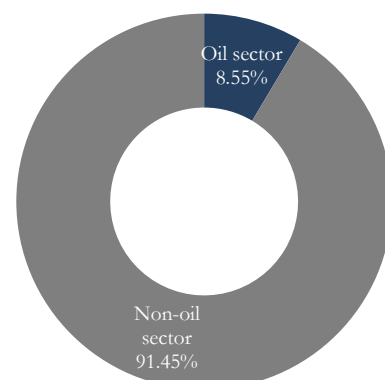
Source: NBS, PAC Research

Fig. 2: Yearly GDP real growth rates



Source: NBS, PAC Research

Fig. 3: Contribution to GDP in 2Q'18 – oil sector and non-oil sector

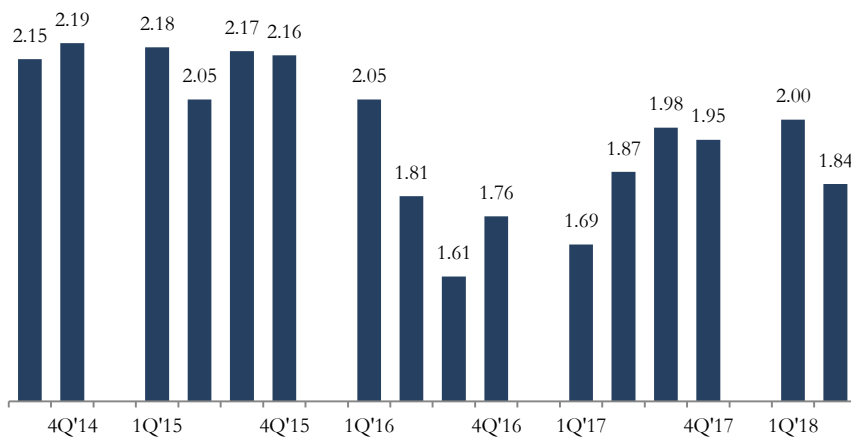


Source: NBS, PAC Research

On the contrary, crude oil production volume stood at an average of 1.84 million barrel per day (mbpd) in the quarter, down by 8.00% and 1.60% compared with production volume of 2.00 mbpd and 1.87 mbpd in the first quarter of 2018 and the second quarter of 2017 respectively. Furthermore, the drop in the production volume in the period was consequent to the suspension of activities on the Nembe Creek Trunk Line in the month of May which is one of the main pipelines for transporting Bonny Light Crude for export. However, we learnt that the pipeline has resumed operations therefore we expect to see improvement in production volume in the quarters ahead. As we stated in the previous quarter's report, the relative current high prices of crude oil was majorly caused by the tension between the United States and the Iran over the controversial nuclearisation agenda of the later. Therefore, the current relative high pricing regime of crude oil might not be sustainable in the long term, on the back of this, oil prices has traded at an average price of US\$70.64 per barrel year-to-date. Nevertheless, we are optimistic that the current pricing regime will persist until the end of the current year.

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Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

Fig. 5: Prices of Brent crude oil (US\$/barrel)

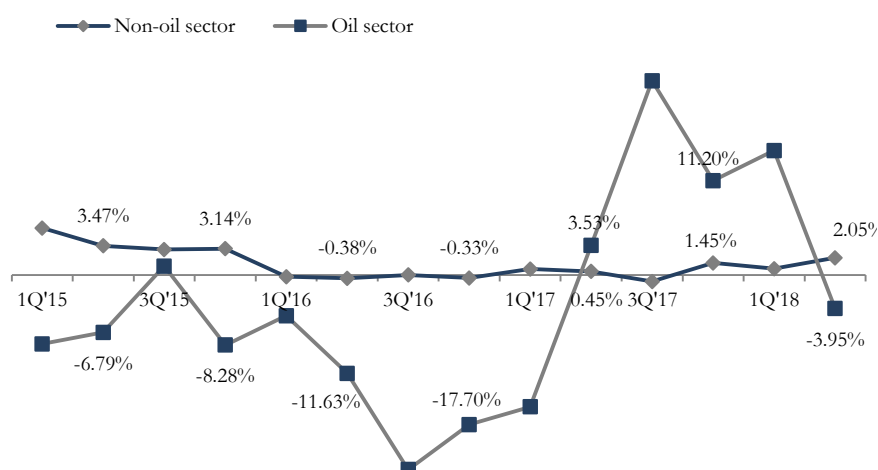


Source: Bloomberg, PAC Research

Non-oil sector recovery mitigates the weakness in the overall performance. The non-oil sector recorded real GDP growth rate of 2.05% in the review quarter was higher than 0.76% in the preceding quarter and 0.45% in the second quarter of the previous year. Interestingly, this is the first quarter the sector recorded a relatively strong real GDP growth rate in the past ten quarters. The contribution of the non-oil sector to overall GDP stood at 91.45% which is slightly higher than 90.39% in the preceding quarter and 90.96% in the second quarter of the previous year. Moreover, it is worthy of note to state that the strong performance of the sector was aided by the resurgence in the performance of the services sector in the period. Furthermore, services sector recorded real GDP growth rate of 2.12% in the quarter relative to -0.47% in 1Q2018 and -0.85% in 2Q2017. Also, this is the first quarter that the sector recorded significant positive real GDP growth rate in the past ten quarters. Specifically, the economic activities that lifted the performance of the non-oil sector are transportation & storage and water supply, sewage, waste management & remediation with real GDP growth rate of 21.76% and 11.98% respectively. Other economic activity that performed relatively well in the period was information & communication with real GDP growth rate of 11.81% relative to 1.58% in the first quarter of 2018 and -1.15% in the corresponding quarter of the previous year. Despite the improvement in the performance of the services sector, its contribution to the aggregate GDP declined slightly to 53.97% relative to 54.35% in the first quarter and the contribution remained almost the same as the 53.64% recorded in the second quarter of 2017. In our view, we expect to see a better performance in the overall economic activities in the quarters ahead as the challenges in the oil sector are being resolved.

Interestingly, this is the first quarter the sector recorded a relatively strong real GDP growth rate in the past ten quarters.

Fig. 6: Oil sector and non-oil sector – quarterly real GDP growth rates



Source: NBS, PAC Research

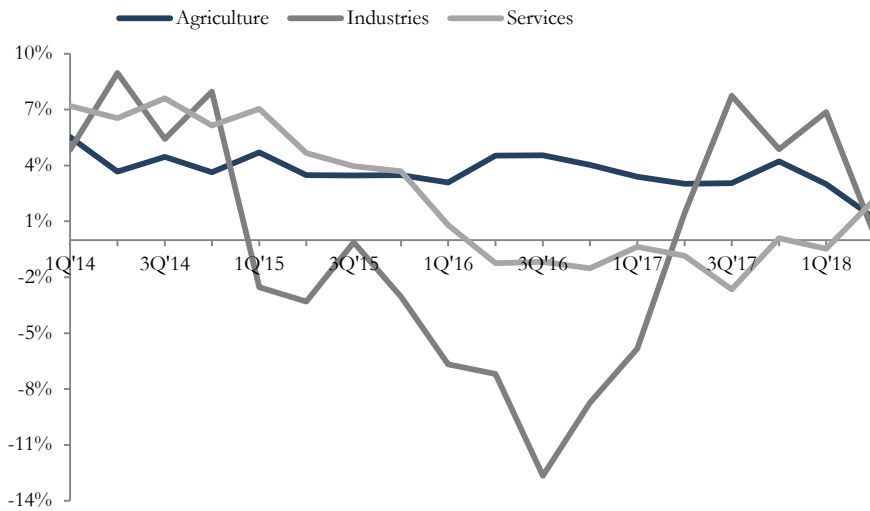
While services sector gains momentum, agriculture and industries sector slumps. In the review quarter, agricultural sector recorded growth rate of 1.19%, lower than 3.00% in the first quarter of the year and 3.01% in the same quarter of the previous year. The performance of the sector in the review quarter is the lowest in more than two decades, and it was driven by the weak performance of crop production which accounted for 89.11% of all the activities in the sector.

Crop production recorded real GDP growth rate of 1.49% in the quarter, lower than 3.45% and 3.21% in the first quarter of 2018 and the second quarter of the previous year accordingly. Also, the performance of crop production as an economic activity in the period is the lowest in over two decades. Furthermore, the weak performance of the sector was a result of the protracted tension between farmers and herdsmen in the north-central and the north-eastern geopolitical zones of the country. In spite of this, the contribution of agriculture to the overall GDP moved up slightly to 22.86% relative to 21.65% in 1Q2018, but slightly lower than 22.93% in 2Q2017. Moreover, livestock economic activity recorded a contraction in real GDP growth rate by 1.95% compared with a contraction of 1.85% in the first quarter and a positive real GDP growth rate of 2.28% in the second quarter of 2017. The economic activity accounted for 7.48% of all the activities in the agricultural sector and it contributed 1.71% to the overall GDP. Similarly, fishery recorded a relatively weak performance with real GDP growth rate of -1.35% in the period compared with 4.25% in the first quarter and -2.72% in the corresponding quarter of the previous year. Fishery accounted for 2.10% of all the activities in agriculture and it contributed 0.48% to the aggregate GDP relative to 0.67% in the first quarter of 2018 and 0.50% in the second quarter of 2017. On the other hand, forestry recorded improved performance in the quarter with real GDP growth rate of 3.96%, higher than 2.94% and 3.89% posted in the preceding quarter and the second quarter of the prior year. It is worthy of note to state that forestry has been recording positive performance historically, it contributed 1.27% to agriculture and 0.29% to the total GDP in 2Q2018.

The performance of the industries sector weakened in the period to real growth rate of 0.40%, lower than 6.86% in the first quarter and 2.17% in the previous year. The weakness of the sector was driven by the dismal performance of the oil sector which was consequent to production shock as explained earlier. Also, the drop in the performance of manufacturing sector contributed to the weakness in the industries sector. Manufacturing sector recorded real GDP growth rate 0.68% compared with 3.39% in 1Q2018, but almost flat with 0.64% recorded in 2Q2017. Also, the weakness in the manufacturing sector was driven by food, beverages and tobacco sub-sector that recorded a drop in real GDP growth rate to 1.21% relative to 5.46% in the prior quarter and 2.67% in the corresponding quarter of the previous year. The reason for the drop in the performance of manufacturing sector in the period is not unconnected to the operational and logistic challenges that pertain to clearing and movement of imported raw materials in the Apapa Sea Port. However, strong performance of construction mitigated the weakness; the economic activity recorded strong real GDP growth rate of 7.66% relative to -1.54% in the preceding quarter and 0.13% in 2017. On the back of the improved performance, the contribution of construction to the overall GDP increased to 4.51% from 4.04% in the first quarter and 4.25% in 2017. On the flip side, the contribution of manufacturing sector to the aggregate output dropped to 9.29% from 9.91% in the first quarter of 2018 and 9.36% in the second quarter of 2017.

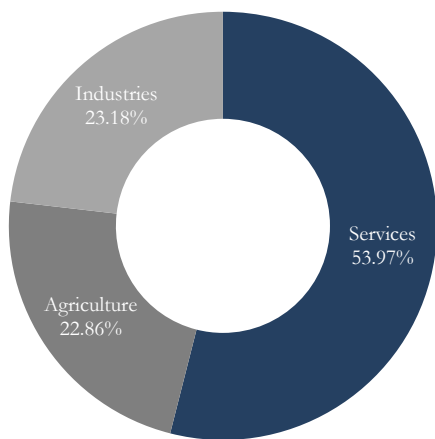
Also, the performance of crop production as an economic activity in the period is the lowest in over two decades.

Fig. 7: Quarterly sectoral real GDP growth rate



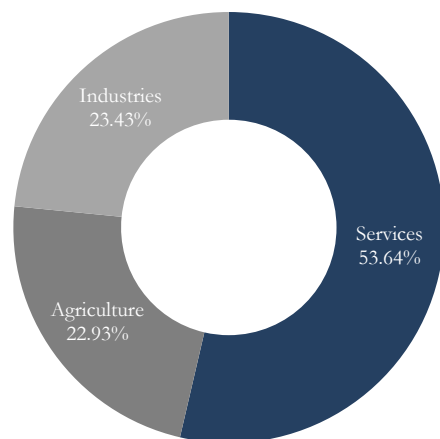
Source: NBS, PAC Research

Fig. 8: Sectoral contribution to real GDP in 2Q'18



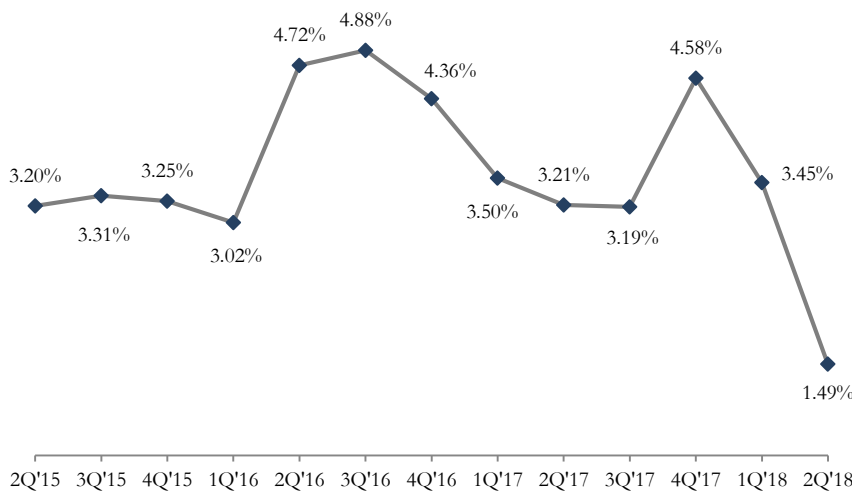
Source: NBS, PAC Research

Fig. 9: Sectoral contribution to real GDP in 2Q'17



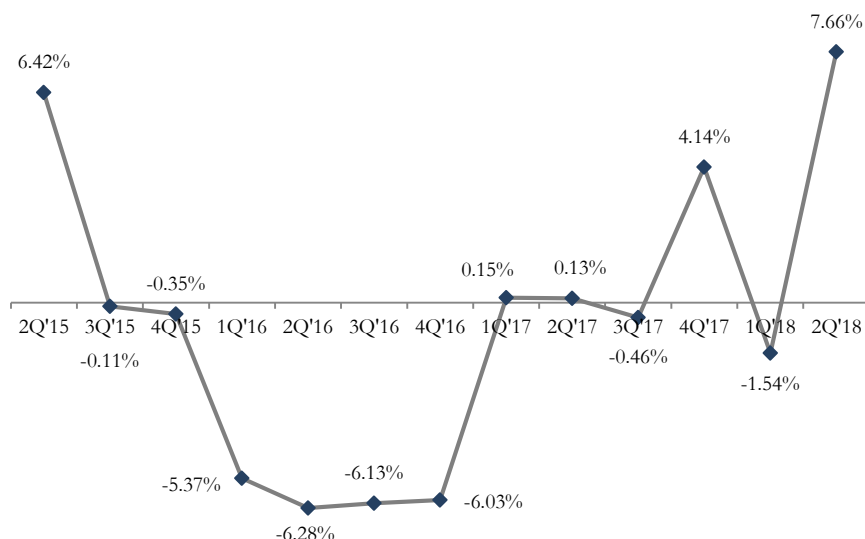
Source: NBS, PAC Research

Fig. 10: Crop production - quarterly real GDP growth rates



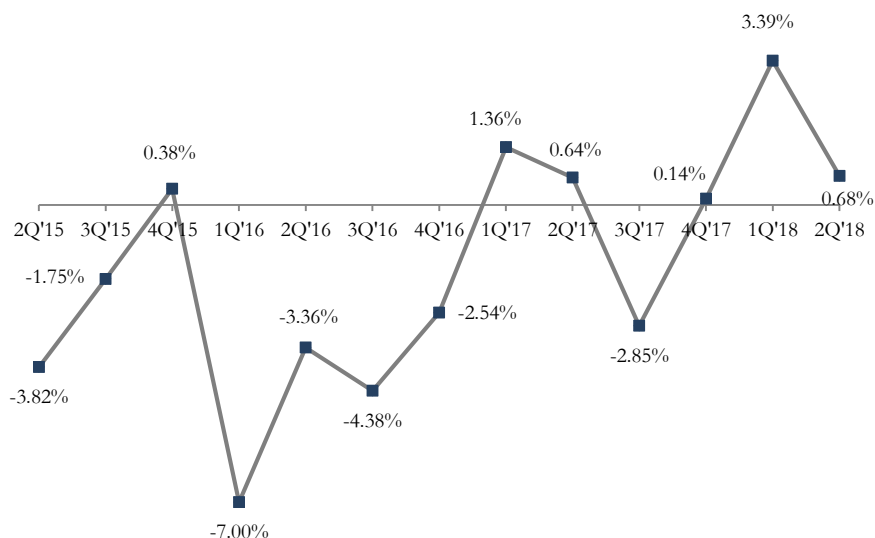
Source: NBS, PAC Research

Fig. 11: Construction - quarterly real GDP growth rates



Source: NBS, PAC Research

Fig. 12: Manufacturing - quarterly real GDP growth rates



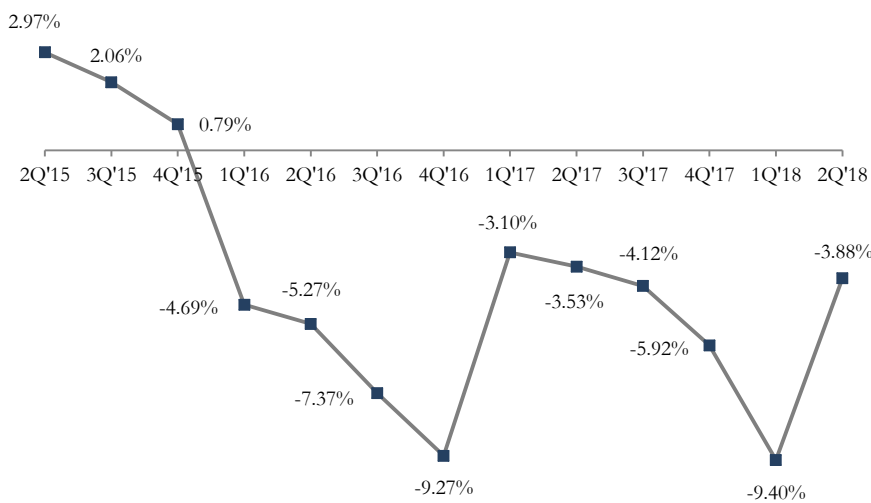
Source: NBS, PAC Research

Hope beams on real estate sector as the downward trends reversed. Real estate sector has been in recession for nine consecutive quarters, even when the overall economy emerged from the economic contraction in the second quarter of 2017; real estate sector was still deep in the economic downturn. The sector, by the nature of the services it is offering normally bears the brunt of economic hardship more than other sectors in the economy. Although, real estate sector is still in recession in the review quarter but there seems to be rays of hope of emerging from the economic slump soon with the real GDP growth rate of -3.88% compared with -9.40% in the first quarter. The review quarter's performance is slightly lower than -3.53% that was recorded in the corresponding quarter of 2017, yet the quarter-on-quarter performance of 5.52% presents optimism for the emergence of the sector from the recession in the quarters ahead. On the backdrop of the period's performance the contribution of the sector to the overall GDP improved to 6.83% relative to 5.63% in 1Q2018.

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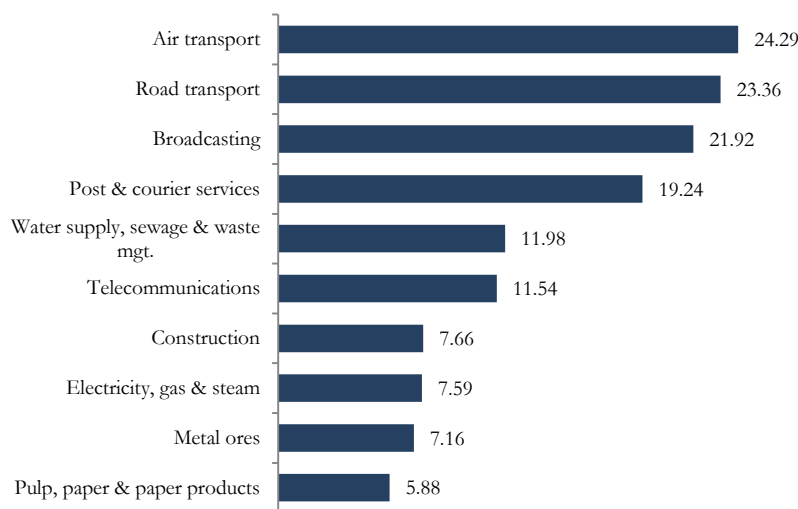
Moreover, we are keen to note that air transport and road transport economic activities emerged the best performers accordingly among all the economic activities in the GDP basket in the period, the two economic activities consolidated on their previous outstanding performance with the real GDP growth rate of 24.29% for air transport compared with 10.29% and 0.15% in the first quarter of the year and the second quarter of 2017 respectively. Also, road transport recorded real GDP growth rate of 23.36% relative to 15.63% in the first quarter and -7.20% in the same quarter of the previous year. Despite the outstanding performance of the two economic activities in the period, their contribution to the overall GDP is insignificant; air transport and road transport contributed 0.09% and 1.12% respectively to the aggregate GDP in the review quarter.

Fig. 13: Real estate sector - quarterly real GDP growth rates



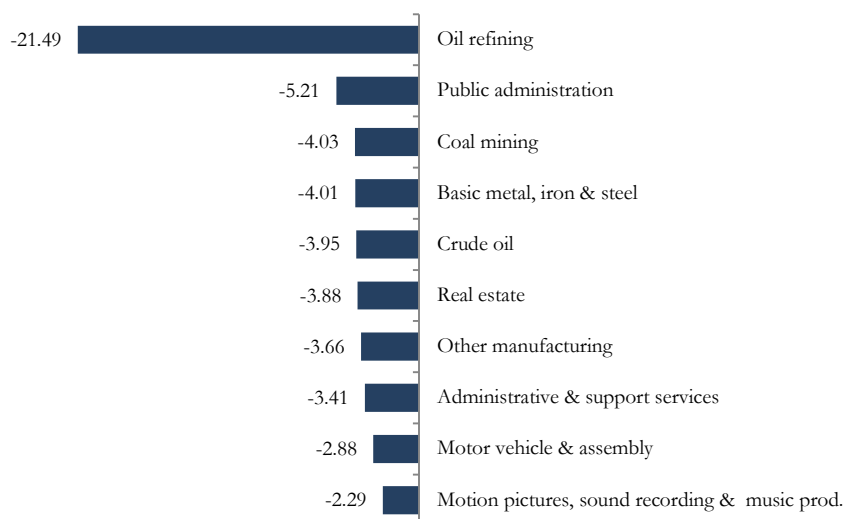
Source: NBS, PAC Research

Fig. 14: Economic activities: Top ten increase in real GDP growth rate in 2Q'18



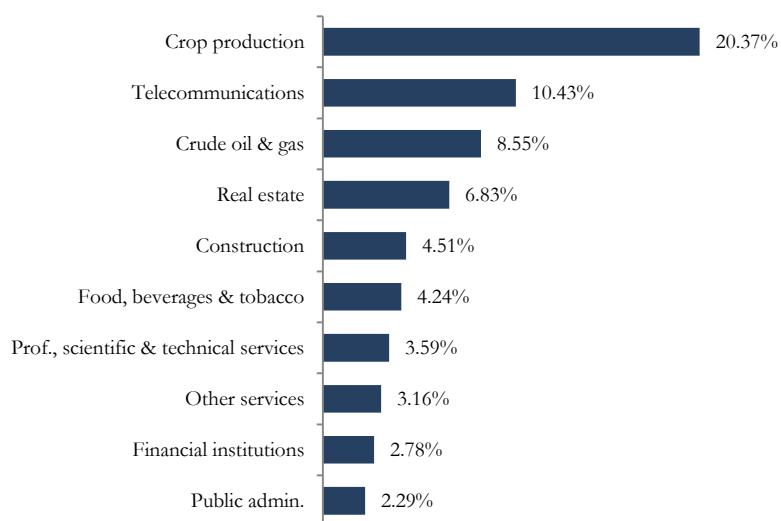
Source: NBS, PAC Research

Fig. 15: Economic activities: Top ten decline in real GDP growth rate in 2Q'18



Source: NBS, PAC Research

Fig. 16: Economic activities: Top ten contributors to real GDP in 2Q'18



Source: NBS, PAC Research

IMPORTANT DISCLOSURES

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