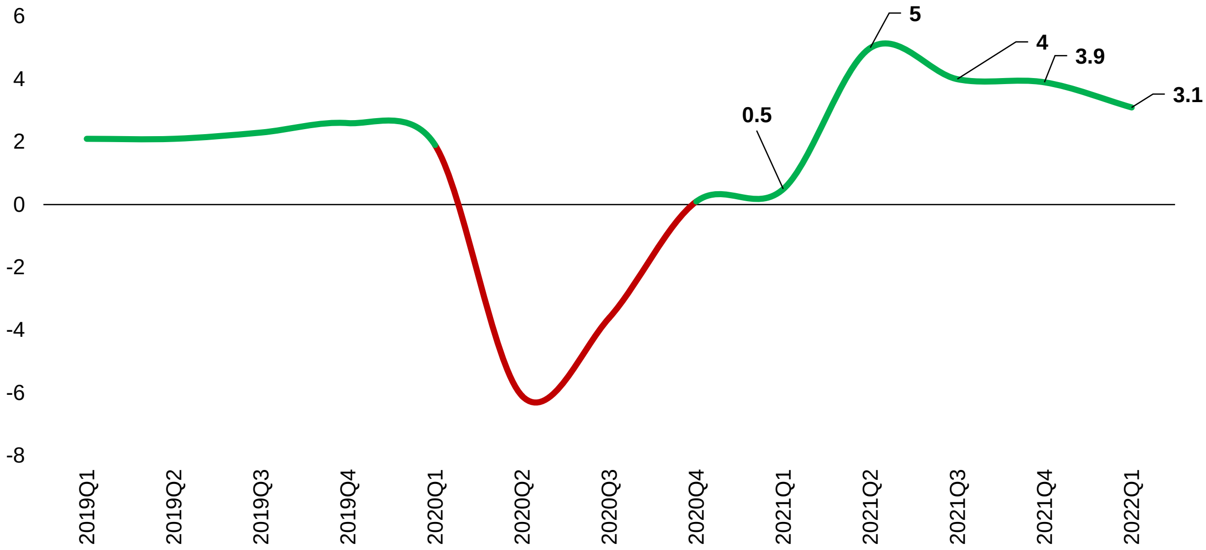
NESG 2022Q1 GDP Alert

May 2022

Nigerian economy sustains recovery, grew by 3.1 percent in 2022Q1

According to the National Bureau of Statistics (NBS), the Nigerian economy grew by 3.1 percent (year-on-year) in the first quarter of 2022. This represents a fast pace of economic expansion when compared with the economic growth of 0.5 percent recorded in the first quarter of 2021. The current growth is the sixth consecutive quarter since the economy recovered from the pandemic-induced recession in the fourth quarter of 2020. However, on a quarterly basis, the real Gross Domestic Product (GDP) declined by 14.7 percent in the first quarter of 2022. In nominal terms, the size of the economy in the first quarter of 2022 stood at N45.3 trillion (US$108.9 billion)[1].

Figure 1: Nigeria's real GDP growth rate (percent)



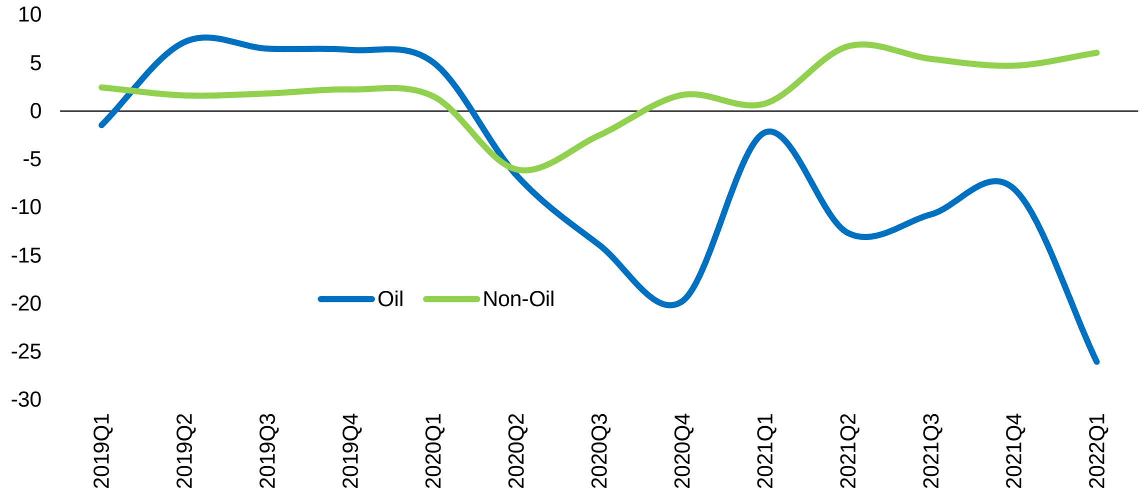
Data: NBS; Chart: NESG Research

The non-oil sector was the economic growth driver, as the oil sector remained in recession

The sustained improvement in the overall economic activities was buoyed by the impressive performance of the non-oil sector. Accounting for 93 percent of the total real GDP in 2022Q1, the non-oil sector grew faster to 6.1 percent (year-on-year) in the quarter relative to 0.8 percent growth recorded in the first quarter of 2021. The rapid output expansion in the non-oil sector was driven by improved performance of activity sectors, including Agriculture, Manufacturing, Construction, Trade, and Information & Communications Technology (ICT), among others. Meanwhile, the oil sector further contracted sharply by 26 percent in 2022Q1, relative to the contraction of -2.2 percent in 2021Q1. This represents the ninth consecutive quarter that the oil sector has remained in the contraction territory since 2020. Despite the continued rally in global crude oil prices, the Nigerian economy has failed to appropriate the resulting benefits due to low domestic crude oil production. The average domestic crude oil production declined to 1.4 million barrels per day (mbpd) in 2022Q1 from 1.7mbpd in 2021Q1.

[1] We utilised the official exchange rate of N416/$ for currency conversion.

Figure 2: Year-on-Year Oil and Non-oil sector Real Growth (percent)



Data: NBS; Chart: NESG Research

Sub-sector Assessment

Agricultural sector remained strong and resilient in 2022Q1, amidst rising insecurity

The Agricultural sector grew faster by 3.2 percent (year-on-year) in 2022Q1 from a 2.3 percent in the corresponding period of 2021. This could be attributed to the improved performance of sub-sectors including crop production (with a growth of 3 percent) and livestock production (5.6 percent). Other sub-sectors including forestry and fishing grew by 1.4 percent and 3.1 percent respectively. This reflects the continued resilience of the Agricultural sector in spite of the rising level of insecurity in the Northern region – Nigeria's major food-producing zone.

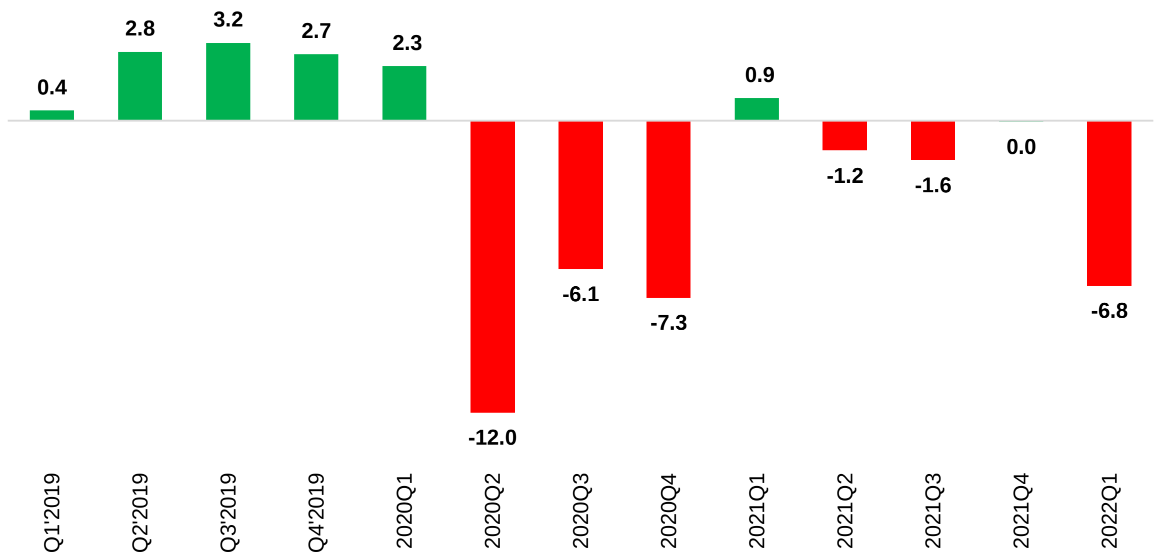
Figure 3: Year-on-Year Growth Performance of Agricultural Sector (percent)

Data: NBS; Chart: NESG Research

Industrial sector performance was largely driven by a contraction in crude petroleum and natural gas sub-sector

The industrial sector contracted by 6.8 percent (year-on-year) in 2022Q1 compared with an expansion of 0.9 percent in the corresponding period of 2021. This represents the fourth consecutive contraction posted by the Industrial sector since the second quarter of 2021. The contraction of the industrial sector was largely driven by the output decline in the crude petroleum and natural gas sub-sector (-26 percent), which strongly nullified the positive growth posted by other key industrial activity sectors, including Manufacturing (5.9 percent), Construction (4.8 percent) and Water supply (13.2 percent). Out of the 20 activities in the industrial sector, 11 sub-sectors contracted while 9 activities recorded positive growth in 2022Q1.

Figure 4: Year-on-Year Growth Performance of the Industrial Sector (percent)

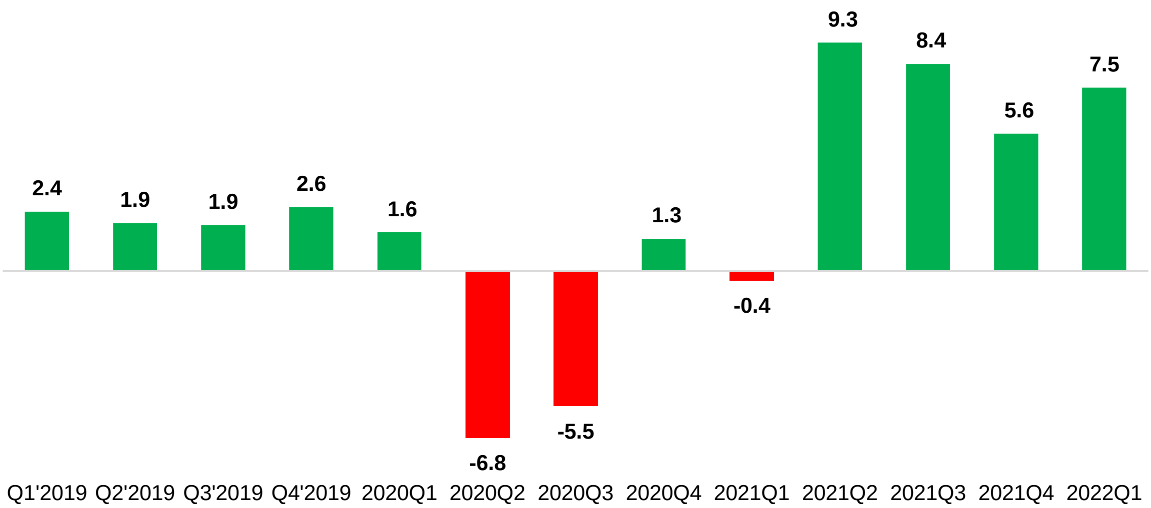


Data: NBS; Chart: NESG Research

The improved performance of the Services sector was buoyed by key sub-sectors in 2022Q1

The services sector grew by 7.5 percent (year-on-year) in 2022Q1, relative to the sector's output decline of 0.4 percent in the corresponding period of 2021. This represents the fourth consecutive growth recorded by the Services sector since the second quarter of 2021. The rapid growth of the Services sector could be attributed to the stellar growth performance across the major sub-sectors, including Trade (6.5 percent), ICT (12.1 percent), Real Estate (4.4 percent) and Finance & Insurance (23.2 percent). Out of the 23 activities in the Services sector, 21 sub-sectors expanded while 2 activities contracted in 2022Q1.

Figure 5: Year-on-Year Growth Performance of Services Sector (percent)



Data: NBS; Chart: NESG Research

Sectoral Breakdown of Growth – Expanding & Contracting Sub-sectors

A further breakdown of the growth numbers showed that Rail Transport led the 36 expanding sectors with a strong growth of 124.5 percent in 2022Q1, followed by Air Transport (50.7 percent) and Metal Ores (30.8 percent). On the flip side, activities contracted in 10 sub-sectors led by oil refining (-44.3 percent), followed by Crude Petroleum and Natural Gas (-26 percent) and Road Transport (-24.6 percent).

Growth Performance of Activity Sector

Figure 6a: Top 10 Expanding Sectors (%)

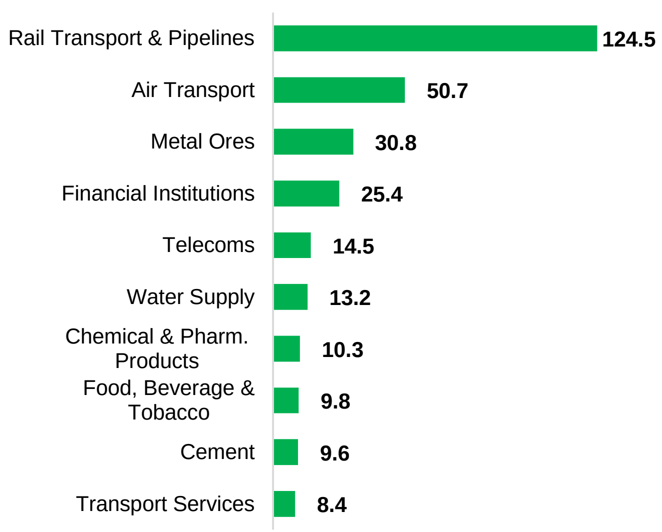
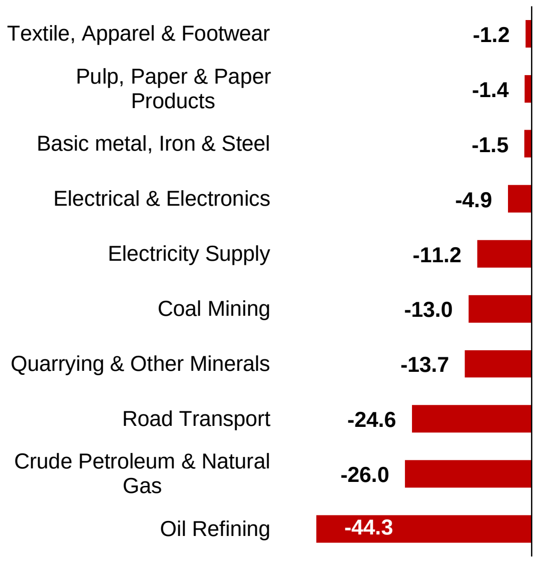


Figure 6b: Contracting Sectors (%)



Data: NBS; Chart: NESG Research

Concluding Remarks

Despite the improved economic recovery from the pandemic, Nigeria's growth is far away from being inclusive. While the rapid improvement in economic activities is acknowledged, the current economic growth remains non-inclusive. The quarter-on-quarter contraction suggests that Nigeria requires high and sustainable growth to be strong and resilient to shocks, as in the case of China. Similarly, the benefits from growth are yet to trickle down to the poor masses. To this end, Nigeria is in dire need of critical sectoral reforms that will help attract the inflow of investments – domestic and foreign - into growth-enhancing and employment elastic sectors (Agriculture, Manufacturing, Construction, and Trade, among others) to improve their performance and broaden their capacity to create more job opportunities and decent employment.

Barring any major threat to insecurity in the far North, the Agricultural sector is expected to sustain improved performance in 2022. The Agricultural sector is poised to maintain strong growth, especially the Crop production sub-sector, which is expected to gain from the inception of the planting season and early harvest. In the absence of major insecurity threats in the major food-producing regions, the country could witness a slowdown in food inflation in the coming months.

The Russia-Ukraine geopolitical crisis highlights positive and negative effects on the Nigerian economy. The geopolitical tensions have sent global oil prices rising to a three-digit number more recently in 2022. This is good news for major oil-exporting countries, including Nigeria, in terms of higher oil export earnings. However, these gains will be lost to huge import bills on refined fuel products and the extra fiscal burden arising from higher subsidy costs in Nigeria. This is a clarion call on the Nigerian government to fast-track the implementation of the Petroleum Industry Act (PIA), which will stimulate investment inflows into the different segments of Nigeria's oil and gas sector – upstream, midstream and downstream.

The improved performance of the non-oil sector suggests the need for the country to prioritise value addition and harness the export potential of the non-oil sector activities, particularly agro-allied products and light manufacturing. Nigeria's manufacturing sector has rapidly recovered from the pandemic-induced contraction since the first quarter of 2021. This is enough to encourage the domestic production of value-added products. While the non-oil sector accounts for over 90 percent of Nigeria's real GDP, its share of export earnings is about 10 percent annually. Therefore, the promotion of value chain development could also improve Nigeria's unfavourable terms of trade position due to her huge dependence on primary product exports. This will also help the country diversify its revenue base and export markets.

Regulatory bottlenecks in the ICT space could reverse the improved growth trajectory of the Services sector going into the year 2022. While the key drivers of growth in the Services sector have been narrowed to ICT and Trade sub-sectors, regulatory bottlenecks and infrastructure inadequacy confronting these activities could stifle their performance. For example, the Federal Government of Nigeria plans to impose a tax on phone calls to finance the newly assented National Health Insurance Authority Bill 2021. The regulatory action, if successfully implemented, could lead to a significant decline in voice subscriptions in favour of data subscriptions as telecom end-users switch to electronic calls on the WhatsApp platform. This would negatively impact the performance of the ICT sector and the overall Services sector in 2022.

About NESG

The NESG is an independent, non-partisan, non-sectarian organization committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

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