GDP by expenditure expanded by 2.2% in FY'2019, as household consumption remained the dominant component

According to the National Bureau of Statistics (NBS), real expenditure on gross domestic product (GDP) in 2019 rose by 2.2% to N72.1 trillion from N70.5 trillion in 2018. This represents an improvement in real aggregate expenditure growth relative to its level in 2018 (1.9%). In nominal terms, aggregate expenditure was 12.8% higher at N145.6 trillion in 2019 compared with its level in 2018 (N129.1 trillion). The current growth rate in nominal expenditure is also above its level in 2018 (11.9%). The increase in aggregate expenditure growth, in real and nominal terms, could be partly attributed to higher domestic investments, with other expenditure components exhibiting mixed trends.

Figure 1: Trend of Real & Nominal Aggregate Expenditure Growth in 2018 & 2019 (%)

Source: NBS & NESG Research

GDP by expenditure consists of four major components: Household Consumption, Private Investment, Government Consumption and Net Exports. Household consumption expenditure has continuously emerged as the largest contributor to real aggregate expenditure in 2019, albeit at a lower share of 58.5%, relative to its contribution in 2018 (61.2%). However, the respective shares of other expenditure components - government consumption expenditure, private investment and net exports - were higher at 6%, 16.4% and 18.5% in 2019 compared with their contributions to aggregate expenditure in 2018.
Household consumption expenditure growth, in real terms, slips into negative territory in FY’2019

The real household consumption expenditure fell by 2.4% in 2019 from a positive growth of 4.6% in 2018. This was driven by negative growth rates in household consumption expenditure recorded in the first three quarters of 2019. This mirrors the slow pace of growth of disposable income as well as rising inflation, which limited expansion in real consumption.

Source: NBS & NESG Research
Growth in government consumption expenditure slows in FY’2019
In real terms, government consumption expenditure increased by 15% in 2019. However, this growth was far below what was recorded in 2018 (40%). The slowdown in growth of government spending could be attributed to weak growth in oil export receipts from 36.3% in 2018 to 3.6% in FY’2019.

![Figure 5: Trend of Growth in Real Government Consumption Expenditure & Oil Export Receipts in 2018 & 2019 (%)](image)

Source: NBS & NESG Research

Domestic investment buoyed by investment in physical capital in FY’2019
Domestic investment was largely dominated by investment in physical capital (plant, machinery & equipment) with a share of 97% while changes in inventories (defined as unsold inventories of businesses in a year) accounted for the remaining 3% in FY’2019. Real investment in physical capital, otherwise called gross fixed capital formation (GFCF), grew faster by 11.8% in FY’2019 from a growth of 9.7% in 2018. This could be largely attributed to higher importation of machinery and transport equipment, whose share of Nigeria's merchandize imports rose to 46% in 2019 from 36% in 2018 (Refer to the NESG 2019 Foreign Trade Alert, retrievable via: https://www.nesgroup.org/research).

A breakdown of investments in physical capital showed that non-residential building was the largest contributor at 73.3% in 2019 up from a share of 71.8% in 2018. Similarly, other components of gross fixed capital formation with higher shares in 2019 relative to their respective contributions in 2018 include spending on land improvement (3.9%) & machinery (12.7%). Conversely, the shares of investment in transport equipment, breeding stock, as well, as research & development (R&D), which jointly accounted for 10.2% of gross fixed capital formation, suffered declines in their respective shares in 2019 compared with their contributions in 2018.
On the other hand, the real growth in unsold inventories slipped into negative territory at –26.2% from a positive growth of 3.9% in 2018. This could be partly due to a slower expansion in production sub-index of Nigeria’s manufacturing PMI to 1.5% in FY’2019 relative to a growth of 9.4% in 2018 (Refer to the CBN’s PMI Report as at March 2020, retrievable via: https://www.cbn.gov.ng/documents/PurchManIndex.asp).

Meanwhile, given the predominance of gross fixed capital formation over unsold inventories, the share of domestic investment in real gross domestic product (GDP) rose to 17.2% in FY’2019 from 16.1% in 2018 (see Figure 8).

Net exports rebounds on higher growth in spending on exports over imports

In real terms, growth in imports continuously outpaced export growth throughout 2019 except in the third quarter of the year. Consequently, the growth in net exports rebounded from negative territory at –17.5% in 2018 to a positive growth of 7.6% in FY’2019. A breakdown of the net export components showed that growth in exports improved significantly to 15% in FY’2019 from a negative growth of -0.9% in the previous year. However, growth in imports declined to 27.3% in FY’2019 from 49.2% in 2018. The improvement in export spending in 2019 could be attributed to an increase in non-oil exports (mainly manufactured goods).
whose share of total export earnings jumped to 13% in 2019 from 6% in 2018. However, on a quarterly basis, net exports declined significantly by 19% to N3.4 trillion in Q4'2019 up from N4.2 trillion in the previous quarter (Q3'2019). This was largely due to the negative impact of land border closure which kicked off in August 2019 (Refer to the **NESG 2019 Foreign Trade Alert**, retrievable via: [https://www.nesgroup.org/research](https://www.nesgroup.org/research)).

**Figure 9:** Trend of Real Growth in Exports, Imports & Net Exports in 2018 & 2019 (%)

![Figure 9: Trend of Real Growth in Exports, Imports & Net Exports in 2018 & 2019 (%)](image)

**Source:** NBS & NESG Research

### Conclusion

The outbreak and rapid spread of coronavirus pandemic from Wuhan City of China to the rest of the world has metamorphosed into a global economic crisis, with the attendant adverse impact on demand & supply segments of the Nigerian economy in 2020 going forward. Specifically, the components of aggregate demand would be affected in the following distinct ways.

- **Household final consumption expenditure to continue its declining trend**

  To control the spread of the virus, lockdown and movement restriction policies were implemented in the Federal Capital Territory (FCT) and across several states such as Lagos, Ogun, Rivers, Delta, Kano, Kaduna, among others. Despite the relaxation in movement restrictions in some of these states, we expect a slow pace of recovery in household consumption expenditure growth. By virtue of its position as the largest contributor to aggregate spending, the slower growth in household consumption expenditure growth is expected to weaken aggregate expenditure growth in 2020 going forward.

- **Growth in domestic investment to reverse its gains**

  The outbreak of the coronavirus epidemic would reduce the supplies of intermediate inputs and impede technological transfers among countries. This ultimately gives rise to input supply disruptions as domestic firms shift towards costlier local inputs to remain in business; an attempt that is capable of eroding their profitability. Consequently, some businesses are likely to embark on job cuts as a way of mitigating the devastating effects of COVID-19 pandemic on their operations. Besides, prospective investors are expected to delay their final investment decisions in the country as a result. By extension, investment share of GDP is expected to decline in 2020.

- **Government spending to increase on providing palliative measures**
Against the backdrop of the increasing prevalence of COVID-19, the Nigerian government has embarked on providing palliative measures to households and businesses in order to offset the welfare loss associated with the epidemic. We therefore expect this component of aggregate spending to continue its upward trend in most parts of 2020 until normalcy is restored.

- **Net exports could be narrowed due to declining import & export volumes**

The demand for Nigeria’s crude oil has remained tepid due to business closures and industrial inactivity in the country’s largest oil trading partner, India. The slowdown in global production and the stigma associated with the rapid spread of coronavirus pandemic is expected to discourage excessive importation of goods and services. We therefore expect the growth in net exports to weaken in most parts of 2020 going forward.