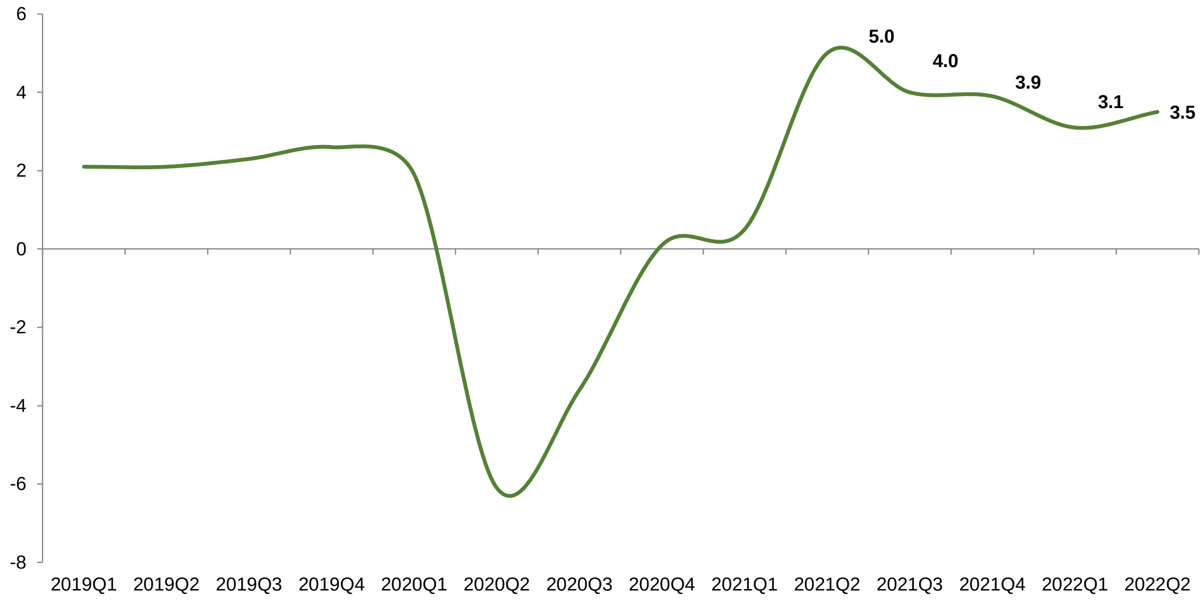
NESG 2022Q2 GDP Alert
August 2022

Nigerian economy expanded by 3.5 percent in 2022Q2

According to the National Bureau of Statistics (NBS), the Nigerian economy grew by 3.5 percent (year-on-year) in 2022Q2. This represents a slow pace of economic expansion relative to a 5.0 percent growth recorded in 2021Q2 (see **Figure 1**). However, on a quarterly basis, the economy contracted by 0.4 percent in 2022Q2. In the first half of 2022 (H1'2022), the real Gross Domestic Product (GDP) growth averaged 3.3 percent, compared with an average growth of 2.8 percent in the corresponding period of 2021 (H1'2021). In nominal terms, the size of the economy in 2022Q2 stood at N45 trillion (US$106.4 billion)[1].

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



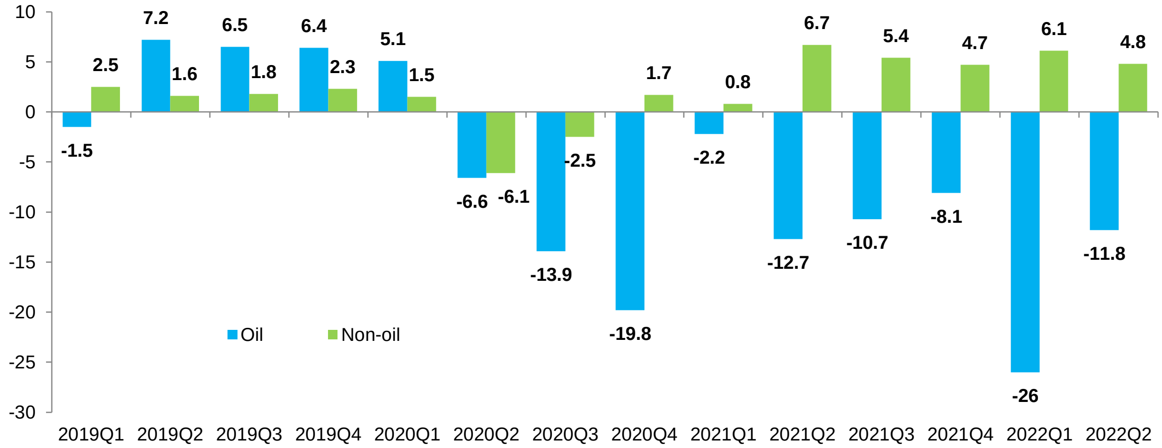
Data: NBS; Chart: NESG Research

The non-oil sector was the driver of economic growth, as the oil sector contracted further

Accounting for 93.7 percent of the total real GDP, the non-oil sector grew by 4.8 percent (year-on-year) in 2022Q2, representing a slowdown compared with a 6.7 percent growth in 2021Q2 (see **Figure 2**). In H1'2022, the non-oil sector expanded by 5.4 percent - an improvement compared with a growth of 3.8 percent in H1'2021. The growth of the non-oil sector ultimately mirrored the sustained growth recorded by activity sectors, including Agriculture, Manufacturing, Transportation & Storage, Information & Communications Technology (ICT), Construction, Real Estate and Finance, among others.

[1]We utilised the official exchange rate of N423/US$ as of August 2022 for currency conversion.

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



Data: NBS; Chart: NESG Research

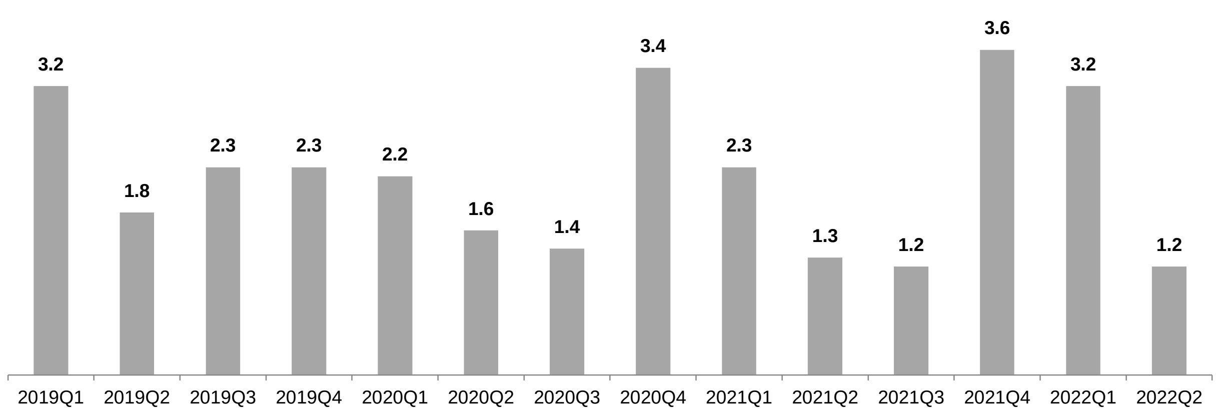
Meanwhile, the oil GDP declined by 11.8 percent and 18.9 percent in 2022Q2 and H1'2022 (see **Figure 2**). This represents further contraction relative to an oil output decline of 12.7 percent and 7.4 percent in 2021Q2 and H1'2021, respectively. The contraction recorded by the oil sector in 2022Q2 could be attributed to the fall in average domestic crude production to 1.4 million barrels per day (mbpd) from 1.6mbpd in 2021Q2. Moreover, the oil sector's performance defied the rally in global oil price, which averaged US$118.3/barrel in 2022Q2, compared with an average oil price of US$68.7/barrel in 2021Q2.

Sub-sector Assessment

The Agricultural sector struggled with slow growth in 2022Q2 amidst insecurity threats

The Agricultural sector expanded by 1.2 percent (year-on-year) in 2022Q2, compared with a 1.3 percent growth in the corresponding period of 2021 (see **Figure 3**). This could be attributed to the slow pace of growth recorded by sub-sectors, including crop production (1.5 percent) and forestry (1.3 percent) and fishing (0.9 percent). However, the livestock sub-sector contracted by 2.9 percent in 2022Q2. The growth drag in the Agricultural sector is attributable to rising insecurity.

Figure 3: Year-on-Year Growth of the Agricultural sector (percent)

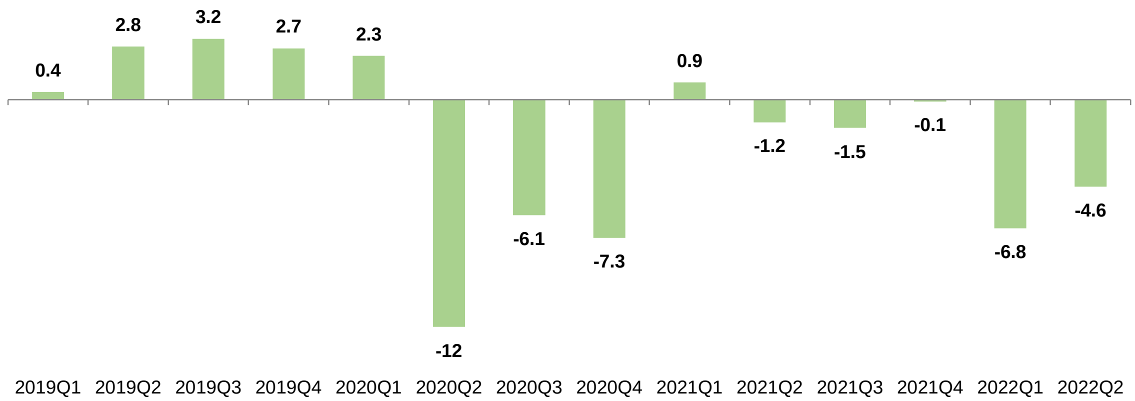


Data: NBS; Chart: NESG Research

The Industrial sector remained on the downside amidst persistent contraction in the crude petroleum and natural gas sub-sector

The Industrial sector further contracted by 2.3 percent (year-on-year) in 2022Q2 compared with an output decline of 1.3 percent in the corresponding period of 2021 (see **Figure 4**). This represents the fifth consecutive output decline recorded by the sector since 2021Q2. The contraction of the Industrial sector was driven mainly by negative growth recorded by the crude petroleum and natural gas sub-sector (-11.8 percent), which suppressed the growth in other key industrial activity sectors, including Manufacturing (3 percent), Construction (4 percent) and Water supply (23.7 percent) in 2022Q2. Out of the 20 industrial sector activities, 14 sub-sectors expanded while 6 activities contracted in 2022Q2.

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



Data: NBS; Chart: NESG Research

The Services sector outperformed other broad sectors, but activities slowed in 2022Q2

The services sector grew by 6.7 percent (year-on-year) in 2022Q2, relative to a 9.3 percent growth in the corresponding period of 2021 (see **Figure 5**). This represents the fifth consecutive growth recorded by the Services sector since the second quarter of 2021. The performance of the Services sector was driven by a slowdown in key activity sectors, including Trade (4.5 percent), ICT (6.6 percent), Real Estate (4.4 percent) and Finance (18.5 percent). Out of the 22 activities in the Services sector, 20 sub-sectors expanded while 2 activities contracted in 2022Q2.

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 Road transport led the 37 expanding sectors with strong growth of 56.4 percent in 2022Q2, followed by Coal mining (36.1 percent) and Water supply (23.7 percent) (see **Figure 6a**). On the flip side, activities contracted in 9 sub-sectors led by oil refining (-42.1 percent), followed by Rail transport & pipelines (-37.9 percent), Metal ores (-25.5 percent) and Crude petroleum & natural gas (-11.8 percent) (see **Figure 6b**).

Growth Performance of Activity Sector

Figure 6a: Top 10 Expanding Sectors (percent)

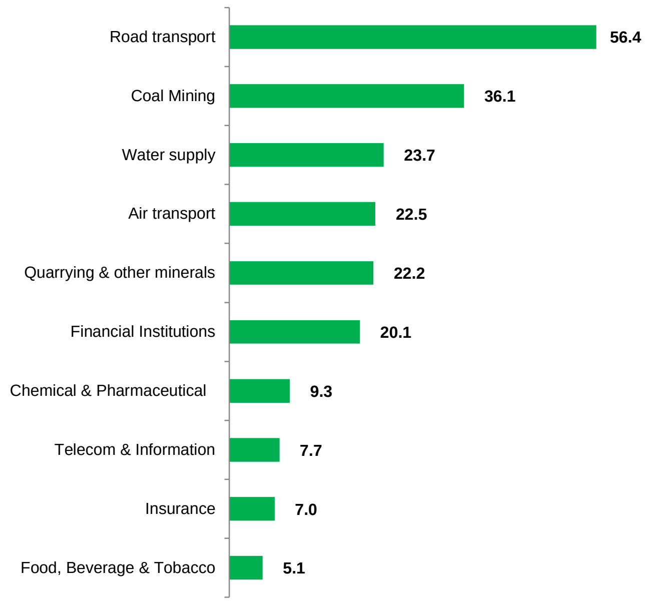
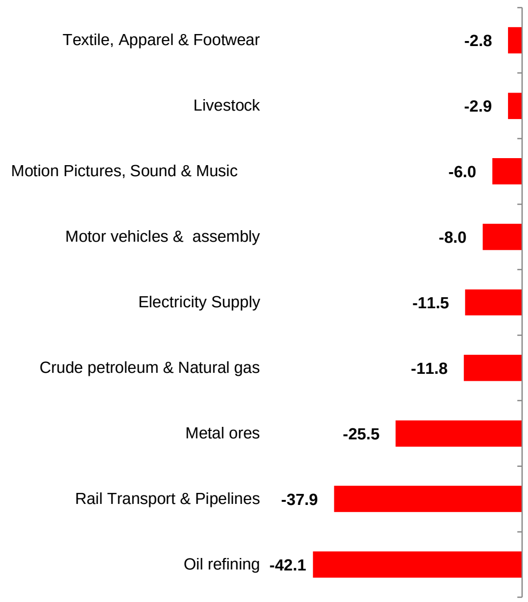


Figure 6b: Contracting Sectors (percent)



Data: NBS; Chart: NESG Research

Concluding Remarks

- There is much prospect for the Nigerian economy to expand by an average of 3-3.5 percent, in line with the IMF and World Bank's projections. The economy will be driven by the sustained growth of non-oil sector activities, including Agriculture, Trade, ICT and finance. Election spending would also support activities including printing and creative arts, food and accommodation, and transport. Nonetheless, there is an urgent need for critical sector reforms that will reposition the growth-enhancing and employment-elastic sectors to become attractive for foreign investment inflows.

- Even though the current GDP growth is the seventh consecutive quarter of economic expansion since Nigeria's recovery from recession in 2020Q4, the uncertainty linked to the persistent geopolitical tensions between Russia and Ukraine constitutes a significant downside risk for all countries, including Nigeria. Remarkably, mounting inflationary pressures and the monetary policy tightening response in advanced and developing countries are a direct fall-out of the crisis.

- The failure of Nigeria to reap the benefits of the global oil price rally could deepen if there is a persistent contraction in the oil and gas sector. By implication, Nigeria's trade surplus will not be sustained unless non-oil export products are prioritised and there is an improvement in domestic crude oil production, which remains below the OPEC's quota.

- The global supply chain disruptions caused by the Russia-Ukraine war have prompted countries to explore local resources. However, Nigeria's reliance on imported raw materials and intermediate inputs could reverse the growth performance of the Manufacturing sector. This, coupled with foreign exchange shortage and wide parallel market exchange rate premium, implies higher production costs for industry players.

- In addition, there is a herculean task before the Nigerian government to address the harsh business environment to make the country an attractive investment destination. Businesses in Nigeria face many obstacles that threaten their survival and expansion. Unless these bottlenecks, including multiple taxes, epileptic power supply, rising energy costs, insecurity, high logistic costs, and poor transport infrastructure, are addressed, the performance of businesses across sectors would be adversely affected.

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