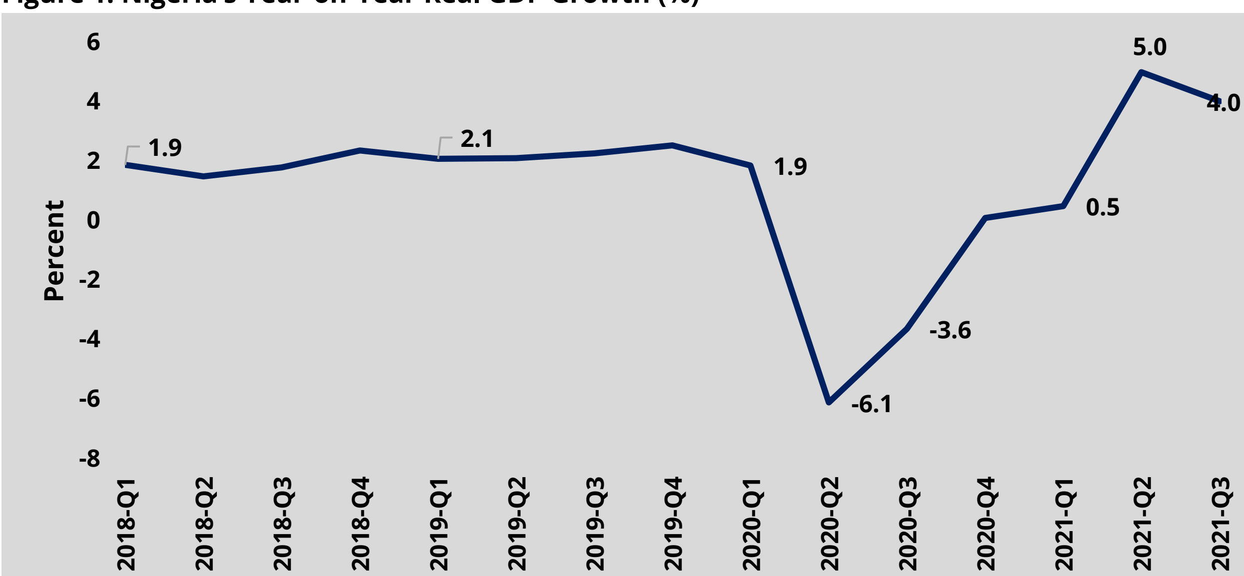
NESG GDP Alert for Q3'2021

November, 2021

Nigerian economy sustains recovery, expanded by 4% year-on-year in 2021Q3

According to data from the National Bureau of Statistics (NBS), Nigeria's real Gross Domestic Product (GDP) grew by 4% (year on-year) in 2021Q3 compared with a contraction of 3.6% in the corresponding period of 2020. The current level of growth, however, represents a slowdown relative to 2021Q2 (5%), which appeared to be the strongest quarterly growth since 2014Q4. It also marks the fourth consecutive economic expansion the country has experienced since 2020Q4. On a quarterly basis, the Nigeria's economy rebounded to 11.5% in 2021Q3. This impressive economic performance in the quarter received some boost from continued COVID-19 vaccination campaign coupled with subdued pressure of the global pandemic on economic activities around the world. In nominal terms, the size of the economy in the third quarter of 2021 stood at N45.9 trillion (US$111.7 billion)[1].

Figure 1: Nigeria's Year-on-Year Real GDP Growth (%)



Data Source: NBS; Chart: NESG Research

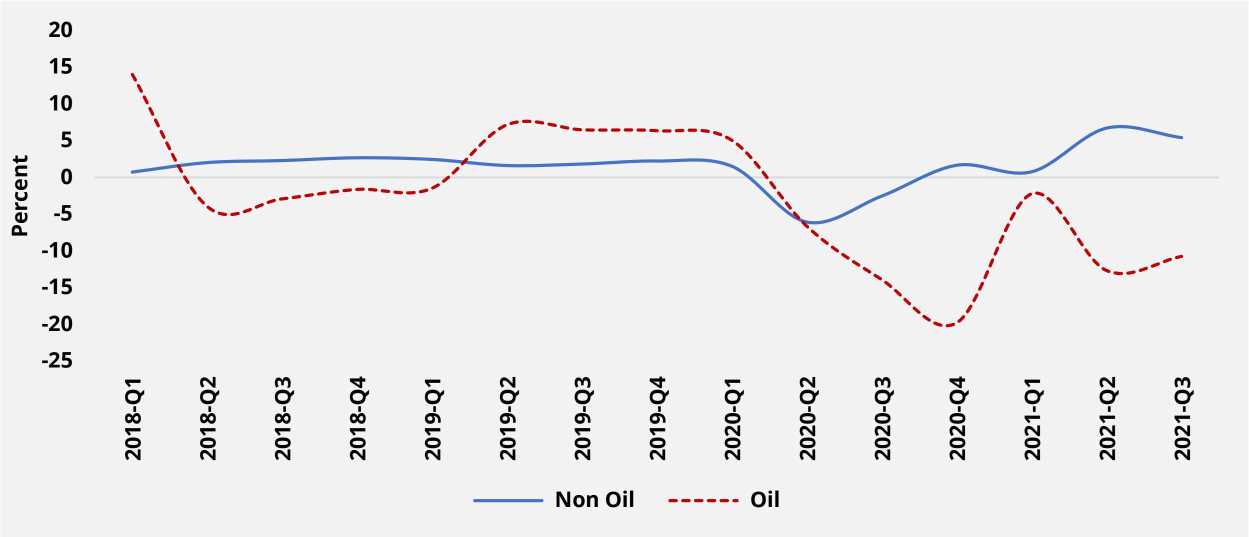
The non-oil sector was the main growth driver, whilst the oil sector is battling a recession

The rapid improvement in the overall economic activities was buoyed by the non-oil sector. Accounting for 92.5% of total real GDP in 2021Q3, the sector grew by 5.4% in the quarter. This represents a recovery from a contraction recorded in the corresponding period of 2020 (-2.5%), but a slowdown when compared with non-oil sector growth of 6.7% in 2021Q2. The stellar growth in the Services sector – which accounted for 49.7% of real GDP in 2021Q3 – significantly drove the performance of the non-oil sector in the quarter. Conversely, the oil sector – with a 7.5%

[1]We utilized the official exchange rate of N411/$ for currency conversion.

share in total real GDP – recorded a sixth consecutive contraction at -10.7% in 2021Q3. This could be largely due to a 6.3% (year-on-year) in crude oil production to 1.6 million barrels per day in 2021Q3.

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



Data Source: NBS; Chart: NESG Research

The Broad Sectors showed up mixed performances in 2021Q3

While it is acknowledged that the Agricultural Sector's contributions to total real GDP increased through the first three quarters of 2021, the growth of the sector was abruptly low and remained subdued over a similar period. The agricultural sector posted a slow growth at 1.2% in 2021Q3 compared with an expansion of 1.4% and 1.3% in 2020Q3 and 2021Q2, respectively. In 2021Q3, the performance of the agricultural sector reflected a significant slowdown in two sub-sectors - livestock (0.1% versus 2.3% in 2020Q3) and forestry (1.9% versus 2.6%) – as well as, an output contraction in the fishery sub-sector (-3.9%). Meanwhile, the growth of the crop production sub-sector was flat at 1.4% in 2021Q3. The relative stability in crop production sub-sector coupled with its quarter-on-quarter growth of 45.1% contributed significantly to tapering inflationary pressures in recent times. This is largely reflected in the continued moderation of food inflation from 22.7% in April to 18.3% in October 2021. Given that food items account for over 50% of Nigeria's consumption basket, the headline inflation fell, in tandem, from 18.1% in April to 16.9% in October 2021.

Persistent contraction in the crude petroleum and natural gas sub-sector weighed heavily on the performance of the Industrial Sector in 2021Q3. The Industrial sector recorded a second consecutive contraction at -1.6% in 2021Q3, relative to an output decline of -6.1% in 2020Q3. Subdued performance of the sector was largely driven by sustained contraction in the crude petroleum and natural gas sub-sector (-10.7%), which accounted for about 36% of the industrial sector output in the quarter. This poor performance was more than offset the impressive growth rates recorded in other key industrial sub-sectors in the quarter -

manufacturing (4.3% versus -1.5% in 2020Q3) and construction (4.1% versus 2.8%). Remarkably, the significant improvement in the manufacturing sector performance was largely driven by improved value-chain development - thanks to lessons from the pandemic-induced global supply chain disruptions - across many sub-sectors notably, food and beverages (grew by 6.1%), cement (by 5.6%) and chemical & pharmaceuticals (by 10%).

Figure 3: Real GDP Composition (%)

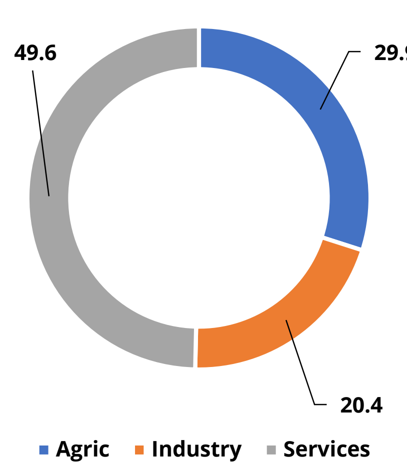
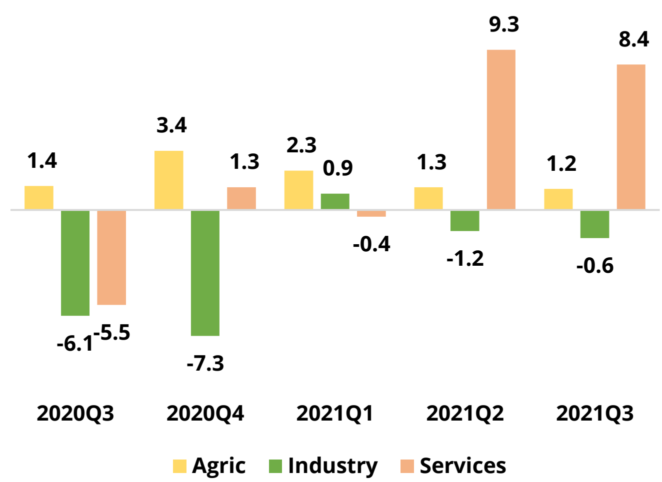


Figure 4: Year-on-Year Broad Sector Growth (%)



Data Source: NBS; Chart: NESG Research

The stellar growth recorded in the Services Sector was significantly driven by the impressive performances of heavy-weight activity sectors in 2021Q3. Thanks to sub-sectors including Trade, Information and Communications Technology (ICT) and Real Estate, the Services sector expanded by 8.4% in 2021Q3 compared with a contraction at -5.5% in the corresponding period of 2020. This marks the sector's second consecutive quarterly growth so far in the year 2021. The Services sector benefitted from rapid growth rates recorded in many activity sectors in the quarter, notably, Trade (11.9% versus -12.1% in 2020Q3), ICT (9.7% versus 14.6%) and Real Estate (2.3% versus -13.4), which jointed accounted for 70% of the total Services real GDP in 2021Q3. The strong recovery of the Services sector could be attributed to the return to less stringent pandemic-induced lockdown restrictions across countries, with the main beneficiary being the Trade sector. The International Monetary Fund (IMF) expects the volume of global trade to grow by 9.7% in FY'2021 from a contraction at -8.2% in 2020.

The overall economic growth in the third quarter of 2021 was buoyed by improved performances across activity sectors. A further breakdown of the 2021Q3 growth numbers showed that 40 out of 46 sub-sectors expanded, while 6 sub-sectors contracted. The growing sub-sectors were led by metal ore (54.9% versus -6.2% in 2020Q3), key activities in the Transportation and storage sector – Rail transport and pipelines (59.9% versus -46.5%) and Air Transport (33.3% versus 38.9%) and Road Transport (21.1% versus -46.6%) - and financial institutions (25.5% versus 6.8%). Sub-sectors in contraction region were led by Oil refining (-

47.8%), followed by crude petroleum and natural gas (-10.7%), Coal mining (-4.2%), Quarrying (-4.2%), fishery (-3.9%) and public administration (-0.2%).

Will Nigeria mar or beat Growth Forecasts in FY'2021?

With strong growth rates recorded in Q2 and Q3, cumulatively, the Nigerian economy expanded by 3.2% in the first three quarters of 2021. To realize the 2021 budget benchmark growth rate of 3%, the country requires a growth of at least 2.5% in the fourth quarter of the year. While this expected quarterly growth represents a slowdown, the 3% growth projection for FY'2021 is quite similar to several industry estimates. The IMF and the NESG expected the economy to expand by 2.6% and 2.9% (best-case scenario), respectively, in 2021 from a contraction at -1.9% in 2020. The Nigerian economy could either mar or beat these expectations considering a pocket of factors, which among others, include:

- ✓ Consumer demand due to festivities
- ✓ Government spending – particularly CAPEX
- ✓ Policy and regulatory consistency
- ✓ Investment inflows into growth enhancing and employment elastic sectors
- ✓ Insecurity
- ✓ Harvest season
- ✓ Transport infrastructure and logistics, and
- ✓ Foreign exchange management – which currently targets forex demand over supply.

Concluding Remarks

- **The drive for investment inflows is central to growth acceleration and reaping the dividends of high growth in terms of massive job creation and poverty reduction.** In spite of the positive growth trajectory, the current level of economic growth is rather weak and replicates the trends observed in post-2016 recession era. This suggests that to become strong and resilient, the country needs a high and sustainable economic growth that is accompanied by job creation and poverty reduction. The NESG in its 2021 Macroeconomic Outlook Report pointed out that the Nigerian economy would expand by 2.9% in 2021 under its Best-Case Scenario, as long as, key policy measures are deployed to improve the environment for higher investment inflows. In order to achieve this feat, the Report highlights four priorities that are central to achieving strong economic recovery going into 2021, and they only include: macroeconomic stability, policy and regulatory consistency, sector reforms and human capital development. In the absence of these measures, Nigeria would only realise an average growth of 0.9% in 2021 under the moderate or business-as-usual scenario.

- **Nigeria needs to reverse the narrative of being a net food importer and engender improved food security.** Statistics shows that the Nigerian economy has overtime remained a net importer of food items and other agricultural products. The net import value of agricultural products spiked to more than double to N1.4 trillion in 2020 relative to 2019 (N689.7 billion). This suggests the urgent need to address structural bottlenecks undermining the performance of the agricultural sector including:

- Insecurity
- Land fragmentation
- Low farm mechanization
- Limited access to quality and affordable farm inputs
- Illiteracy and limited access to modern technology
- Poor storage facilities, and
- Inaccessibility of urban markets due to dearth of adequate road and rail networks

There is also the need to create more awareness among smallholder farmers about the existence of Agtech solutions. The advent of fourth industrial revolution (4IR) promises a change in the structure and productivity of the agricultural sector, with the emergence of Agri-tech/Agtech solutions start-ups, which are still at their nascent stage in Nigeria.

- **The significant improvement in manufacturing sector growth suggests the urgent need to redouble efforts to boost non-oil exports.** The manufacturing sector largely benefitted from the pandemic-induced global supply chains as the industry players were forced into local sourcing of raw materials and intermediate inputs. Improved support for domestic value chain development would not only contribute significantly to overall economic growth, but would also boost the export performance of the non-oil sector. Moreover, the coming on board of the 65,000 barrel-capacity Dangote Refinery in the year 2022 would narrow the contraction of the oil refining sub-sector and sustain the impressive performance of the overall manufacturing sector over the medium term. Improved domestic refining capacity would save the country a large chunk of foreign exchange that could have been expended on the importation of refined fuel products. To bolster the performance of the manufacturing sector, investment-friendly policy and institutional environment would be worthwhile. There is also a need to address the sector's growth constraints including: foreign exchange shortage, infrastructural and logistic bottlenecks and policy inconsistency and regulatory distortions, among others.

- **Sustained recovery of the Services sector relies mainly on the performance of the key sub-sectors.** The key activities in the Services sector – ICT, Trade and Real estate – which constitute 70% of the total Services real GDP in 2021Q3 remain the growth drivers of the sector, going forward. There is need for the influx of investments into the telecoms sector to alleviate the infrastructure challenges and meet the rising demand for ICT-related products (voice and data subscriptions, among others). Improvement in consumer demand is central to sustaining the recovery of the Real estate sector. In addition, eliminating the non-tariff barriers to trade including improved transportation networks (road and rail) and logistics are key to harnessing the opportunities associated with the African Continental Free Trade Area (AfCFTA) agreement, as this would further boost the performance of the Trade sector.

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 to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

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