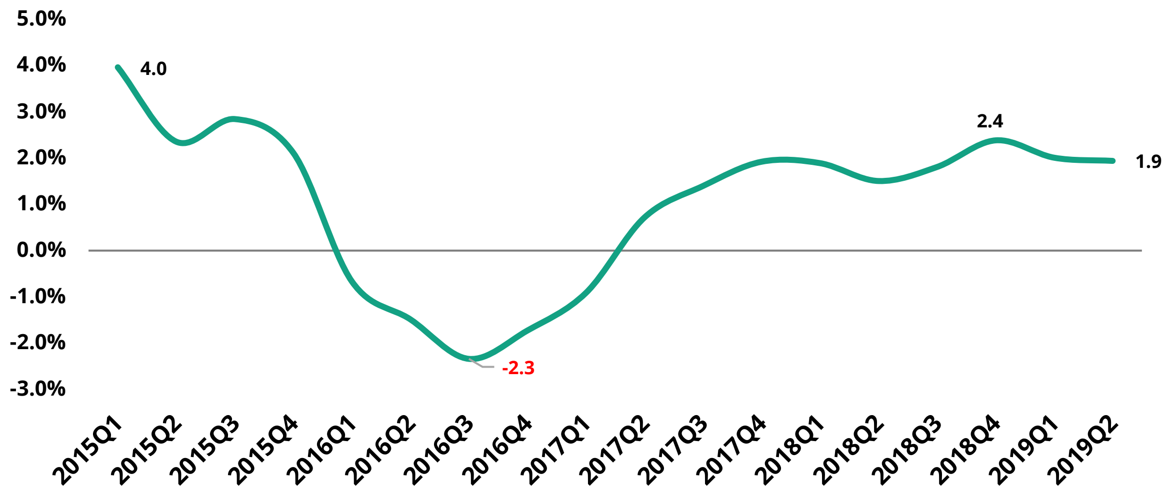
NESG GDP Alert

September 2019

Business as usual, as Nigeria's economy expands by a modest 1.9% in 2019Q2

Nigeria's real Gross Domestic Product (GDP) expanded by 1.9% in the second quarter of 2019, marginally lower than 2.01% recorded in 2019Q1. This marks the 8th consecutive positive growth since Nigeria's exit from recession in 2017Q2. This is also an improvement over the 1.5% recorded in the corresponding quarter of the previous year (2018Q2). As a result, nominal output was valued at N34.9 trillion, 9.8% higher than the previous quarter and 13.8% over 2018Q2. However, after adjusting for inflation, real GDP for the period dropped drastically to N16.9 trillion. Consequently, in the first half of 2019, real GDP grew by 2.0% from 1.7% in 2018 H1.

Figure 1: Nigeria's Real GDP Growth Rate (%)



Source: National Bureau of Statistics and NESG Research

Mixed Fortunes in Non-Oil and Oil Sectors' Performance

After four consecutive quarters of negative growth, the oil sector turned the corner and grew by 5.2% in the second quarter of 2019, compared to -1.5% in 2019Q1 and -4% in 2018Q2. Growth in this sector was triggered by higher crude oil output, which stood at an average of 1.98 million barrels per day (mbpd) in the quarter (2018Q2: 1.8mbpd). On the other hand, non-oil sector's growth declined to 1.6% relative to 2.5% in 2019Q1 and 2.1% in 2018Q2. Despite the stellar performance of the oil sector, its share of GDP declined to 8.8% (Non-oil: 91.2%) during the quarter from 9.2% in the previous quarter.

Figure 2: Oil vs Non-Oil Growth Rate (%)

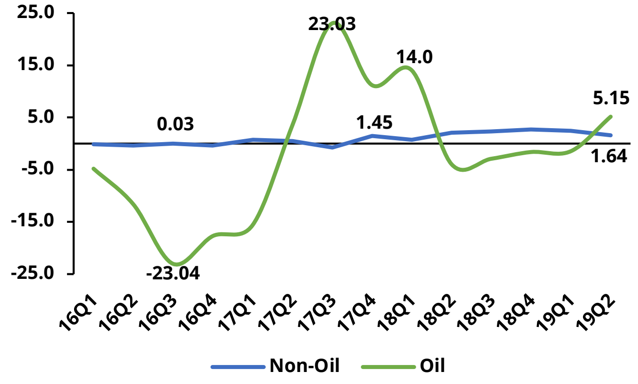
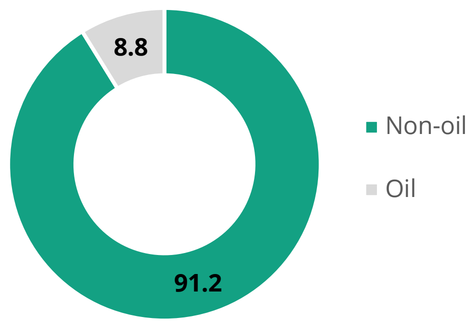


Figure 3: Share of GDP- Oil vs Non-Oil in 2019Q2 (%)



Source: National Bureau of Statistics and NESG Research

Telecommunications, Oil and Crop Production Sub-sectors made the highest impact on GDP Growth

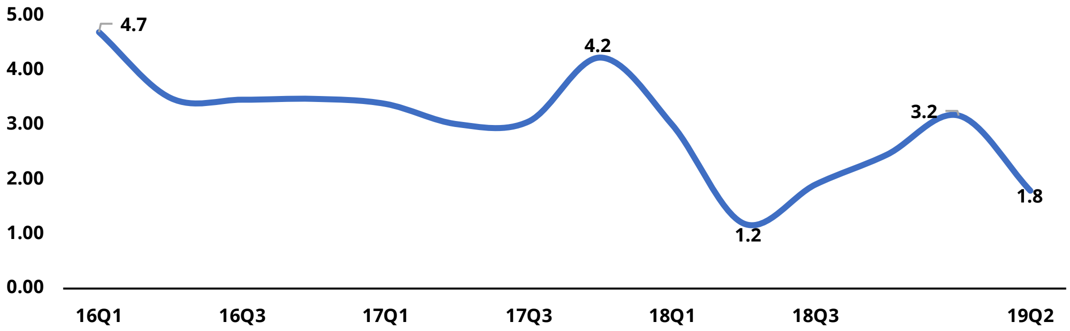
In the second quarter of 2019, the following sectors contributed the most to overall GDP growth. Telecommunications accounted for 60.8% of total GDP growth, Oil (22.7%) and Crop Production (20.4%). Conversely, Real Estate (-13.5%), Financial Institutions (-5%) and Public Administration (-4%) exerted a downward pressure on overall growth.

Sub-sector Assessment

Agriculture Growth Slows as Livestock Sub-sector tumbles

The Agricultural sector grew by 1.8% in the second quarter of 2019, higher than 1.2% achieved in 2018Q2, but lower than the 3.2% recorded in the previous quarter. Agricultural output accounted for 22.8% of real GDP in 2019Q2, compared to 22.9% in 2018Q2 and 21.9% in 2019Q1. With the exception of Livestock sub-sector which contracted by 0.01%, the three sub-sectors expanded in the quarter – Forestry grew by 3.2%, accounting for 1.28% of Agriculture output; followed by Crop Production, 1.9% (share of Agriculture output – 89.3%) and Fishing, 1.1% (2.1%).

Figure 4: Agriculture Sector Growth (%)

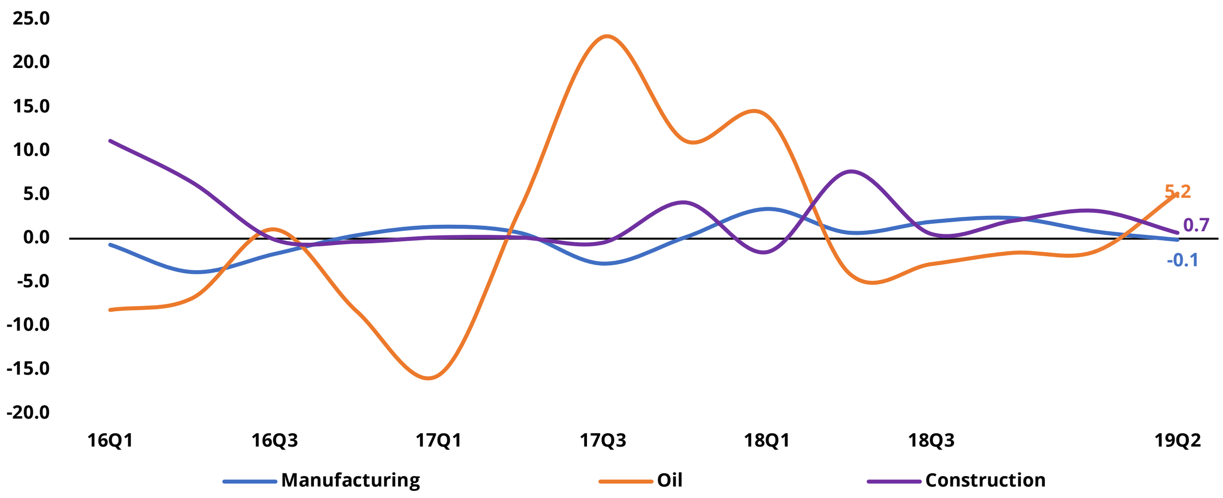


Source: National Bureau of Statistics and NESG Research

Industries Buoyed by Oil Sector Growth

The industrial sector was the best performer of the three broad sectors, as it expanded by 2.1% in 2019Q2, its highest level in the last five quarters. Its share of real GDP during the quarter was 23.2%, lower than 2019Q1 (23.6%), but marginally higher than 2018Q2 (23.2%). Sub-sectoral breakdown showed a mixed performance. On one hand, we can infer that the impressive improvement of the industrial sector was as a result of Mining and Quarrying activities, especially in Crude Petroleum and Natural Gas (oil sector).

Figure 5: Key Industrial Sub-Sectors Growth (%)



Source: National Bureau of Statistics and NESG Research

The Oil sector, which accounted for 38% of activities under industries, expanded by 5.2%, its highest since 2018Q2. However, the manufacturing sector, which held a 39.2% share of Industrial output, contracted by 0.1% for the first time since 2017Q3. This negative growth can be largely attributed to the 23.8% contraction of the Oil Refining sub-sector. Other key industrial sub-sectors – Food, Beverage and Tobacco sub-sector (18.1%) and Construction (19.2%) recorded modest growth of 1.2% and 0.7% respectively.

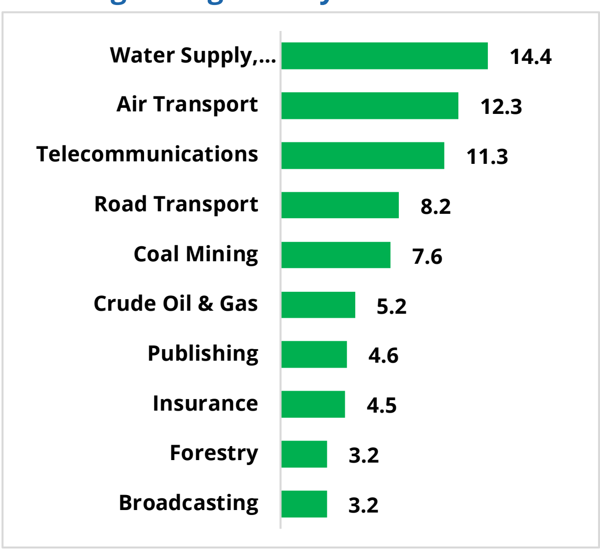
Services loses Ground as Trade Sub-sector Falters

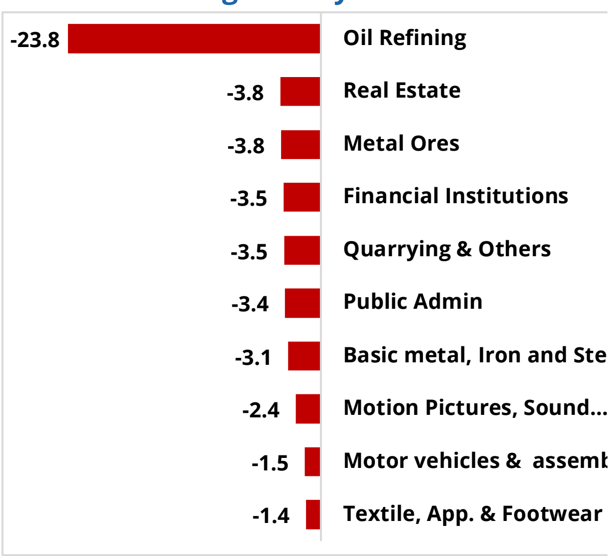
Nigeria's largest sector, Services, recorded lower growth of 1.9% in 2019Q2, as opposed to 2019Q1 (2.41%) and 2018Q2 (2.12%). The sector's share of real GDP stood at 54% in the quarter. Trade sub-sector, which had the highest share of Service activities, contracted by 0.25%; Real Estate sub-sector (share of services – 11.93%) also recorded negative growth of 3.84%. However, Telecommunications sub-sector (share of services – 21.10%) helped cushion the adverse effect of the former with a growth of 11.34%. The Telecommunications sub-sector has maintained double-digit growth over the last five quarters.

Fast-Growing vs Fast-Declining Sectors

Over all the 46 activity sectors, 31 expanded, while 15 recorded declines in real output in 2019Q2. Interestingly, activities that featured in the top five fast-growing sectors were mainly Service sub-sectors, while the Industrial sub-sectors dominated the decliners.

Figure 6: Fast-Growing vs Fast Declining Sectors (%)





Source: National Bureau of Statistics and NESG Research

Conclusion

- **Current growth remains weak as the economy recovers slowly.** Economic growth remained meek despite the recovery of the oil sector. Given the hitch-free electoral process relative to previous elections which doused some level of uncertainties, there were anticipation of high growth figures especially in the second quarter. However, current growth rate is below expectation and alludes to the fact that economic recovery is considerably slow. The relapse in the performance of key sectors, especially Trade, Manufacturing and Agriculture is a major source of concern.

- **Nigeria's growth pattern raises the need for social and economic inclusion.** According to the National Bureau of Statistics, Agriculture, Manufacturing and Trade sectors employ 69.1% of the Nigerian labour force. However, output growth of these sectors has either slowed or contracted during the period. For the first time since the third quarter of 2017, manufacturing sector's growth rate was negative. Trade has exhibited negative growth for the first time in 4 quarters while growth in the agricultural sector has weakened overtime. Because these sectors have greater weight in employing the labour force and also given their potential for value creation, among other factors, we believe that the government needs to prioritize their growth and development. Support interventions should focus on easing regulatory hurdles, infrastructure-based development and local content promotion among others.

- **Real economy in dire need of support.** Clearly, the Nigerian Manufacturing sector is in urgent need of support. Despite being a crucial employer of labour in Nigeria, the sector's inherent weakness is reflected in its poor contribution to GDP; weak contribution to exports (3.4% of total exports in 2018), government revenue and foreign exchange; and high share of manufactured goods in total imports, which stood at 55% in 2018. The development of key manufacturing sub-sectors needs to happen at a rapid pace and within a broader framework of a long-term industrial and national development plan. Nigeria needs an industrial policy with clear goals for industry covering the manufacturing sector.

Overall, there is an urgent need to promote capital flows through investment-friendly policies and environment. Investment is a critical component in bolstering GDP owing to its multiplier effect. The ability to attract stable investment is dependent on business/investor confidence and the ensuing return on investment. Issues of security of lives and properties, policy clarity and swift implementation are crucial to attract and sustain both domestic and foreign investment into key sectors of the economy.

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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