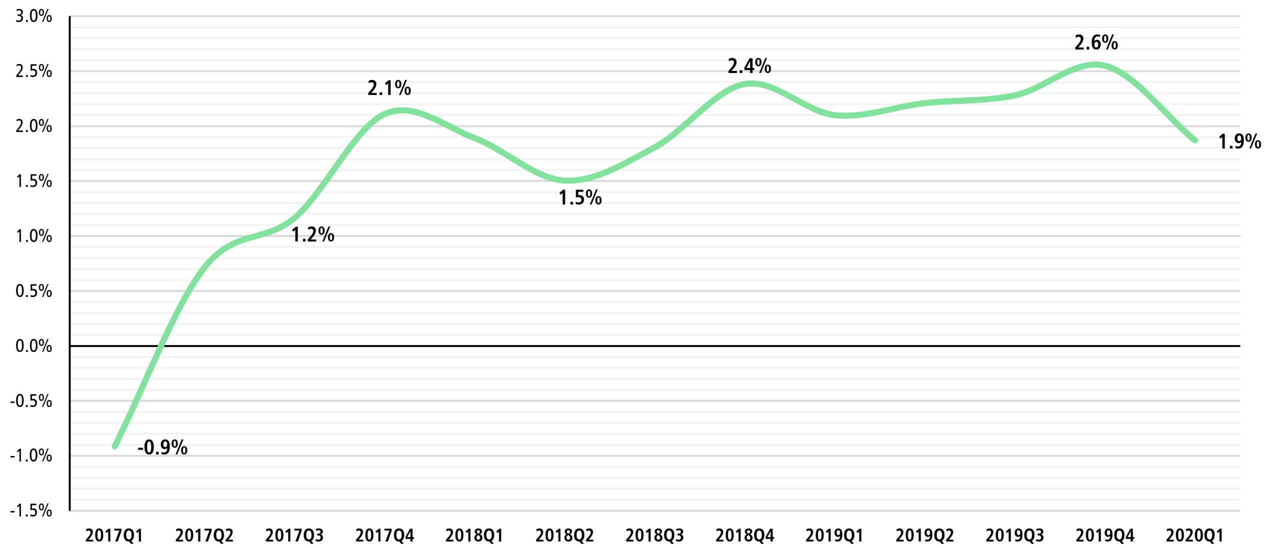
NESG Q1’2020 GDP Alert

May 2020

Nigeria records a slower GDP growth rate of 1.9% in the first quarter of 2020

According to the National Bureau of Statistics (NBS), the Nigerian economy expanded by 1.9% year-on-year in Q1’2020 compared with a growth of 2.1% in the corresponding period of 2019 (Q1’2019). The current year-on-year growth rate also represented a slow pace of expansion relative to Q4’2019 (2.6%). On a quarter on quarter basis, economic growth slipped into negative territory at -14.3% in Q1’2020 from a positive growth of 5.6% in Q4’2019. This represented the highest quarter-on-quarter contraction since the last recession in 2016. The slow pace of growth could be largely attributed to the effects of COVID-19, which has resulted in the persistent decline in global crude oil prices coupled with weak demand for Nigeria’s crude on the global market. In addition, the unprecedented disruptions to global supply chains have crippled regular supplies of imported inputs for use in the country’s manufacturing sector. In nominal terms, the size of the economy in the first quarter of 2020 was N35.6 trillion (US$100 billion).[1]

Figure 1: Nigeria’s GDP growth rate



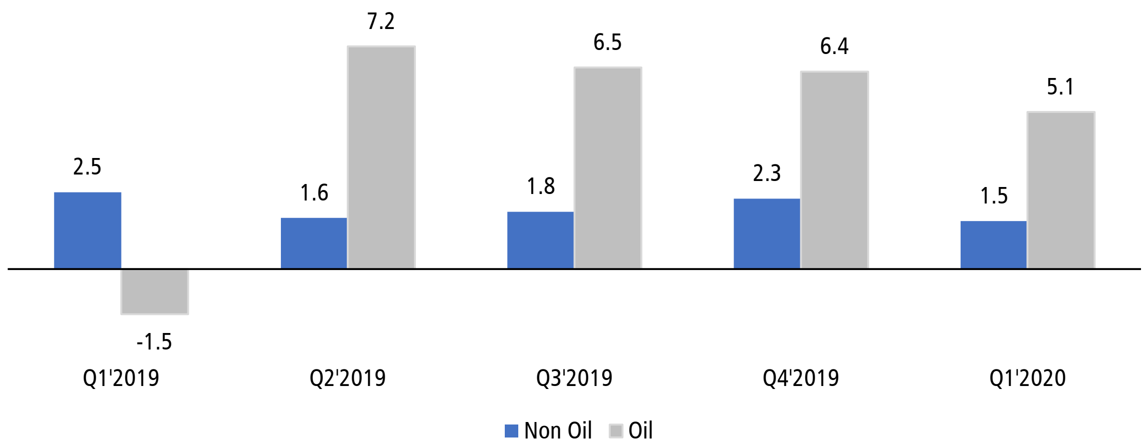
Data: NBS; Chart: NESG Research

Growth slowed in oil and non-oil sectors in Q1’2020 (year-on-year)

The non-oil sector which accounted for 91% of the overall real GDP in Q1’2020 posted a growth decline from 2.3% (year-on-year) in Q4’2019 to 1.5% in Q1’2020. The slow growth of the non-oil sector reflected the poor performances of agricultural, manufacturing and services sectors. On the other hand, the oil sector grew by 5.1% in Q1’2020, a significant improvement from the negative growth of 1.5% in Q1’2019. This was partly due to an increase in average domestic crude oil production to 2.1 million barrels per day (mbpd) in Q1’2020 from 2 mbpd in Q1’2019. When compared with the oil sector, the non-oil sector was the most hard-hit by the effects of coronavirus pandemic on global value chains.

Figure 2: Growth rate of Oil & Non-oil Sectors (Year-on-Year, %)

[1]The interbank exchange rate has been devalued from N306/$ in 2019 to N360/$ currently. We therefore utilized period-specific exchange rates for currency conversion.



Data: NBS; Chart: NESG Research

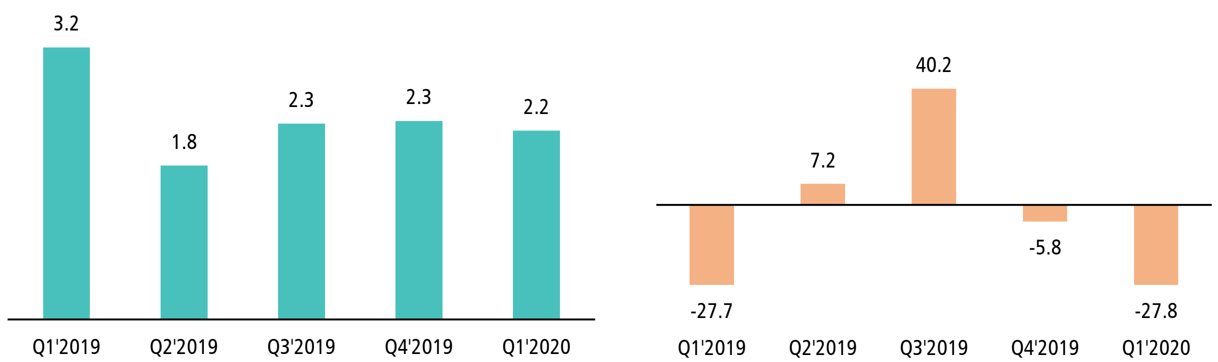
Sub-sector Assessment

The Abysmal Performance of Agriculture sector was largely driven by slowdown in Crop Production

The growth of the agricultural sector in Q1’2020 stood at 2.2%, slower than its level in the corresponding period of 2019 (3.2%). It also represented a 100-basis point decline when compared with the sector’s year-on-year in Q4’2019 (2.3%). When compared with the previous quarter, the sector contracted further by -27.8% in Q1’2020. This performance was accentuated by contractions in crop production (-30%), forestry (-15.2%) and livestock (-12.8%). Fishing, on the other hand, recorded a quarter-on-quarter growth of 13.4% in Q1’2020.

Growth Performance of Agricultural Sector

Figure 3a: Year-on-Year Growth (%) | Figure 3b: Quarter-on-Quarter Growth (%)

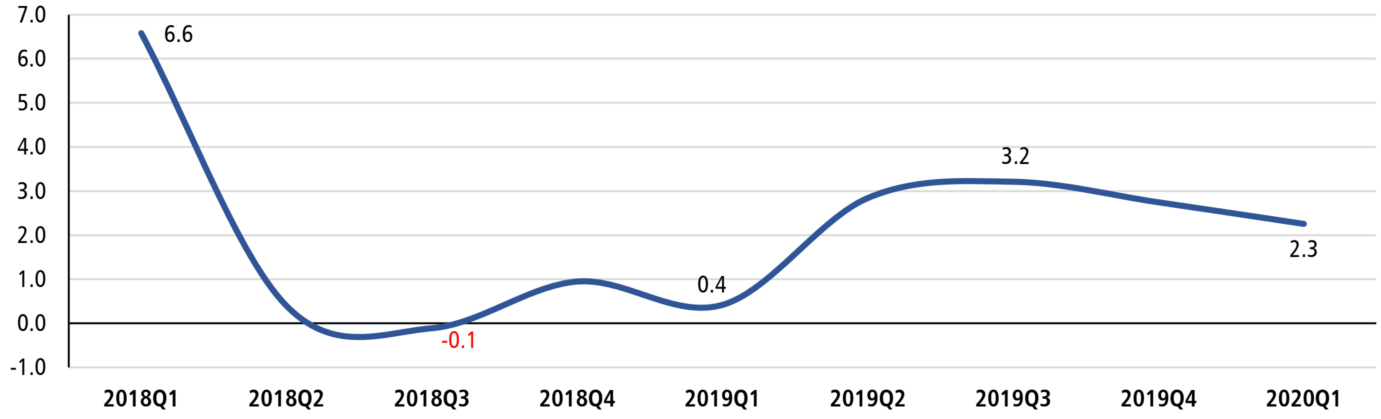


Data: NBS; Chart: NESG Research

The sudden outbreak of COVID-19 tests the resilience of the Industrial Sector

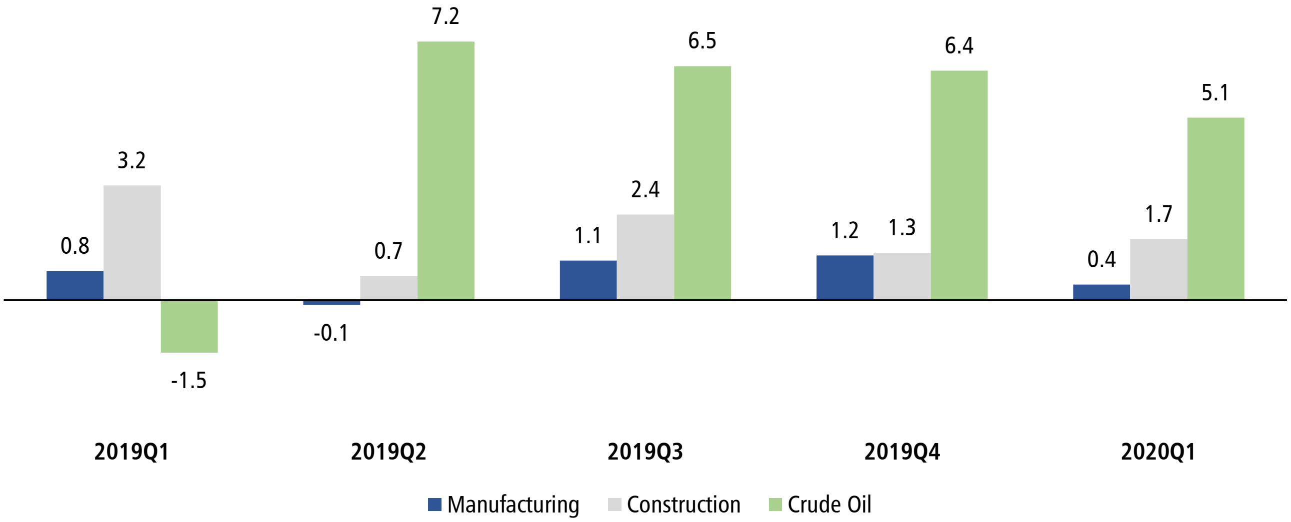
The industrial sector grew faster by 2.3% in Q1’2020 compared with its level in the corresponding period of 2019 (0.4%). Growth of the sector was driven by the oil sector, which expanded by 5.1% in the quarter following improved oil production. Other sectors such as manufacturing and construction recorded slower growth in the quarter at 0.4% and 1.7% respectively. The slowdown of the manufacturing sector growth could be attributed to a sharp production decline in the oil refining sub-sector. This indicates deteriorating condition of the local refineries which have overtime performed below full capacity.

Figure 4: Growth Performance of the Industrial Sector (%)



Data: NBS; Chart: NESG Research;

Figure 5: Growth Performance of major Industrial Sub-Sectors (%)

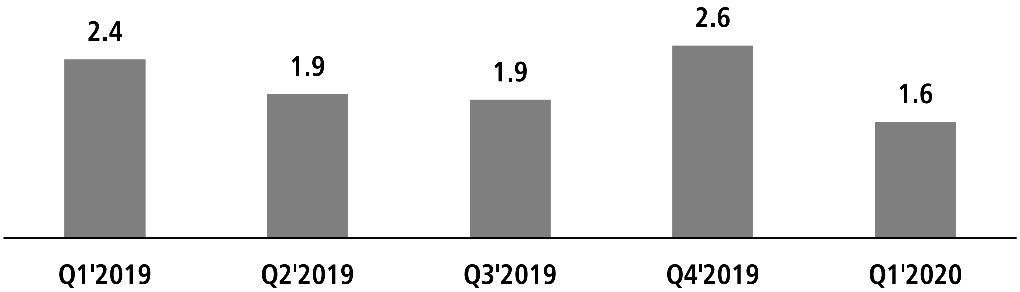


Data: NBS; Chart: NESG Research;

Services sector growth was largely impacted negatively by COVID-19

The services sector grew by 1.6% (year-on-year) in Q1'2020 relative to its level in the corresponding period of 2019 (2.4%). Similarly, the year-on-year growth was slower when compared with its level in Q4'2019 (2.6%). The deceleration of the sector's growth was largely due to contractions in major sub-sectors including trade (-2.82%), real estate (-4.75%), accommodation & food services (-3%) and public administration (-8.72%). This was a direct fall-out from the implementation of social distancing policies to contain the spread of the COVID-19 across the country. Out of the 14 activities in the services sector that expanded in 2020, 11 sub-sectors recorded a slow pace of growth while 3 sub-sectors grew at a faster rate. However, activities contracted in the remaining 8 sub-sectors in 2020.

Figure 6: Growth Performance of Services Sector (%)



Data: NBS; Chart: NESG Research

Sectoral Breakdown of Growth - Top and Bottom 10 sub-sectors

A further breakdown of the growth numbers showed that financial institutions led the 30 expanding sectors with a growth of 24%, followed by telecommunication and information services (9.7%), air transport (5.7%) and crude petroleum & natural gas (5.1%). On the flip side, activities contracted in 16 sub-sectors led by mining & quarrying sector including quarrying (-83%), oil refining (-52.8%) and coal mining (-43.4%).

Growth Performance of Activity Sector

Figure 7a: Top 10 Growing Sectors (%)

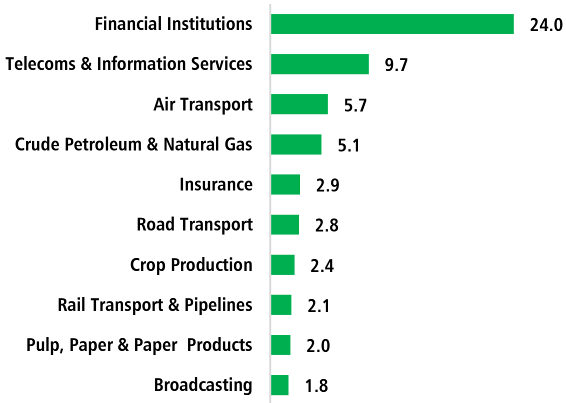
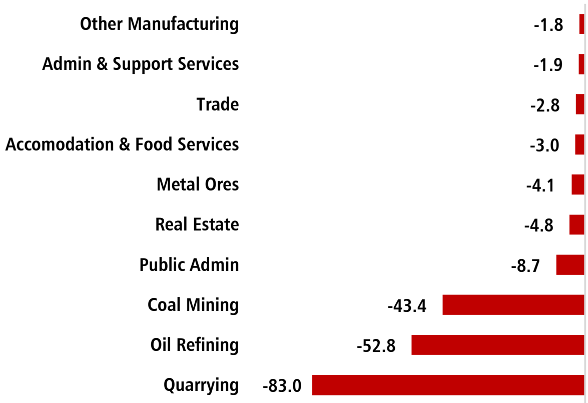


Figure 7b: Bottom 10 Declining Sectors (%)



Data: NBS; Chart: NESG Research

Conclusion

- ***Slow growth in Q1 further supports the assertion that a recession is looming***

It is no news that the rapid spread of coronavirus epidemic across world economies has adversely impacted global value chains. With the manufacturing sector depending largely on imported intermediate inputs, the Nigerian economy is expected to suffer a growth decline in coming quarters. Several industry estimates point to the fact that the country would slip into a recession. NESG revised growth for 2020 showed an economic contraction of 4.1% in the best-case scenario and 7.3% in the worst-case scenario.

- ***Persistent slowdown in Agriculture sector implies that inflation pressures would continue its upward trend in coming months***

The crop production sub-sector contracted by 30% (quarter on quarter) in Q1'2020. A persistent decline in quarter-on-quarter growth in crop production – which accounted for 88% of agricultural GDP – would mean higher food inflation in coming months. Given that food items accounts for over 50% in Nigeria's consumer price index (CPI), the slowdown in food production would further intensify the upward pressure on the overall inflation rate going forward. The headline inflation stood at a 13-month high of 12.3% in April 2020.

- ***The construction sector is expected to contract in coming quarters on further downward review of budgetary estimates***

On the backdrop of Nigeria's overreliance on crude oil proceeds for fiscal revenues and forex receipts, the plunge in crude oil prices arising from COVID-19 pandemic has translated into some policy shifts in recent times. These include a two-consecutive reduction in oil price benchmark to $25/barrel from $57/barrel in the initial 2020 budget. In addition, capital expenditure estimate was also reduced in the revised budget. This would have a negative impact on the construction sector, which depends on government intervention and public sector financing, thereby, reversing the positive growth trend of the construction sector in coming quarters.

- ***Trade Sector is expected to decline further; while ICT will expand***

With the gradual ease in lockdown policies, we do not expect the trade sector to recover quickly from its age-long negative performance prior to the spread of coronavirus into Nigeria. The closure of land borders since the fourth quarter of 2019 has kept the trade sector in negative growth trajectory. Meanwhile, the social distancing policies as well as the shutdown of non-essential economic activities in April will have a huge negative impact on the trade sector. For ICT, stay-at-home policies have led to a significant demand for ICT services such as teleconferencing, video-conferencing and telecommunication, among others. The sector is expected to achieve a sustained growth momentum in coming quarters.

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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