NESG Q3'2020 GDP Alert

November 2020

Nigeria slid into a second recession in 5 years, GDP contracted by 3.62% in Q3'2020

On the 21st of November 2020, the National Bureau of Statistics (NBS) published the much-awaited Gross Domestic Product (GDP) figures for the third quarter of 2020 (Q3'2020). The report revealed that the Nigerian economy declined by 3.62% Year-on-Year (YoY) in Q3'2020. With this contraction, the economy has slid into another economic recession following two consecutive quarters of negative GDP growth (the economy contracted by 6.1% in Q2'2020). Aside from COVID-19, issues of FX market illiquidity, rising inflation, lower real consumer demand and tough business environment are factors that triggered the current recession. However, the depth of contraction is huge when compared with the previous recession in the second quarter of 2016 (see figure 1a).

The size of this quarter's GDP growth represents an improvement over Q2'2020. This improvement is as a result of the easing of COVID-19 pandemic-related restrictions and further re-opening of the economy. Various government interventions programmes aimed at quickening the economic recovery process also played a role in this. The report also showed a deeper contraction of the oil sector while the non-oil sector improved - but still within the negative growth region.

Figure 1: Nigeria's Real GDP Growth and Movement of PMI

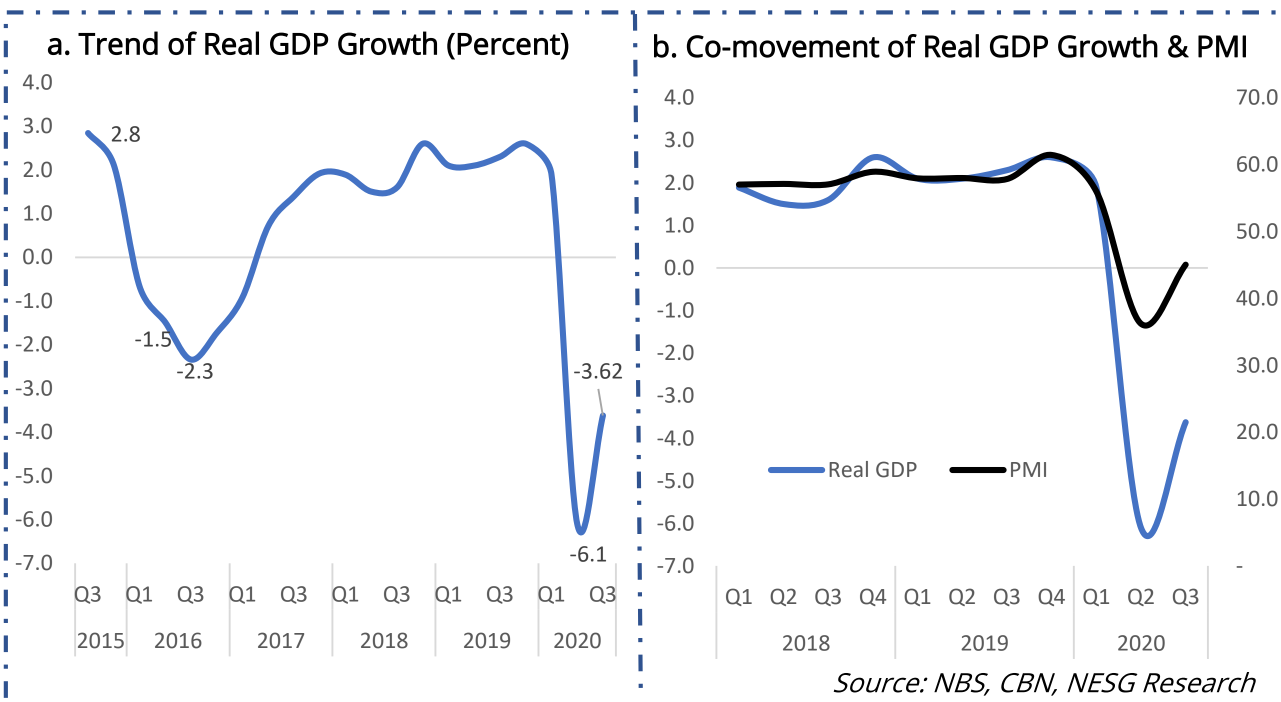
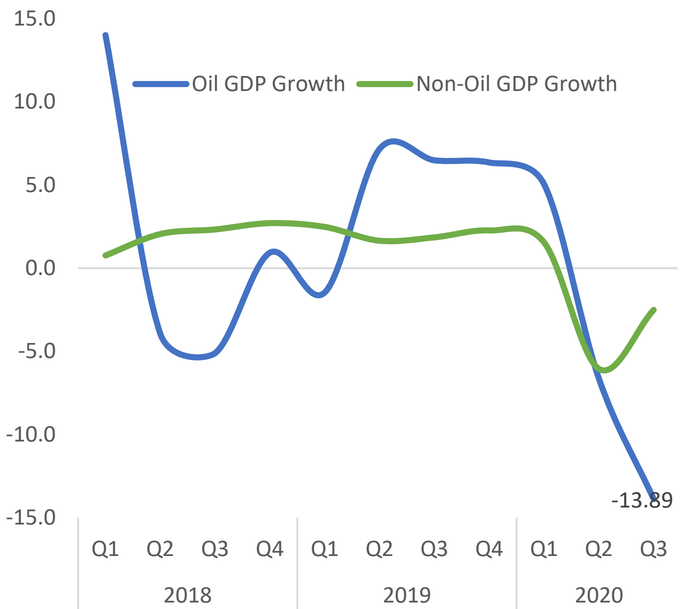


Figure 2: Real GDP Trend of Oil and Non-Oil Sectors



Source: NBS, NESG Research

Oil and non-oil sectors maintained negative growth rates in Q3'2020

The oil sector declined by 13.89% YoY in Q3'2020 (against a growth of 6.49% in Q3'2019). The poor performance of the oil sector is evident in the low oil production within the period (oil production declined by 18.6% to 1.49 million barrel/day in Q3'2020 from 1.83 million barrel/day in Q2'2020). This is a resultant effect of COVID-19, which weakened global oil demand and prompted supply cuts from both OPEC and non-OPEC countries.

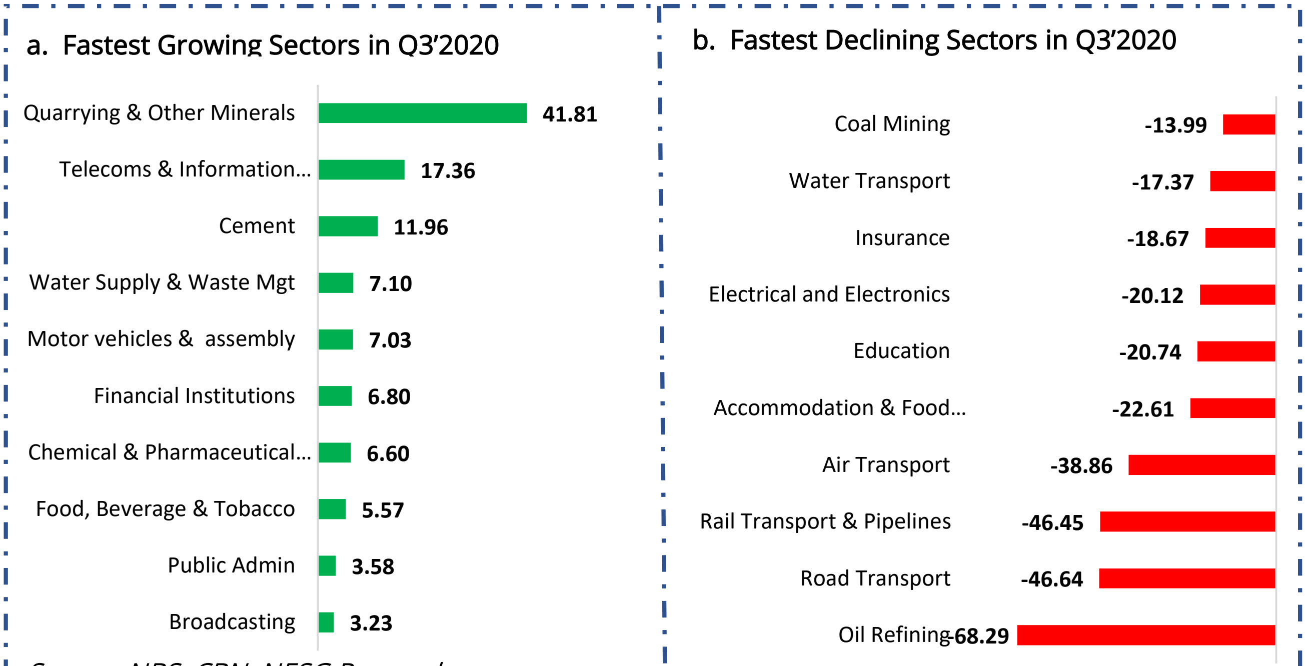
Although the non-oil sector contracted by 2.51% in Q3'2020, this is an improvement relative to the previous quarter. The improvement was occasioned by the gradual re-opening of the economy. Also, this economy re-opening has resulted in positive growth for many non-oil sub-sectors which experienced a negative growth rate in Q2'2020. Some of these sectors are Quarrying and Other Minerals (41.81% growth in Q3'2020 against -6.39% in Q2'2020), Cement (11.96% in Q3'2020 against -5.54% in Q2'2020), Food, Beverages and Tobacco (5.57% in Q3'2020 against -3.01% in Q2'2020), Construction (2.84% in Q3'2020 against -31.77% in Q2'2020), among others.

Contritely, many vital services sectors also recorded negative growth in this period which adversely weighed on the overall performance of the non-oil sector. Trade sector declined by 12.12%, Real Estate by 13.40%, Education by 20.74%, Accommodation and Food Services by 22.61%, Transportation and Storage by 42.98%, Professional Services by 10.31% and many others.

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

A breakdown of the growth numbers showed that quarrying and other minerals led the 17 expanding sectors with a growth of 41.81%. The sector is followed by Telecommunication and Information Services (17.36%) and Cement (11.96%). On the flip side, economic activities contracted in 29 sub-sectors led by oil refining (-68.29%). All major activities in the Transport sector, including Road Transport (-46.64%), Rail Transport and Pipelines (-46.45%), Air Transport (-38.86%) also contracted. This was despite the re-opening of the economy, as well as the resumption of domestic and international flights. The poor performance of the transport sector is due to reluctance of people to travel within the period. Secondly, growth in Q3'2020 is compared with a stronger base period (Q3'2019) period when there was a regular movement of people and goods across the country and around the world.

Figure 3: Most Expanded and Contracted Sectors in Q3'2020 (%)

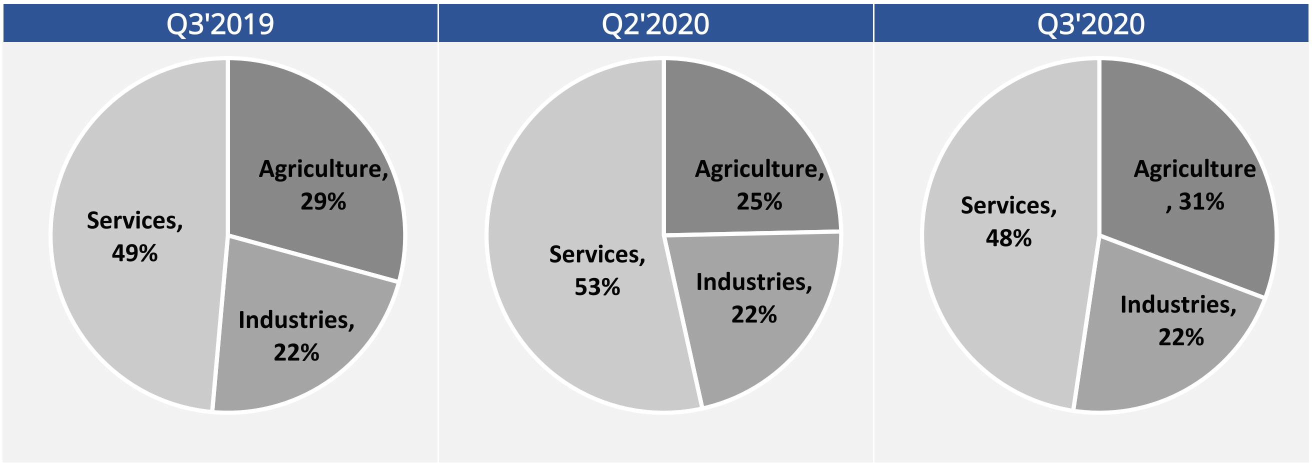


Source: NBS, CBN, NESG Research

Owing to the sectors' growth performance, the composite share of the economy by sectors changed significantly except for industries that maintained the same portion all through the period under consideration (see figure 4). Agriculture's share of the Nigerian economy increased by two percentage and six percentage points when compared with Q3'2019 and Q2'2020 respectively. The expansion in the sector can be adduced to high resilience to COVID-19 shocks and dwindling size of other sectors, especially the services sector.

There was one percentage point and five percentage points decline in the services sector's share of the economy when compared with Q3'2019 and Q2'2020 respectively. The poor performance of the trade sector contributes significantly to the shrinking size of the services sector.

Figure 3: Sectoral Share of GDP



Source: NBS

Any hope for an economic rebound in Q4'2020?

In the fourth quarter of 2020, we expect the overall macroeconomic conditions and other growth factors to remain constrained. There is a blur outlook for oil price due to the second wave of the spread of coronavirus in major oil-importing countries. This, therefore, means the Nigerian oil sector might continue the negative growth trend. Owing to this, Nigerian economic recovery may take longer than anticipated.

Figure 1b. shows that Purchasing Managers' Index (PMI) and Real GDP growth are highly correlated. As a result, the gradual recovery of the PMI suggests a possible improvement of GDP growth. For the fourth quarter of the year, it is more likely that GDP growth will be better than Q3'2020 but remain in the negative region. This is because the current macroeconomic conditions are generally unsupportive of quick economic reverberation.

Likewise, the increasing inflation rate will impair the performance of sectors like Agriculture, Manufacturing, Trade, Real Estate, Construction and Professional Services. The border closure, FX illiquidity, infrastructure bottleneck, policy instability and weakened consumer demand would continue to pressure performances of many services sectors. Nonetheless, it is expected that financial services, ICT and agriculture sectors will sustain their performance and help ease the pressure on the economy.

Pushing for a Quick Recovery

This is not the first time Nigeria would be experiencing an economic recession, but it is the steepest negative growth in the last three decades. Unlike the 2016's episode of recession, Nigeria has limited opportunities to quick economic rebound due to the current changing macroeconomic environment. The following are some specific and crucial interventions or policy actions required to accelerate growth in the short-term to set a foundation for economic recovery;

There is an urgent need to unlock domestic supply chain

The outbreak of COVID-19 and the attendant disruptions to global supply chains have shown the importance of exploring local sources of raw materials and inputs. Strengthening domestic supply chains, particularly in the agro-allied industries, would conserve forex earnings that would have been otherwise utilized for imports. It must be noted that banning or restricting some sectors from accessing FX for imports does not automatically mean production will improve in that sector. As a result, there is a need for reforms targeted at addressing the apparent supply chain constraints across sectors in Nigeria.

The performance of the services sector hinges on a rebound of the trade sub-sector

Trade, which accounts for 29% of the Services sector, continued to record negative growth rates since Q2'2019. Though the services sector has overtime received some boost from the impressive growth posted by the ICT sub-sector, the sustained poor performance of the trade sub-sector would offset the expected gains. There is, therefore, the need to review the land border policy, among other factors, to restore the trade sub-sector on a positive growth path.

Quick passage and implementation of 2021 budget is central to speeding up the economic recovery process

The 2021 appropriation bill has allocated a huge share of the estimated expenditure to capital projects. Capital expenditure was 56% higher in the 2021 budget relative to its level in this year's budget. Speedy passage and implementation of the budget is expected to boost Construction and overall economic activities. This is vital for economic recovery in 2021.

Persistent slowdown in agricultural production suggests higher inflation going forward

The agricultural sector has been on a declining growth path since Q1'2020. A persistent slowdown in agricultural production would lead to food shortages. This would translate to higher food inflation and overall inflation in the future. The headline inflation averaged 13.25% in Q3'2020 from 11.11% in the corresponding period of 2019.

Need for clarity in the FOREX market

The current system of multiple Forex windows carries with it a high level of uncertainty, which affects investments decisions in Nigeria. Hence, there is a need for clarity as to what the central exchange rate for the country should be to improve investors' confidence. Stability in the Forex market is a quick way to attract the needed capital inflows and strengthen the economic recovery process.

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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