

# Economic Update

Nigeria | Economy | 1Q'18 GDP Report | May 28, 2018

PAC RESEARCH

## Weaknesses in the services sector: A drag to the broad economy

Nigeria's real gross domestic product (GDP) improves by 1.95% year-on-year in 1Q'18. In the first quarter to March 2018, Nigeria's economic output as measured by real GDP recorded improvement of 1.95%, higher than -0.91% in the first quarter of the previous year but lower than 2.11% recorded in the fourth quarter of 2017. On the other hand, nominal GDP increased by 9.3% to ₦28.46 trillion compared with ₦26.03 trillion the corresponding quarter of the previous year. The real GDP growth rate for the review quarter is lower than our expectation, while we are not of the view that the economic recovery may relapse into a double-dip, the drop in the real GDP growth rate for the quarter relative to the preceding quarter poses a concern especially in the period when there is relative stability in the foreign exchange market and noticeable decline in headline inflation. The performance of economic activities that made up the GDP basket was similar to the preceding quarter's performance with thirty-six economic activities recorded positive real growth rate while ten recorded a decline. However, some economic activities recorded positive real growth rate at a decreasing rate in the period, which partly explained the weakness in the overall real GDP growth rate. The weakness in the real GDP growth rate was driven by the non-oil sector especially services sector which recorded a decline in some major economic activities.

The oil sector recorded improved performance in the quarter with real GDP growth rate of 14.77% relative to 11.20% in the fourth quarter of 2017 and -15.60% in the corresponding quarter of the previous year. The improvement in the performance of the oil sector was driven by increase in price and production in the period; Brent Crude Oil traded at an average price of US\$66.18 per barrel in the review, up by 19.44% compared with US\$55.41 per barrel in the corresponding quarter of the previous year.

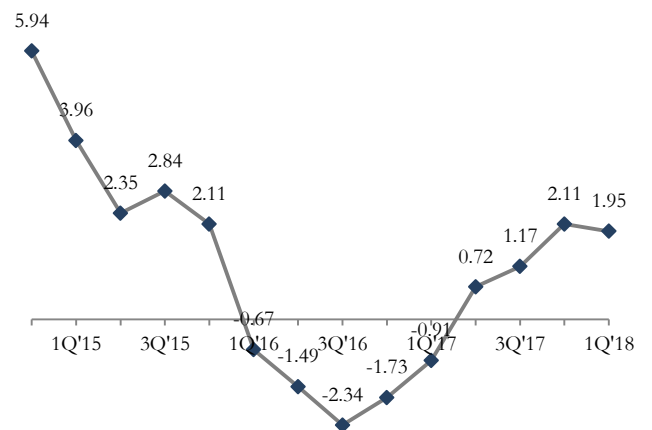
Table 1: Oil sector and non-oil sector – quarterly real GDP growth rates

	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18
Oil sector	-15.60%	+3.53%	+23.03%	+11.20%	+14.77%
Non-oil sector	+0.72%	+0.45%	-0.76%	+1.45%	+0.76%

Source: NBS, PAC Research

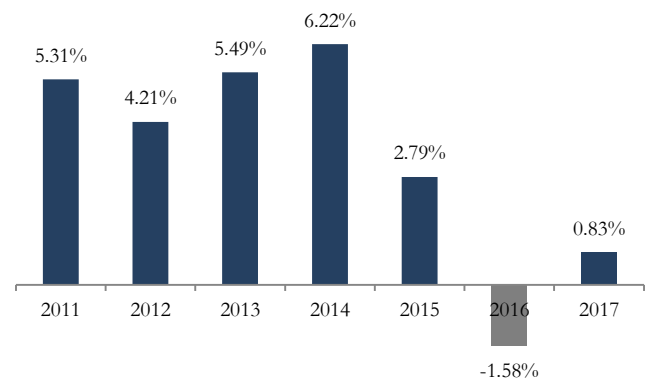
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Fig. 1: Quarterly real GDP growth rates (%)



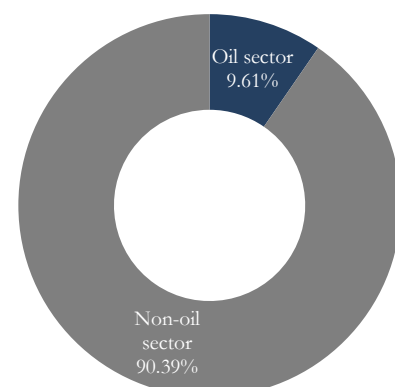
Source: NBS, PAC Research

Fig. 2: Yearly GDP real growth rates



Source: NBS, PAC Research

Fig. 3: Contribution to GDP in 1Q'18 – oil sector and non-oil sector

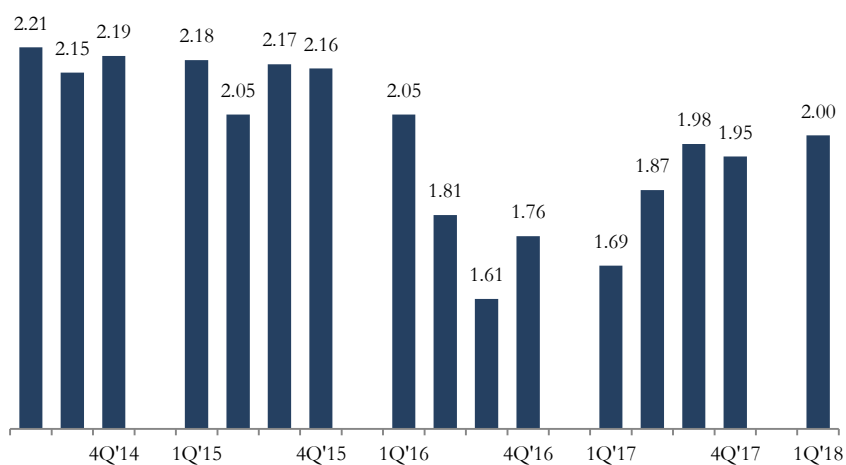


Source: NBS, PAC Research

Furthermore, crude oil production in the period was an average of 2.00 million barrel per day (mbpd), up by 18.34% y/y compared with 1.69 mbpd in the first quarter of 2017 and an increase of 2.56% against an average of 1.95 mbpd in the preceding quarter. Meanwhile, the contribution of the sector to the overall real GDP increased to 9.61% in the period relative to 7.35% in the first quarter of 2018. If the current peaceful environment in the oil producing region and crude oil price trend can be sustained, we are of the view that the sector will continue to support the economy in the short term. We are keen to state that the current high prices of crude oil was a result of tension between the United States and Iran, therefore the trend might not be sustained in the medium term, in spite of this Brent crude oil is expected to trade at an average price of US\$65 per barrel in the current year which is above the Nigerian 2018 budget benchmark price.

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**Fig. 4: Crude oil production (mbpd)**



Source: NBS, PAC Research

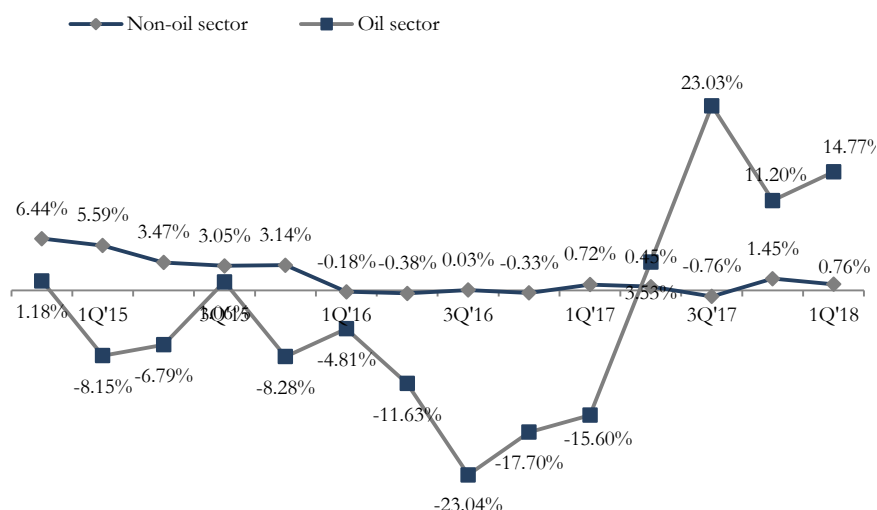
**Fig. 5: Prices of Brent crude oil (US\$/barrel)**



Source: Bloomberg, PAC Research

**Persistence weakness of the non-oil sector drags the broad economy.** In the review period, the non-oil sector recorded real growth rate of 0.76%, lower than 1.45% in the preceding quarter but marginally higher than 0.72% in the first quarter of 2017. The drop in the real GDP growth rate of the sector was driven majorly by the dismal performance of real estate and trade economic activities with real growth rate of -9.40% and -2.57% in the quarter respectively. On the other hand, the weakness of the sector was mitigated by the positive performance of the following economic activities; crop production, financial institutions and manufacturing with real growth rate of 3.00%, 12.58% and 3.39% accordingly. It is worthy of note to state that the non-oil sector has been dragging for about nine quarters which is responsible for the slow growth of the broad economy noting that the sector accounted for about 90.00% of the GDP on the average. However, the sector might not attain its full potential without embarking on discipline implementation of bold reforms expected to lift the real sector of the economy such as Power Sector Recovery Program among others.

**Fig. 6: Oil sector and non-oil sector – quarterly real GDP growth rates**



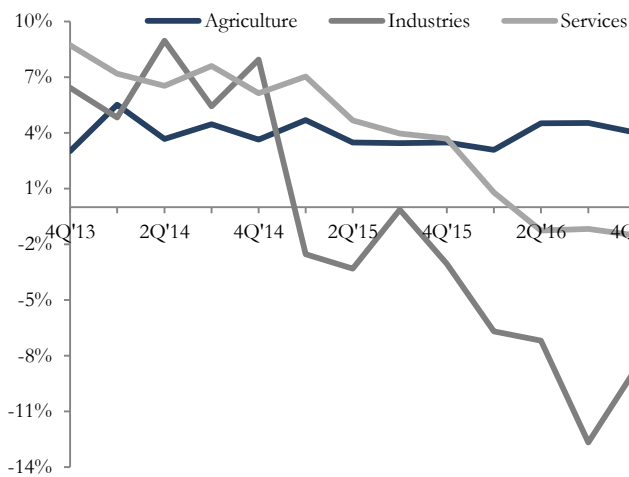
Source: NBS, PAC Research

**While industries sector gains momentum, agriculture drops and services sector plunges.** In the review period, industries sector recorded improved performance driven mainly by the oil and gas economic activities and manufacturing, but the resilience that the services sector witnessed in the preceding quarter couldn't be sustained, hence it plunged into a negative trajectory with real GDP growth rate of -0.47% y/y relative to 0.10% in the first quarter. The economic activities that dragged down the services sector are real estate, trade and professional, scientific & technical services. Further analysis of the performance of the industries sector revealed that only oil and gas and manufacturing recorded improved performance with real GDP growth rate of 14.84% and 3.39% respectively, whereas construction recorded real GDP growth rate of -1.54% compared with 4.14% in the preceding quarter and 0.15% in the first quarter 2017. Moreover, agricultural sector still recorded positive growth rate but it weakened to 3.00% relative to 4.23% in the preceding quarter and 3.39% in the first quarter of 2017.

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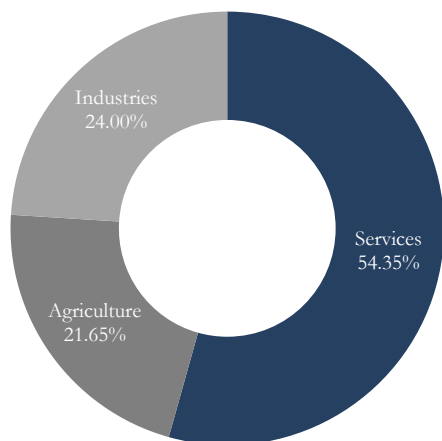
The main driver of the sector is crop production which accounts for about 90.00% of the economic activities in the sector on average. Crop production recorded real GDP growth rate of 3.45% in the period, lower than 4.58% in the preceding quarter and 3.50% in the corresponding quarter of the previous year. The drop in the growth rate of crop production in the period can be attributed mainly to the general low level of activities in the beginning of the year and the negative impact of tension in the north-central region of the country and insurgency crisis in the north-east region of the country. This has resulted into reduction in the contribution of agriculture to the overall GDP to 21.65% relative to 26.13% in the fourth quarter but slightly higher than 21.43% in the first quarter of last year. On the other hand, the contribution of industries increased to 24.00% relative to 22.90% in the same quarter of the previous year, while the contribution of services sector stood at 54.35% slightly lower than 55.67% in the first quarter of 2017.

**Fig. 7: Quarterly sectoral real GDP growth rate**



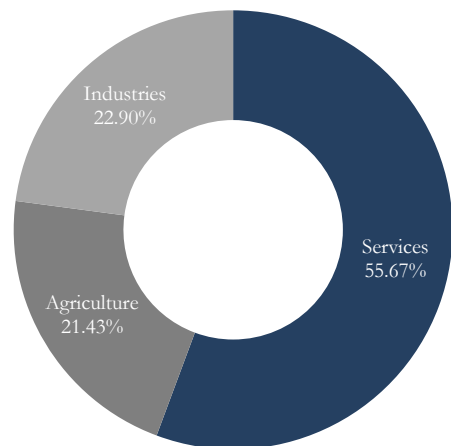
Source: NBS, PAC Research

**Fig. 8: Sectoral contribution to real GDP in 1Q'18**



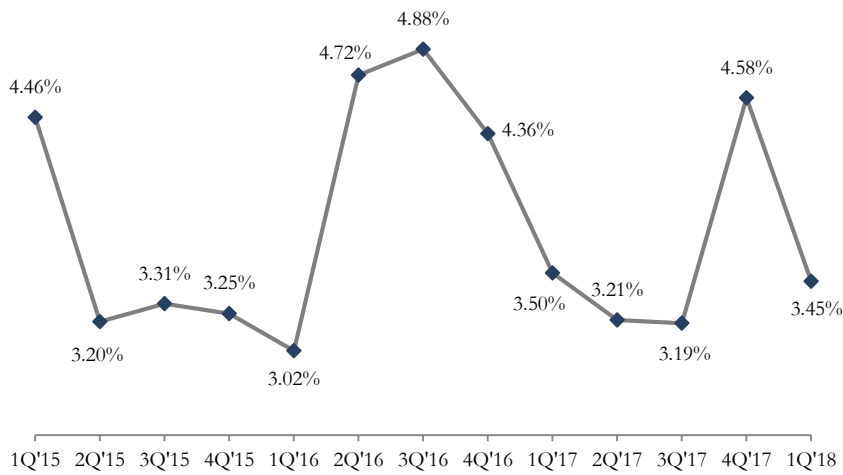
Source: NBS, PAC Research

**Fig. 9: Sectoral contribution to real GDP in 1Q'17**



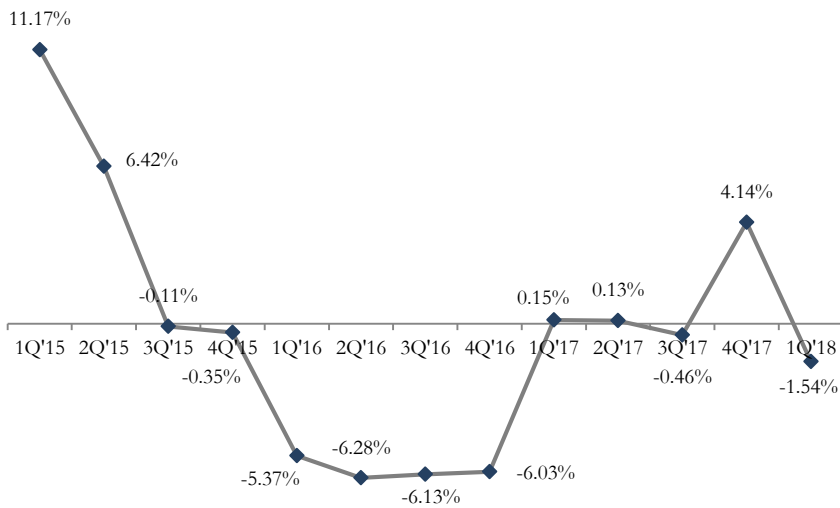
Source: NBS, PAC Research

Fig. 10: Crop production - quarterly real GDP growth rates



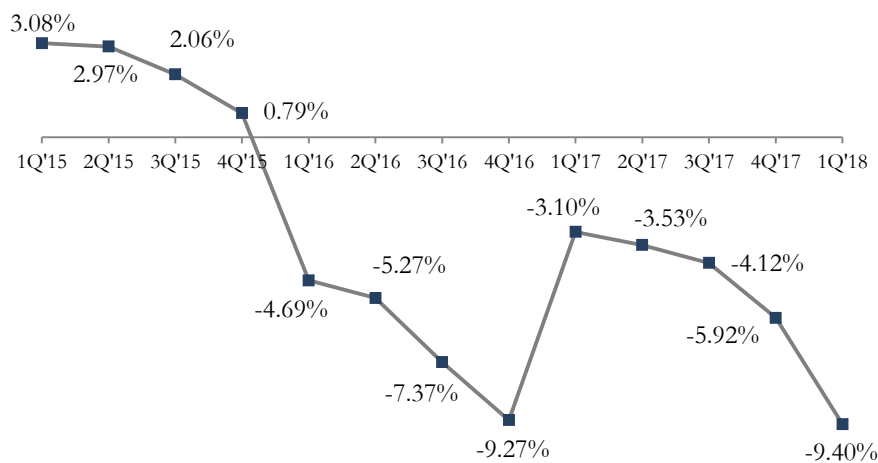
Source: NBS, PAC Research

Fig. 11: Construction - quarterly real GDP growth rates



Source: NBS, PAC Research

Fig. 12: Real estate - quarterly real GDP growth rates

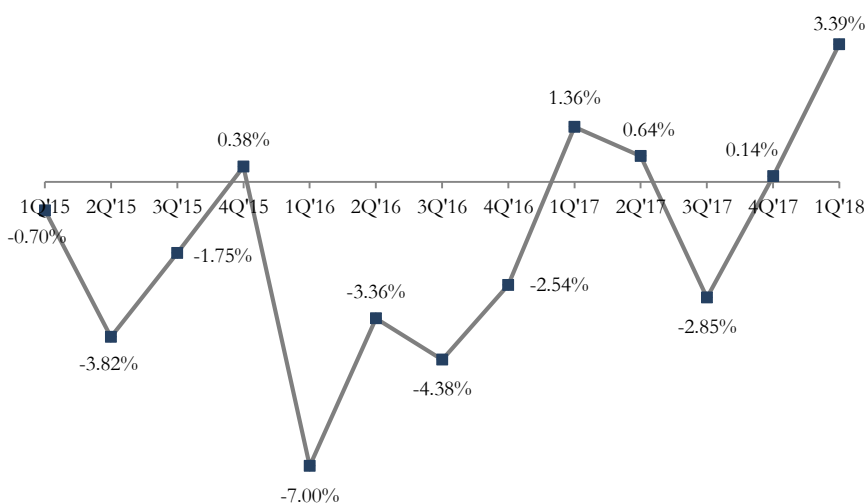


Source: NBS, PAC Research

**Manufacturing sector breaks historical recorded with real GDP growth rate of 3.39% y/y.** The manufacturing sector sustained the improvement it recorded in the preceding quarter with real GDP growth rate of 3.39% y/y; the review quarter's growth rate was the highest since 2014, and it was driven by food, beverages & tobacco and textile, apparel & footwear economic activities, the two sub-sectors accounted for 45.25% and 22.58% of the economic activities in the sector respectively. In our opinion, the relative stability in the foreign exchange market and the declining headline inflation accounted for the improvement in the sector. Food, beverage & tobacco economic activities recorded real GDP growth rate of 5.46% in the review quarter relative to 4.07% in the first quarter of 2017 and 2.18% in the preceding quarter. Similarly, textile, apparel & footwear recorded real GDP growth rate of 1.85% compared with 1.17% in the first quarter of the previous year and 1.65% in the fourth quarter of 2017. In our view, if the relative stability in the foreign exchange market can be sustained and there can be improvement in the power sector, manufacturing sector is expected to emerge as the engine of growth of the economy in the long term.

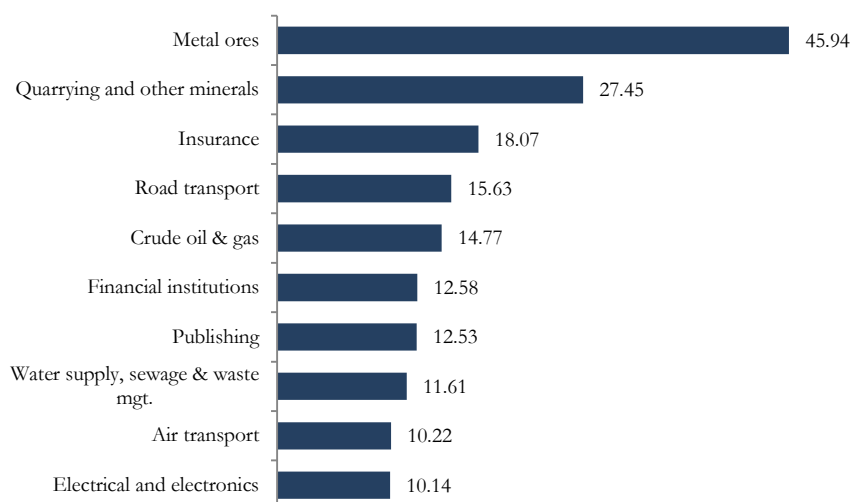
*...if the relative stability in the foreign exchange market can be sustained and there can be improvement in the power sector, manufacturing sector is expected to emerge as the engine of growth of the economy in the long term.*

**Fig. 13: Manufacturing sector - quarterly real GDP growth rates**



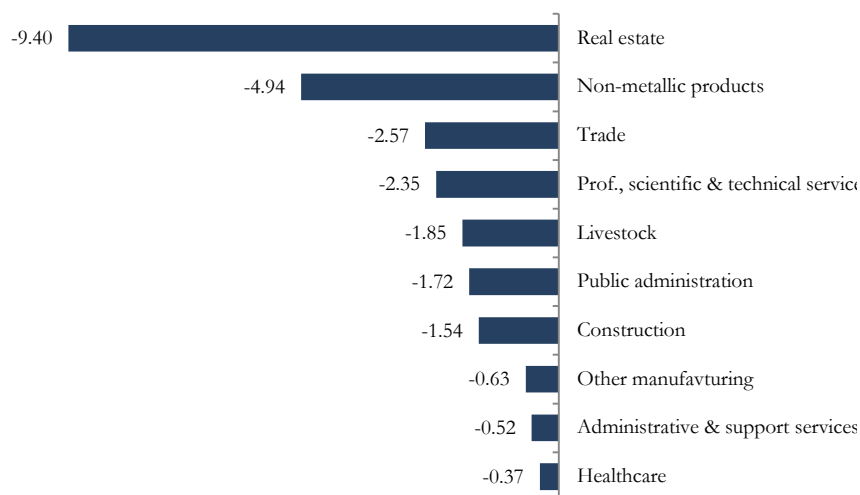
Source: NBS, PAC Research

**Fig. 14: Economic activities: Top ten increase in real GDP growth rate in 1Q'18**



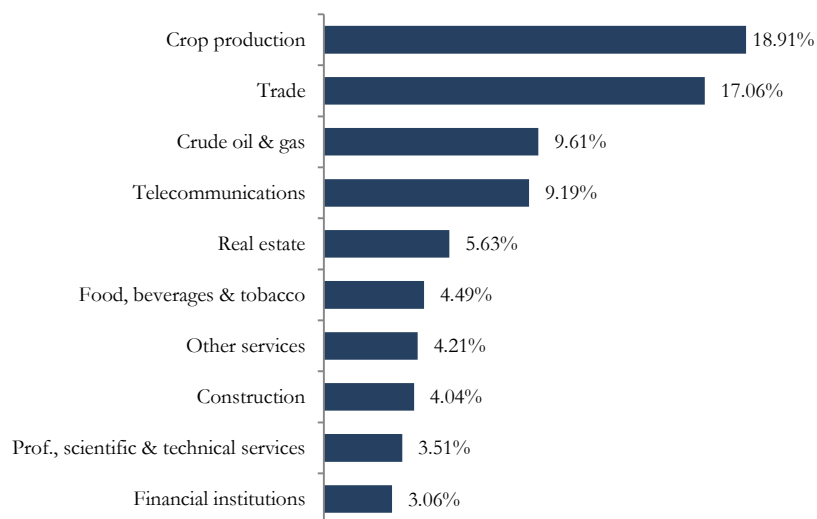
Source: NBS, PAC Research

Fig. 15: Economic activities: Top ten decline in real GDP growth rate in 1Q'18



Source: NBS, PAC Research

Fig. 16: Economic activities: Top ten contributors to real GDP in 1Q'18



Source: NBS, PAC Research

## IMPORTANT DISCLOSURES

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