Economic Update

Election related activities weakens real GDP growth rate

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Nigeria's real gross domestic product (GDP) expanded by 2.01% year-on-year in 1Q'19. In the first quarter to March 2019, Nigeria's gross domestic product recorded real growth rate of 2.01% y/y. The performance in the review period is lower than the 2.38% recorded in the fourth quarter of 2018 but higher than the 1.89% in the corresponding quarter of the previous year **(fig. 1)**. Furthermore, aggregate nominal GDP for the review period stood at ₦31.79 trillion; lower than the ₦35.23 trillion in the preceding quarter by 9.75%. On the other hand, the nominal GDP for the quarter is higher than the ₦28.44 trillion recorded in the first quarter of 2018 by 11.78%. Overall, thirty-six out of the forty-six economic activities in the nation's GDP basket recorded positive growth rate, while ten recorded various degrees of decline in the review quarter. This is a deceleration compared with the thirty-nine economic activities that recorded positive growth rate in the fourth quarter of 2018. In our opinion, the weakness in the real GDP growth rate in the review period is attributed to the political uncertainty that related to the general election that was held early in the year.

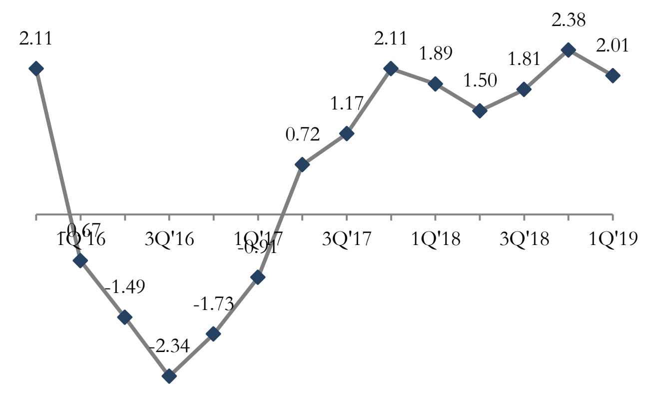
The weak performance of the economic output in the first quarter of the year was driven by the performance of both the oil sector and the non-oil sector. The oil sector recorded a contraction of 2.40% in the period, lower than the contraction of 1.62% in 4Q2018 and a dismal performance relative to the 14.77% in the corresponding quarter of the previous year. The weak performance of the oil sector was as a result of the lower oil prices in the quarter relative to the fourth quarter of 2018. Brent Crude Oil traded at an average price of US$63.81 per barrel in the review quarter, lower than the US$68.65 in the preceding quarter by 7.06%. On the other hand, the average price in the review period is marginally higher than the US$62.16 in the corresponding quarter of the previous year by 2.65% **(fig. 5).**

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

	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19
Oil sector	+14.77%	-3.95%	-2.91%	-1.62%	-2.40%
Non-oil sector	+0.76%	+2.05%	+2.32%	+2.70%	+2.47%

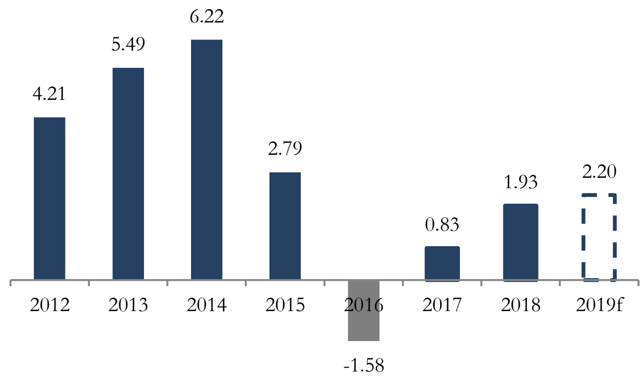
Source: NBS, PAC Research

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



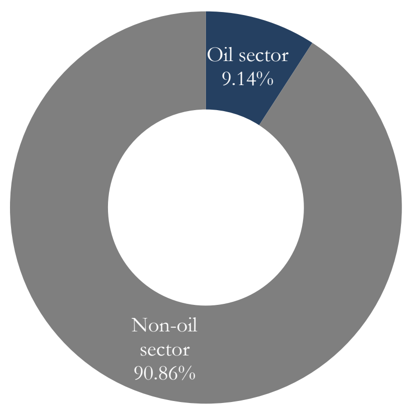
Source: NBS, PAC Research

Fig. 2: Yearly GDP real growth rates (%)



Source: NBS, PAC Research

Fig. 3: Contribution to GDP in 1Q'19 – oil sector and non-oil sector



Source: NBS, PAC Research

On the other hand, Nigeria recorded average crude oil production of 1.96 million barrel per day (mbpd) in the period, marginally higher than the 1.91 mbpd in the preceding quarter by 2.60% **(fig. 4)**. On the contrary, the review quarter's production volume was lower than the average production of 2.00 mbpd in the first quarter of 2018 by 2.00%. The production in the review period was disrupted by the damage to some piplelines that are being used to transport crude oil for export. For the 2019 calendar year, we estimated average production of 2.00 mbpd including condensates, depsite the effects of production cuts by OPEC. The increase in the estimated production is expected to be driven by the Egina FPSO project that is expected to add an average of 200,000 barrels per day to the nation's production. The factors that may affect the GDP growth rate of the oil sector in the quarters ahead are external factors and internal factors; external factors are geopolitical issues such as the tension between the United States and Iran on the one hand, and the political and economic crisis in Venezuela on the other hand. On the domestic front is the incessant declaration of force majure by the international oil exploration companies in the oil producing region in the country, which is consequent to issues that bothers on the persistent repair work on pipelines that are being used to transport crude for export. Overall, the oil sector contributed 9.14% to the GDP in the quarter, higher than the 7.06% in the preceding quarter but marginally lower that the 9.55% in the first quarter of the previous year.

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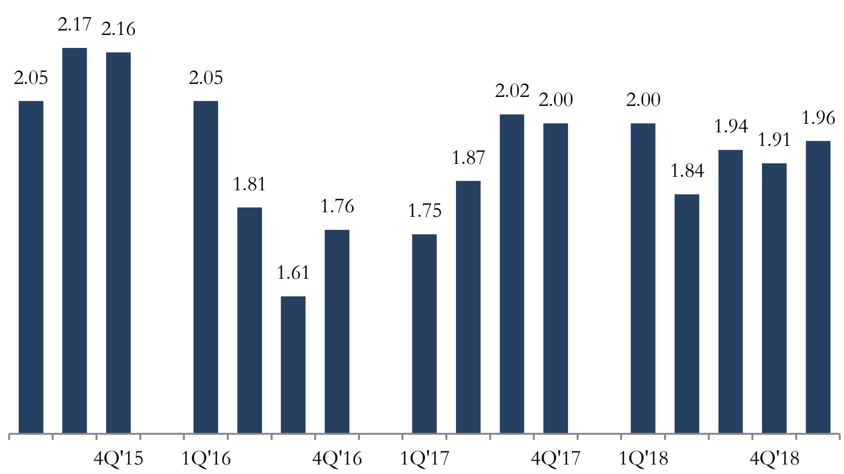
Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

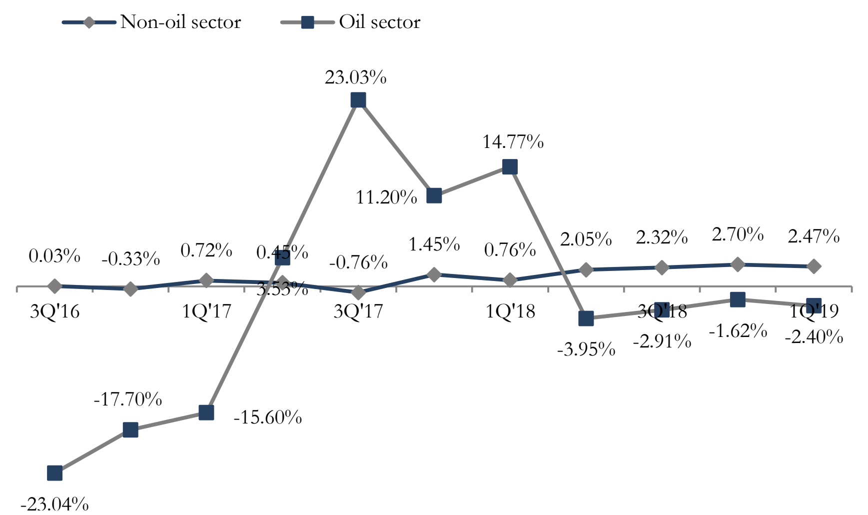
Fig. 5: Prices of Brent crude oil (US$/barrel)

Source: Bloomberg, PAC Research

Non-oil sector's weak performance was driven by the non-oil industries and the services sector. For the three months to March 2019, the non-oil sector recorded a weak performance of 2.47%, lower than the 2.90% in the fourth quarter of 2018 but significantly higher than the contraction of 0.47% in the corresponding quarter of the previous year. The weak performance of the sector was driven by the economic activities in the non-oil industries sector and the services sector. However, the dismal performance of the sector was mitigated by the strong performance of the agriculture sector, specifically crop production. The non-oil sector contributed 90.86% to the output in the period, lower than the 92.94% in the preceding quarter but almost flat with the 90.45% in the first quarter of the previous year.

The weak performance of the sector was driven by the economic activities in the non-oil industries sector and the services sector.

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



Source: NBS, PAC Research

Agriculture emerges the best performing sector. In the review quarter, agriculture sector recorded real GDP growth rate of 3.17%, this translated to a quarterly growth rate of 0.72% relative to 2.46% in the fourth quarter **(fig. 9).** The sector comprises four economic activities; crop production, livestock, forestry and fishery. However, crop production is the major driver of the sector which accounted for 87.63% of the total economic activities in the sector in the first quarter of 2019. Crop production recorded real growth rate of 3.27% in the review quarter, higher than the 2.48% in the preceding quarter but lower than the 3.45% in the corresponding quarter of the previous year **(fig. 10)**. The relative weakness in the performance of the sector in the previous quarters was due to the protracted security challenges in the northern region of the country which led to the displacement of several food crop producing farmers. However, the crisis is being mitigated by security operatives, which has led to a relatively peaceful atmosphere in the affected areas. Crop production contributed 19.20% to the overall economic output in the period, lower than the 23.56% in the preceding quarter but marginally higher than the 18.92% in the first quarter of 2018.

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Furthermore, Livestock recorded real growth rate of 0.88%, lower than the 2.35% in the fourth quarter of last year but higher than the contraction of 1.85% in the first quarter of 2018. The economic activity contributed 1.80% to the total GDP in the quarter, and accounted for 8.22% of all the activities in the agriculture sector. In addition, forestry and fishery recorded real growth rate of 2.19% and 7.09% in the period respectively, the performance of forestry was higher than the 1.73% in the preceding quarter. Similarly, the performance of fishery was significantly higher than the 1.97% recorded in the first quarter of 2018, while forestry contributed 0.26% to the total economic output, fishery accounted for 0.71% in the quarter.

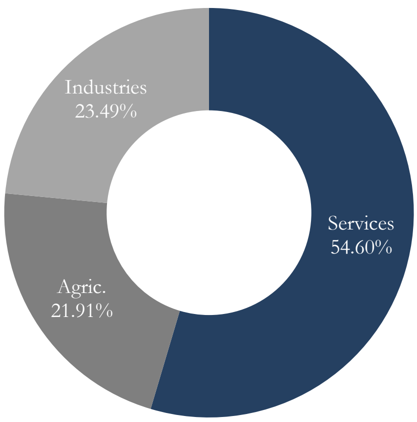
Industries sector pulls back, driven by the oil & gas and manufacturing sectors. The industries sector recorded a lacklustre performance with real growth rate of 0.04% in the review quarter, significantly lower than the 0.95% in the preceding quarter and the growth rate of 6.58% in the same quarter of the previous year. The dismal performance of the sector was driven by both the oil & gas sector and the non-oil industries sector, i.e. manufacturing sector. Mining and quarrying sector contracted by 2.31%, lower than the growth rate of -1.23% in the preceding quarter and significantly lower than the 14.10% in the first quarter of the previous year. Manufacturing sector recorded real growth rate of 0.81%, i.e. quarter-on-quarter contraction of 1.29% relative to the growth rate of 2.35% in the preceding quarter **(fig. 11)**. Also, the review quarter's growth rate is significantly lower than the 3.39% in the first quarter of 2018. Moreover, the dismal performance of the industries sector was mitigated by the strong performance of construction which recorded real growth rate of 3.18%, higher than the 2.05% in the preceding quarter and the contraction of 1.54% in the corresponding quarter of the previous year. The contribution of the industries sector to the GDP in the period stands at 23.49%, relatively higher than the contribution of 20.24% in the fourth quarter of 2018 **(fig. 7)**.

The dismal performance of the sector was driven by both the oil and gas sector and the non-oil industries sector, i.e. manufacturing sector.

Transport & storage sector and information & communications sector elevate the growth of the services sector. For the review quarter, services sector recorded growth rate of 2.41%, marginally lower than the 2.90% posted in the fourth quarter of the previous year but significantly higher than the contraction of 2.64% recorded in the first quarter of 2018 **(fig. 9)**. The performance of the sector was driven by the transport & storage and the information & communications sub-sectors in the review period. Transport & storage sub-sector recorded an impressive real growth rate of 19.50% in the review quarter, significantly higher than both the 9.48% in the preceding quarter and the 14.45% in the first quarter of 2018. In addition, the sub-sector contributed 1.76% to the total economic output in the period, higher than the 1.46% in the preceding quarter.

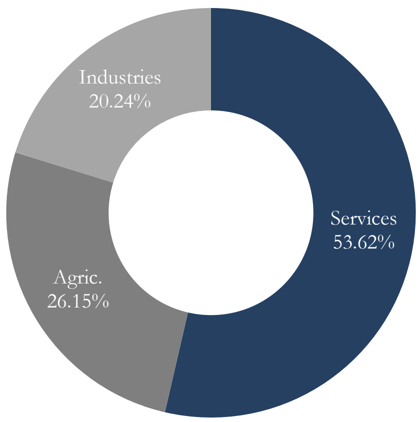
Furthermore, information & communications sector recorded real GDP growth rate of 9.48% in the review quarter, lower than the 13.20% in the preceding quarter but significantly higher than the 1.58% in the first quarter of the previous year. Also, information & communications sub-sector accounted for 13.32% of the total GDP in the period, marginally higher than the 12.40% in the fourth quarter of 2018.

Fig. 7: Sectoral contribution to real GDP in 1Q'19



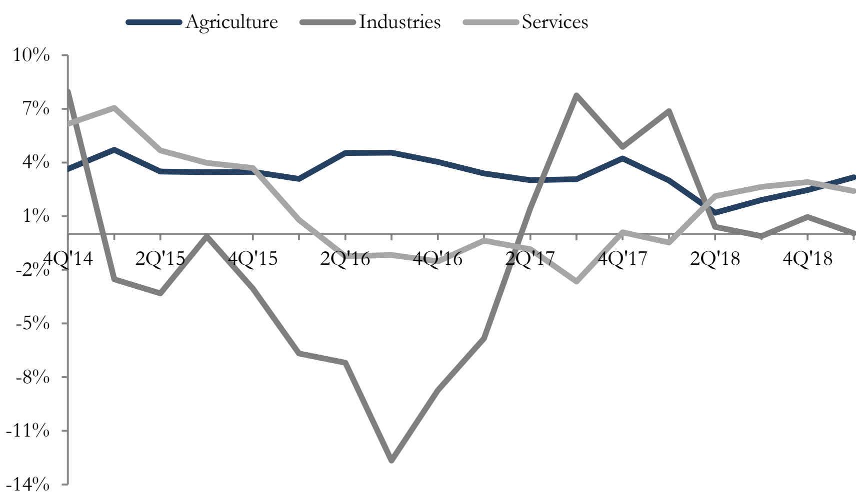
Source: NBS, PAC Research

Fig. 8: Sectoral contribution to real GDP in 4Q'18



Source: NBS, PAC Research

Fig. 9: Quarterly sectoral real GDP growth rate



Source: NBS, PAC Research

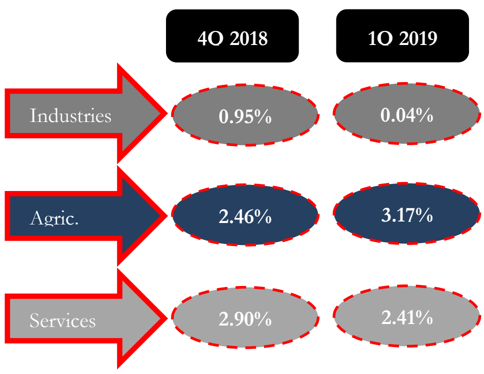
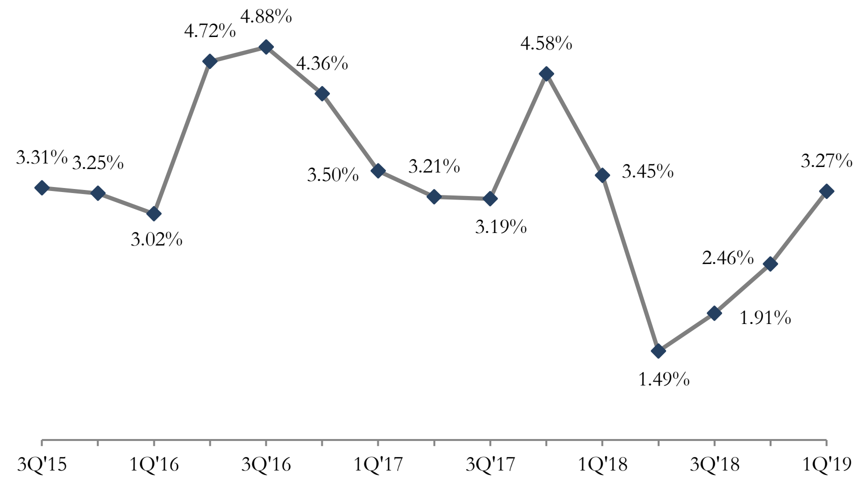
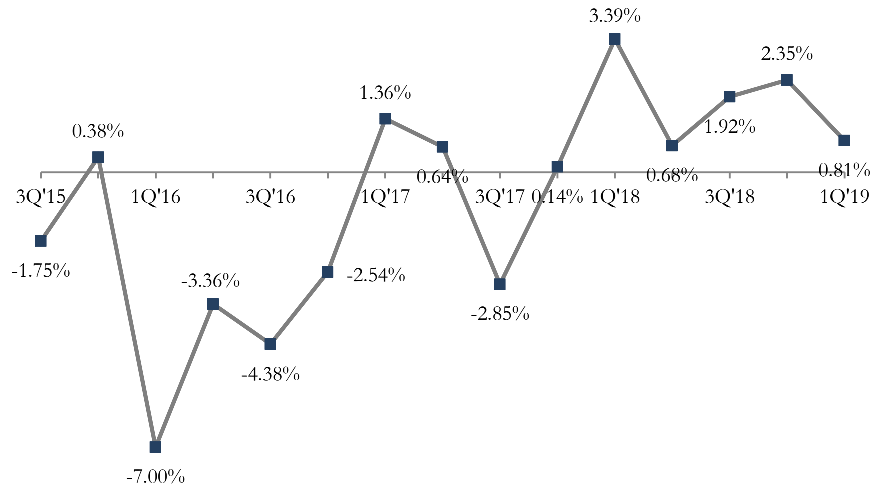


Fig. 10: Crop production - quarterly real GDP growth rate



Source: NBS, PAC Research

Fig. 11: Manufacturing sector - quarterly real GDP growth rate



Source: NBS, PAC Research

Oil refining economic activity reverses strongly with a contraction of 49.62%. In the review period, oil refining economic activity recorded real growth rate of -49.62% compared with an expansion of 33.60% recorded in the preceding quarter. The dismal performance of the economic activity reflected the state of the nation's refineries that have been in a state of disrepair for several years as the reliance on importation of refined products is increasing. However, with Dangote refinery that is expected to come on stream by 2020, the economic activity is projected to have a turnaround and be contributing positively to the overall economic output of the nation. The contribution of oil refining to the overall GDP stands at 0.09%, lower than the 0.21% in the fourth quarter of 2018. Furthermore, the performance of the road transport economic activity in the period significantly improved with real growth rate of 21.48% relative to the 9.10% in the preceding quarter and the 15.63% in the first quarter of the previous year. We expect this trend to continue as the state of Nigerian roads are being improved, leading to more investments in the road transport infrastructures.

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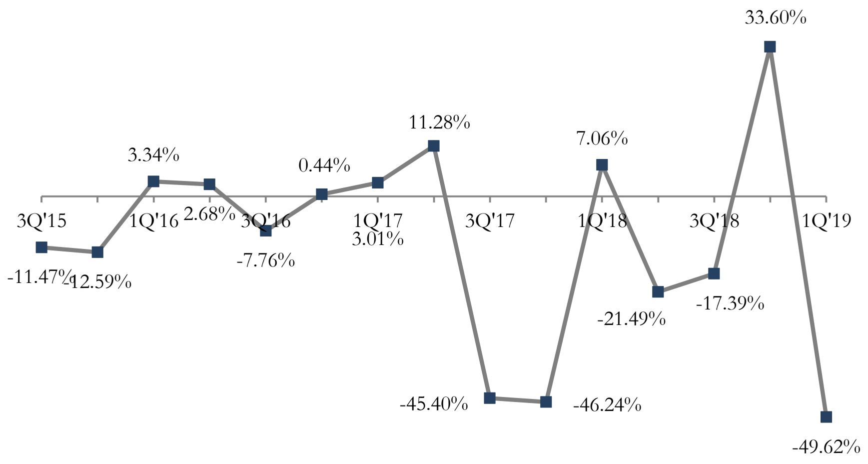
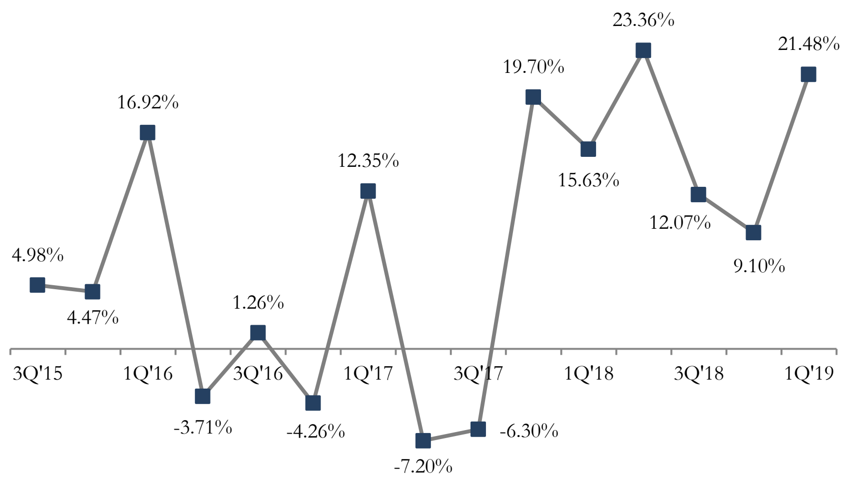
Fig. 12: Oil refining - quarterly real GDP growth rate



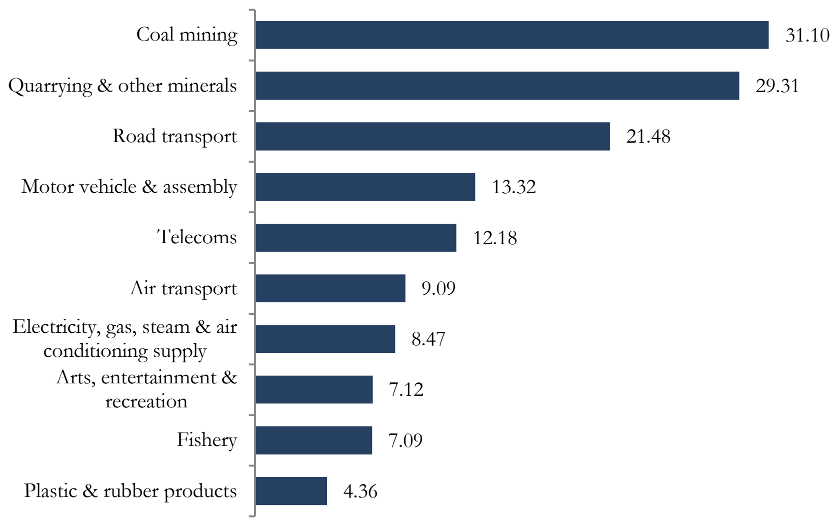
Source: NBS, PAC Research

Fig. 13: Road transport - quarterly real GDP growth rates



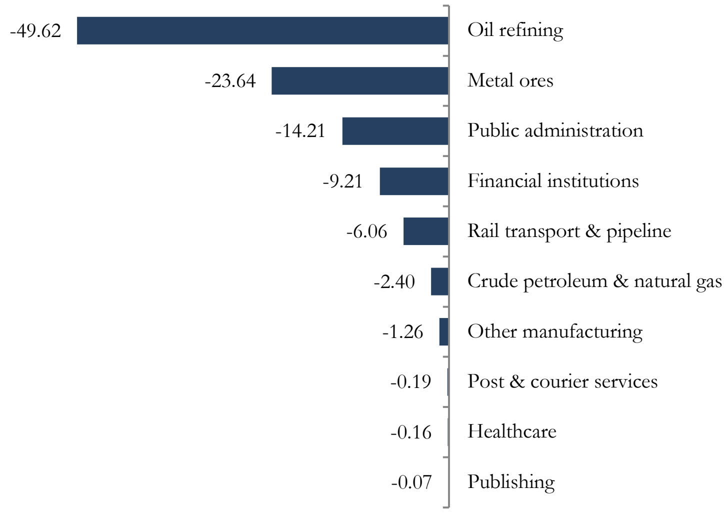
Source: NBS, PAC Research

Fig. 14: Economic activities: Top ten increase in real GDP growth rate in 1Q'19 (%)



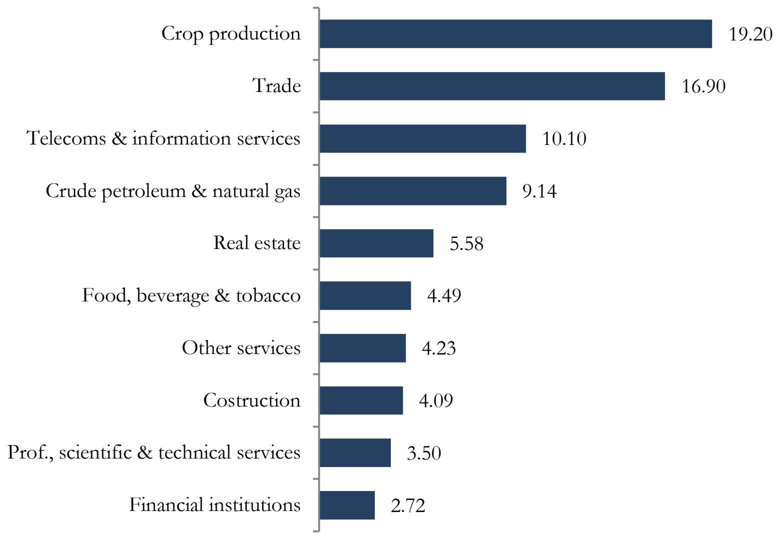
Source: NBS, PAC Research

Fig. 15: Economic activities: Decline in real GDP growth rate in 1Q'19 (%)



Source: NBS, PAC Research

Fig. 16: Economic activities: Top ten contributors to real GDP in 1Q'19 (%)



Source: NBS, PAC Research

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