

Economic Update

Nigeria | Economy | 1Q'20 GDP Report | June 2, 2020

PAC RESEARCH

COVID-19: Early impact of the pandemic affects the non-oil sector

Nigeria's economic output expanded by 1.87% year-on-year in 1Q'20. In the first quarter to March 2020, Nigeria's gross domestic product (GDP) recorded real growth rate of 1.87% y/y relative to both the 2.10% recorded in the corresponding quarter of the previous year and the 2.55% recorded in the fourth quarter of 2019 (**fig. 1**). The relative decline in the output growth rate in the period reflected the early effects of the disruption caused by the COVID-19 public health crisis especially on the non-oil sector. Furthermore, aggregate nominal GDP for the review quarter stands at ₦35.65 trillion, higher by 12.03% compared with the ₦31.82 trillion in the first quarter of the previous year. Overall, twenty-nine out of the forty-six economic activities in the nation's GDP basket recorded positive growth rate, while seventeen recorded various degrees of decline in the review quarter. This is a weak performance relative to the thirty-four economic activities that recorded positive growth rate in the fourth quarter of 2019. While the real GDP growth rate has been sluggish since the economy exited recession in 2Q2017, the growth rate for the review quarter was the weakest in the past six quarters. In our view, the nation's economy may likely record negative growth rate in the quarters ahead and be heading towards a recession as a result of the negative impacts of the pandemic on the overall economy.

The relative weakness in the real GDP growth rate in the first quarter of 2020 was driven by the performance of the non-oil sector. Moreover, the oil sector recorded real growth rate of 5.06% y/y in the review quarter, higher than the contraction of 1.46% in the corresponding quarter of the previous year, but lower than the real growth rate of 6.36% in the fourth quarter of 2019. The performance of the oil sector was driven by both the price and the production in the period.

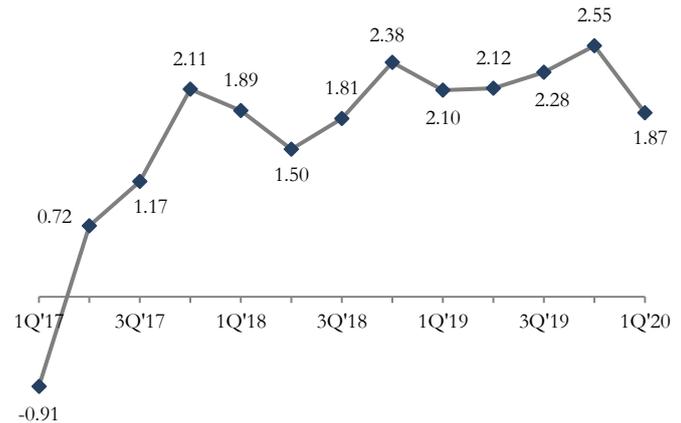
Table 1: Oil sector and non-oil sector – quarterly real GDP growth rates

	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20
Oil sector	-1.46%	+7.17%	+6.49%	+6.36%	+5.06%
Non-oil sector	+2.47%	+1.64%	+1.85%	+2.26%	+1.55%

Source: NBS, PAC Research

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



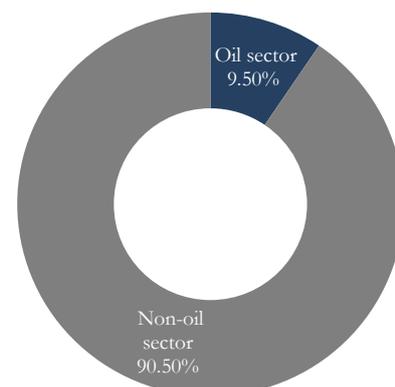
Source: NBS, PAC Research

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



Source: NBS, PAC Research

Fig. 3: Contribution to GDP in 1Q'20 – oil sector and non-oil sector

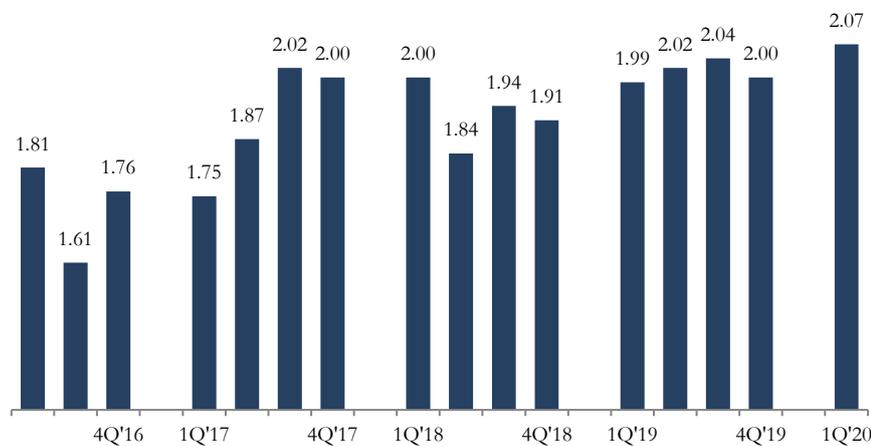


Source: NBS, PAC Research

Brent Crude Oil traded at an average price of US\$50.94 per barrel in the review quarter, lower than both the average price of US\$62.85 per barrel in the first quarter of the previous year by 18.94% and the average price of US\$59.55 per barrel in the fourth quarter of 2019 by 14.46% (**fig.5**). However, since the global outbreak of COVID-19 pandemic, the prices of Brent Crude Oil has declined significantly to a 22-year historical low of US\$22.74 per barrel in the last week of April 2020. Moreover, as countries around the world are easing lockdowns - factories are slowly re-opening and manufacturing is gradually picking up - and the several efforts made by OPEC and its allies to cut production, crude oil prices has recovered slightly. The pandemic has caused a lot of disruptions in several sectors of the global economy, with its negative effect on the consumption of crude oil globally. Therefore, currently the pandemic is the single most important factor that will affect the prices of crude oil in the international market in the short term. However, the full impact of the pandemic on the economy especially on the oil sector is expected to be felt in the quarters ahead. On the other hand, production improved slightly to 2.07 million barrel per day (mbpd) in the period, higher than both the 1.99 mbpd in the first quarter of 2019 by 4.02% and the 2.00 mbpd in the fourth quarter of 2019 by 3.50% (**fig. 4**). It is worthy of note to state that the sector contributed 9.50% to the economic output in the period, higher than both the 9.22% in the first quarter of 2019 and the 7.32% in the fourth quarter of the previous year.

However, since the global outbreak of COVID-19 pandemic, the prices of Brent Crude Oil has declined significantly to a 22-year historical low of US\$22.74 per barrel...

Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

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

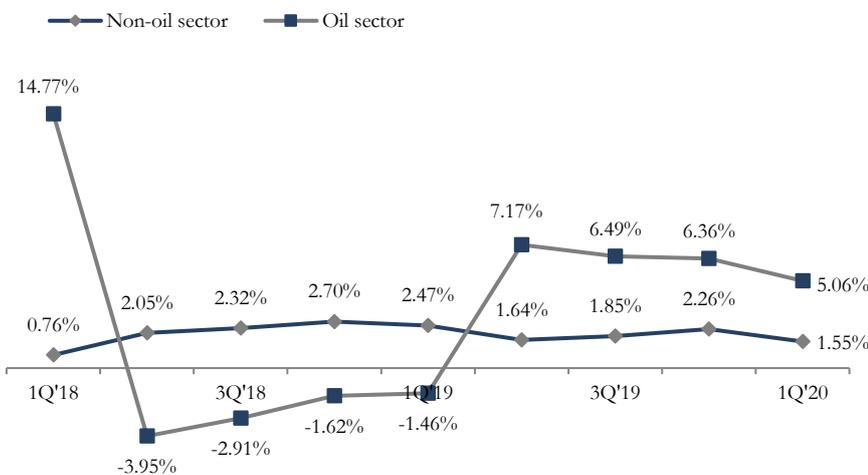


Source: Bloomberg, PAC Research

Non-oil sector performance was driven by the financial institutions sector and the information and communication sector. Despite the early impact of COVID-19 on the non-oil sector, the sector recorded real GDP growth rate of 1.55% in the review period, lower than the 2.47% in the first quarter of 2019 and the 2.26% in the preceding quarter. Interestingly, the performance of financial institutions sector and telecommunications & information services sector mitigated the negative effects of the pandemic on the non-oil sector. Other economic activities that lessened the effects of the pandemic on the non-oil sector are insurance and crop production. The non-oil sector contributed 90.50% to the output in the period, almost flat with the contribution of 90.78% in the first quarter of the previous year and slightly lower than the contribution of 92.68% in the preceding quarter.

Interestingly, the performance of financial institutions sector and telecommunications & information services sector mitigated the negative effects of the pandemic on the non-oil sector.

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



Source: NBS, PAC Research

Again, industries sector extends its overall best performance to 1Q 2020. In the review period, industries sector recorded real GDP growth rate of 2.26%, higher than the growth rate of 0.42% recorded in the corresponding quarter of the previous year but lower than the 2.75% in the preceding quarter. **(fig. 9).** The major drivers of the growth of the sector in the period was mining & quarrying with real growth rate of 4.58%, significantly higher than the contraction of 1.37% in the first quarter of 2019 but lower than the growth rate of 6.07% in the preceding quarter. Typically, the performance of the sector in the review quarter was driven by the economic activities of crude petroleum and natural gas which recorded real growth rate of 5.06%, significantly higher than the contraction of 1.46% in the first quarter of 2019, but lower than the 6.36% in the fourth quarter of the previous year. The contribution of mining & quarrying in the period stands at 9.54%, higher than both the contribution of 9.29% in the corresponding quarter of the previous year and the 7.48% in the fourth quarter of 2019. On the other hand, manufacturing sector recorded a dismal performance with real GDP growth rate of 0.43% in the quarter, lower than both the growth rate of 0.81% in the first quarter and the 1.24% in the fourth quarter of 2019. In addition, the weak performance of the manufacturing sector in the quarter was aided by the economic activities of food, beverages & tobacco which recorded real growth rate of 1.10% in the period, lower than both the growth rate of 1.76% in the first quarter and the 2.69% in the fourth quarter of the previous year. Overall, the contribution of the manufacturing sector to the total economic output in the period increased to 9.65% relative to the contribution of 8.74% in the preceding quarter but slightly lower than the contribution of 9.79% in the corresponding quarter of the previous year.

Services sector witnesses a pull-back in the quarter. The performance of the services sector in the review quarter was weak relative to its performance in the recent period; in fact the review quarter's performance is the weakest in the previous eight quarters. The sector recorded real growth rate of 1.57% in the period, lower than both the 2.41% in the first quarter and the 2.60% in the fourth quarter of 2019. The weak performance of the sector in the period was driven by the performance of trade sector which recorded a contraction of 2.82%, lower than both the growth rate of 0.85% in the first quarter of 2019 and the contraction of 0.58% in the preceding quarter. It is worthy of note to state that trade sector contributed 16.08% to the total economic output in the period. However, the performance of finance & insurance sector and information & communication sector alleviated the effects of the weakness of trade sector on the services sector. Finance & insurance sector recorded strong real growth rate of 20.79% in the review quarter, higher than both the contraction of 7.60% in the first quarter and the growth rate of 20.18% in the fourth quarter of the previous year. Furthermore, finance & insurance sector comprises of financial institutions and insurance, however the activities of the sector was dominated by the financial institutions which accounted for 87.02% and insurance contributed the balance of the 12.98% of the output of the sector. In addition, financial institutions recorded very strong real growth rate of 24.00% in the period, higher than both the contraction of 9.21% in the first quarter and the growth rate of 22.33% in the fourth quarter of 2019.

Typically, the performance of the sector in the review quarter was driven by the economic activities of crude petroleum and natural gas.

The weak performance of the sector in the period was driven by the performance of trade sector...

The loan-to-deposit ratio policy of the Central Bank of Nigeria was the single most important factor that supported the high growth rate recorded by the financial institutions economic activities in the period.

Furthermore, information and communication sector recorded growth rate of 7.65% in the quarter, lower than both the 9.48% in the first quarter and the 10.16% in the fourth quarter of 2019. The sector comprises of four economic activities; telecommunications & information services, publishing, motion pictures, sound recording & music production and broadcasting. Typically, telecommunications & information services economic activity is the main driver of the sector with contribution of 77.29% to the economic output of the information & communication sector. In addition, telecommunications & information services economic activity recorded real GDP growth rate of 9.71%, lower than both the 12.18% in 1Q 2019 and the 10.26% in 4Q 2019. The factors that supported the consistent growth rate of telecommunications & information services economic activities are high mobile phone penetration, increase in online shopping, the growth of e-commerce and increasing consumption of data for internet services among others. Information & communication sector contributed 14.07% to the total economic output in the period, slightly higher than both the 13.32% in the corresponding quarter of the previous year and the 13.12% in the fourth quarter of 2019. The strong growth rate of the sector is expected to continue in the quarters ahead due to the factors highlighted above.

Agriculture sector recorded moderate performance in the quarter. For the period, agriculture sector recorded real growth rate of 2.20%, lower than the 3.17% in the first quarter of last year and almost flat with the 2.31% posted in the preceding quarter. The sector comprises of four economic activities; crop production, livestock, forestry and fishery. The performance of the sector in the period was driven by crop production with real growth rate of 2.38%, lower than both the 3.26% in the first quarter and the 2.52% in the fourth quarter of 2019. Crop production accounted for 87.55% of all the activities in the agriculture sector, hence the economic activity – crop production - is the major determinant of the direction of the agriculture sector. Also, livestock, forestry and fishery accounted for 8.07%, 1.17% and 3.20% of the economic activities in the agriculture sector accordingly. The perennial factors that are affecting the performance of crop production in the previous quarters remain the potent forces militating against the growth of the sector such as the protracted conflict between herders and farmers, the insurgency in the northern region of the country and the reliance on natural rainfall for the survival of cash crops. Agriculture sector contributed 21.96% in the review quarter, almost flat relative to the 21.89% in the first quarter but lower than the 26.09% in the fourth quarter of 2019.

The factors that supported the consistent growth rate of telecommunications & information services...are high mobile phone penetration, increase in online shopping, the growth of e-commerce...

Fig. 7: Sectoral contribution to real GDP in 1Q'20

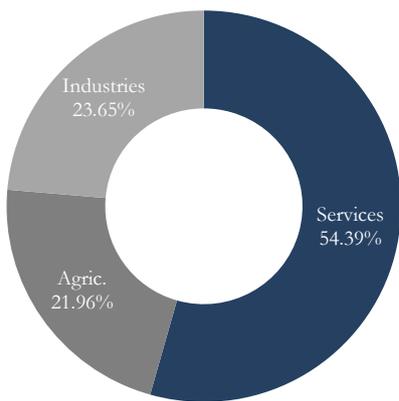
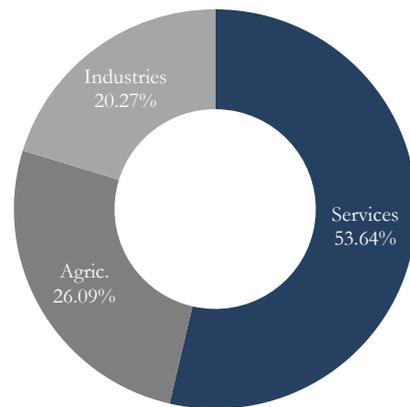


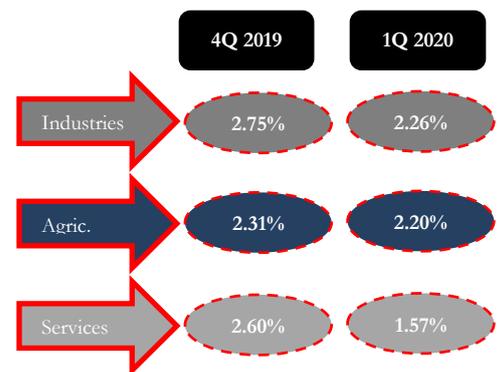
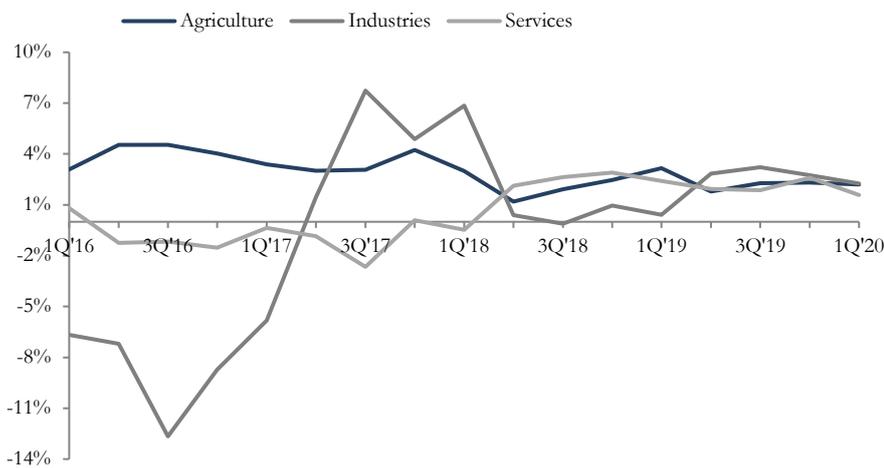
Fig. 8: Sectoral contribution to real GDP in 4Q'19



Source: NBS, PAC Research

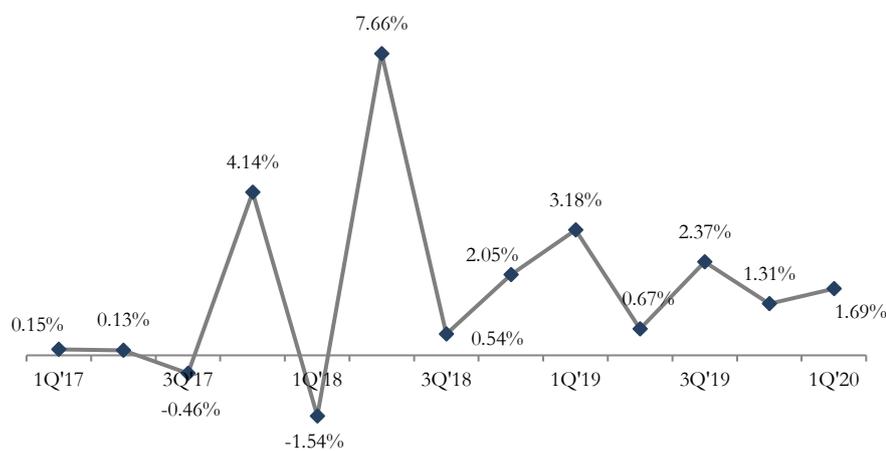
Source: NBS, PAC Research

Fig. 9: Quarterly sectoral real GDP growth rate



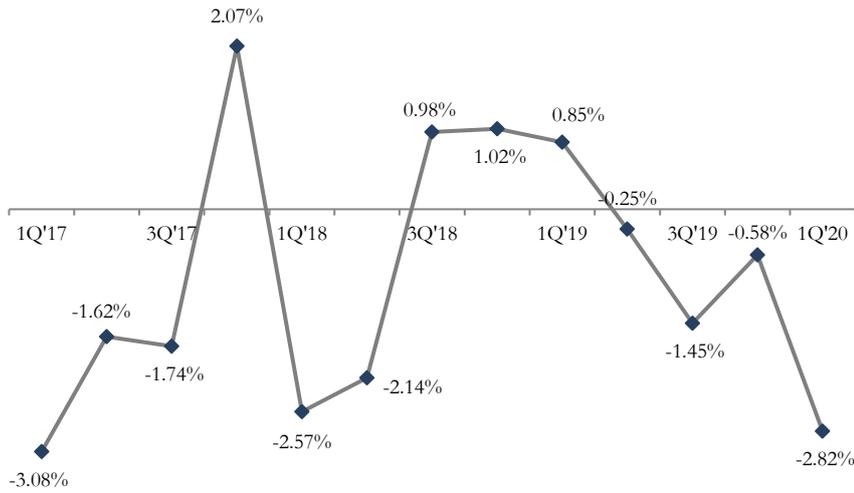
Source: NBS, PAC Research

Fig. 10: Construction - quarterly real GDP growth rate



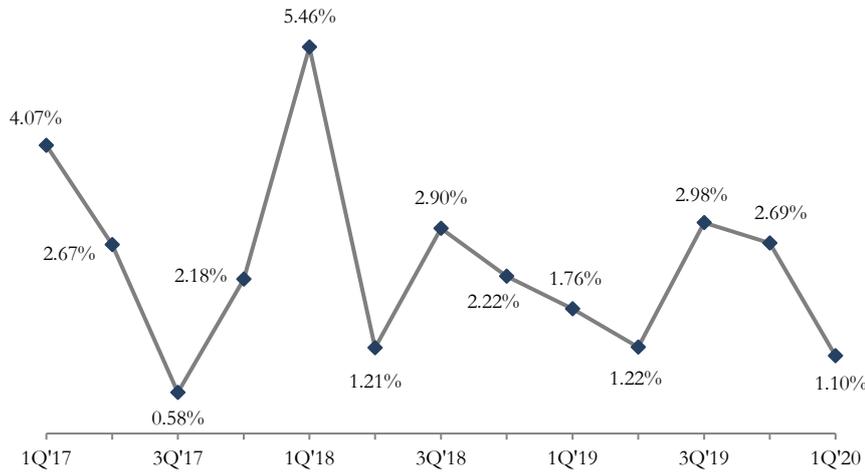
Source: NBS, PAC Research

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



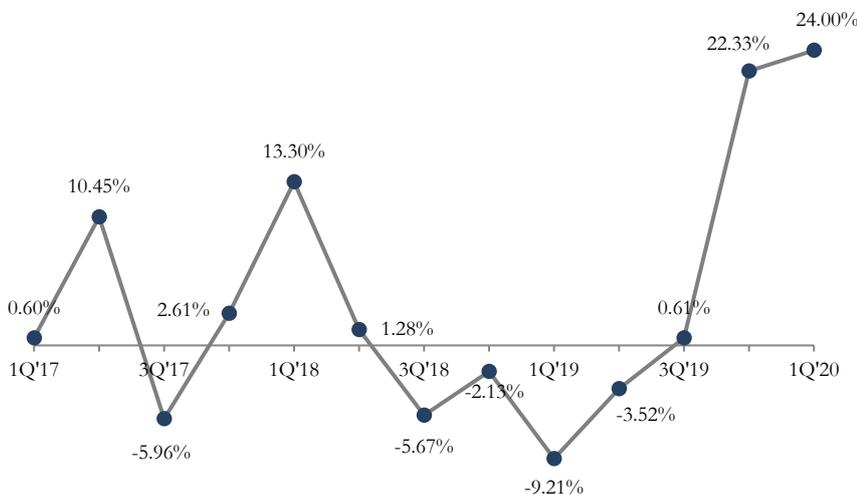
Source: NBS, PAC Research

Fig. 12: Food, beverages & tobacco - quarterly real GDP growth rate

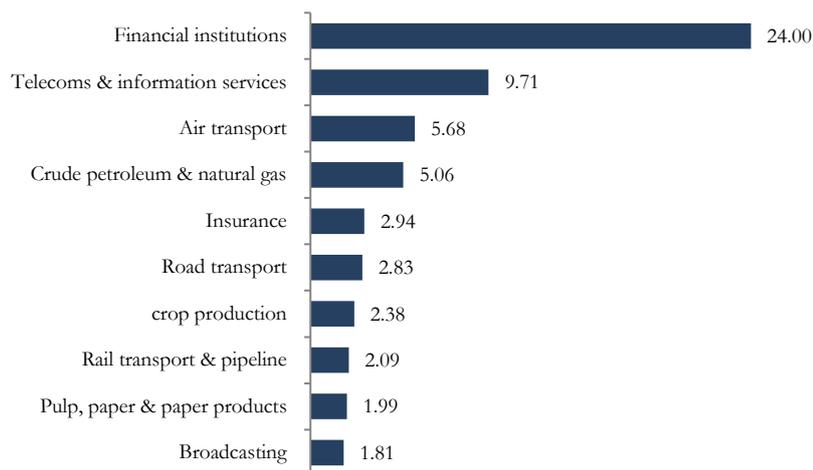


Source: NBS, PAC Research

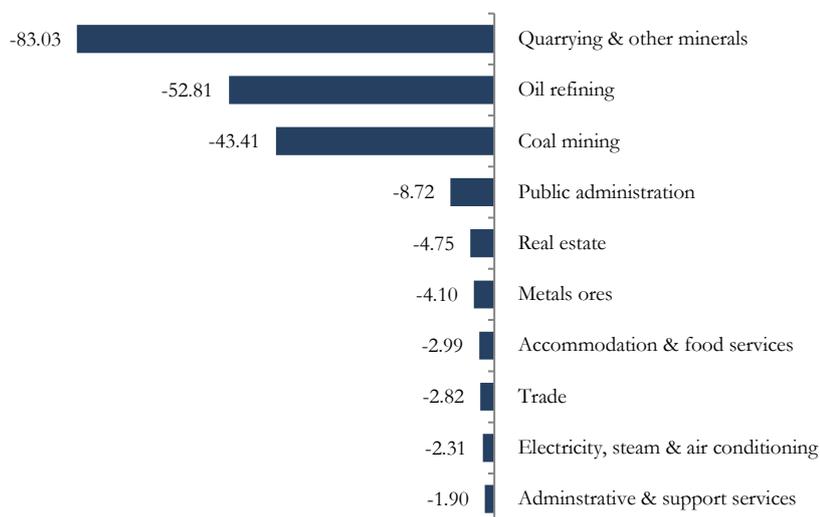
Fig. 13: Financial institutions - quarterly real GDP growth rates



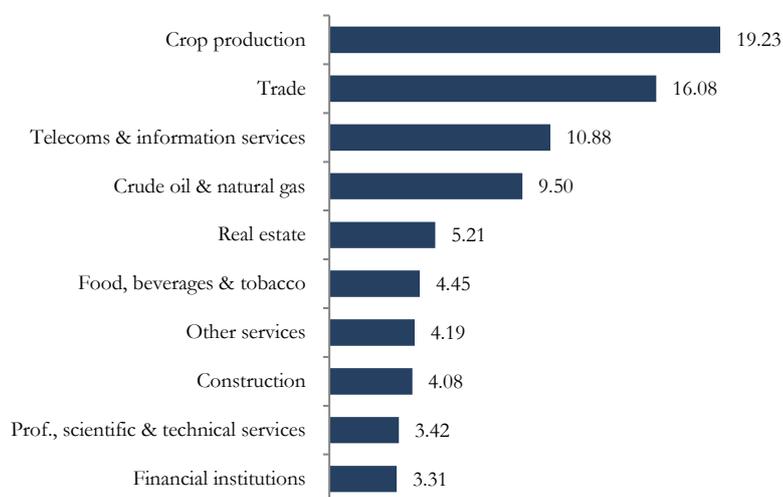
Source: NBS, PAC Research

Fig. 15: Economic activities: Top ten increase in real GDP growth rate in 1Q'20 (%)

Source: NBS, PAC Research

Fig. 16: Economic activities: Decline in real GDP growth rate in 1Q'20 (%)

Source: NBS, PAC Research

Fig. 17: Economic activities: Top ten contributors to real GDP in 1Q'20 (%)

Source: NBS, PAC Research

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