Economic Update

Non-Oil Sector – The Key Driver of Nigeria's Economy in Q1-2022

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Nigeria's economy grew by 3.11% year-on-year (y/y) in the first quarter of 2022 (vs. 0.51% in the first quarter of 2021), according to data from the National Bureau of Statistics (NBS). Despite the global headwinds and domestic challenges during the period, the country was resilient as it sustained positive real Gross Domestic Product (GDP). This is the sixth consecutive positive quarterly growth since 2020 recession when the nation's growth was whipsawed by the impact of COVID-19. The growth rate in the quarter is higher than the 0.51% real growth rate recorded in Q1, 2021 but lower than the 3.98% real growth rate recorded in Q4, 2021, **(fig. 1).** Meanwhile, the real GDP contracted by 14.66% on a quarter-on-quarter basis, indicating lower economic activities than the preceding quarter**.**

The non-oil sector remained the major contributor to the Nigerian economy in Q1, 2022 as it contributed 93.37% to the GDP – this is higher than the 90.75% achieved in Q1'21 but lower than the 94.81% reported in Q4'21. However, the Oil sector contributed 6.63% to the nation's GDP in Q1'22, lower than 9.25% reported in Q1'21 but higher than the 5.19% achieved in Q4'21.

Out of the forty-six economic activities in the country, thirty-six recorded positive growth in Q1'22 which is higher than the twenty-three recorded in Q1'21 but lower than the forty-one reported in Q4'21. The aggregate GDP stood at ₦45.32 trillion in nominal term in Q1'22, and this is 13.25% higher than ₦40.01 trillion achieved in Q1'21 but 8.03% lower than ₦49.28 trillion reported in Q4'21.

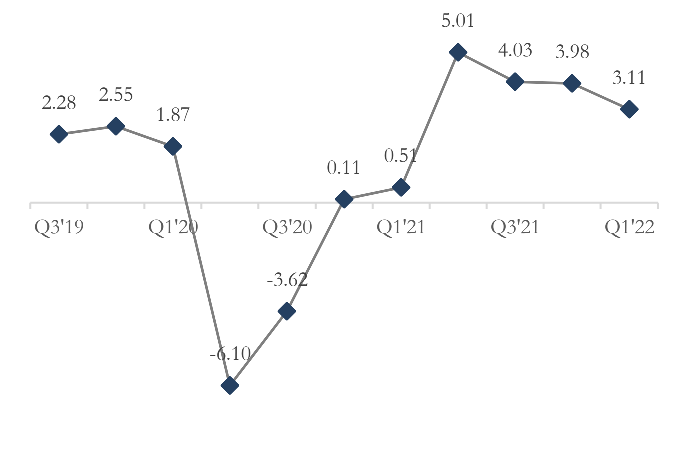
Looking ahead, challenges remain as external factors such as global supply chain disruption (caused by the Russian-Ukrainian war) and spiralling global inflation rate may whittle down the country's growth. On the domestic front, the upcoming election and insecurity remain factors that may hamper the country's growth in the near term.

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

	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22
Oil sector	-2.21%	-12.65%	-10.73%	-8.06%	-26.04%
Non-oil sector	+0.79%	+6.74%	+5.44%	+4.73%	6.08%

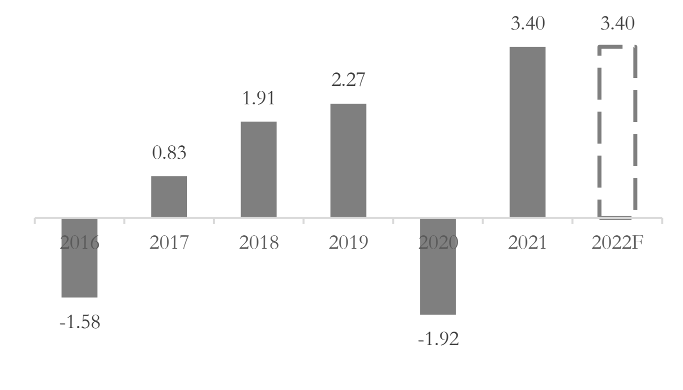
Source: NBS, PAC Research

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



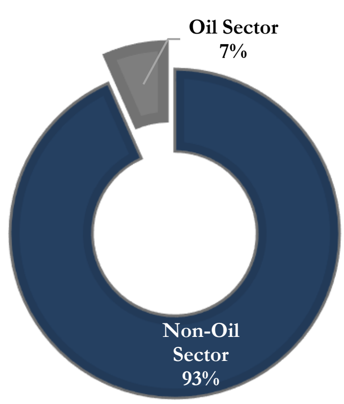
Source: NBS, PAC Research

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



Source: NBS, IMF WEO, PAC Research

Fig. 3: Contribution to GDP in Q1'22 – oil sector and non-oil sector



Source: NBS, PAC Research

Non-oil sector maintains impressive growth while oil sector records negative growth in eight consecutive quarters: The non-oil sector remained the key driver of the growth recorded in the country's GDP in the first quarter of 2022 as the sector grew by 6.08%, in real term. This is higher than both the real growth rate of 0.79% and 4.73% recorded in the Q1, 2021 and Q4, 2021. The performance of the non-oil sector in the first quarter was driven by the increasing economic activities in agriculture, information & communication, trade, financial and insurance, among others. The non-oil sector contributed 93.37% in real term to the nation's economic output in Q1, 2022. We maintain that the efforts of monetary and fiscal authorities to drive growth in the non-oil sector through various intervention programmes will continue to have a positive impact on the non-oil sector in coming quarters. However, the insecurity in some regions in Nigeria and the ongoing war between Russia and Ukraine remain factors to watch. Hike in energy prices, global supply disruption and higher input costs may weigh down the growth in the country's non-oil sector.

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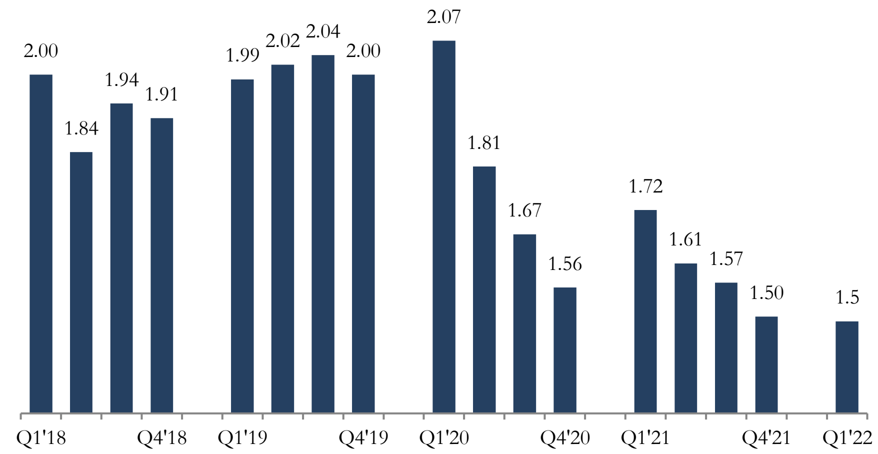
Despite the rising global oil prices, Nigeria is yet to maximise its revenue from the oil sector the sector contracted by 26.04% in the first quarter of 2022. This is the eighth consecutive quarterly contraction. The performance of the oil sector in the review period is worse than the contraction of 8.06% and 2.21% recorded in the forth quarter of 2021 and the first quarter of 2021 respectively. The setback recorded in the oil sector during the period was a result of low oil output as the country continued to battle with pipeline vandalism, oil theft and bunkering. Crude oil production stood at an average of 1.49 million barrels per day (mbpd) in the period, lower by 0.67% and 13.37% compared with an average production of 1.50 mbpd and 1.72 mbpd in the previous quarter and corresponding quarter of the previous year respectively **(fig. 4)**. The contribution of the oil sector to the nation's GDP stood at 6.63% in the first quarter of 2022. This is higher than the 5.19% recorded in the previous quarter but lower than the 9.25% recorded in the corresponding period of last year.

However, the Brent Crude Oil traded at an average price of US$97.90 per barrel in the review quarter, higher by 22.90% and 59.65% relative to the average price of US$79.66 and US$61.32 per barrel in the previous quarter and corresponding quarter of the previous year respectively. The significant increase in the price of crude oil is attributed to the supply shortage due to the boycott of Russian crude oil, especially by European Union, following its invasion of Ukraine in February 2022.

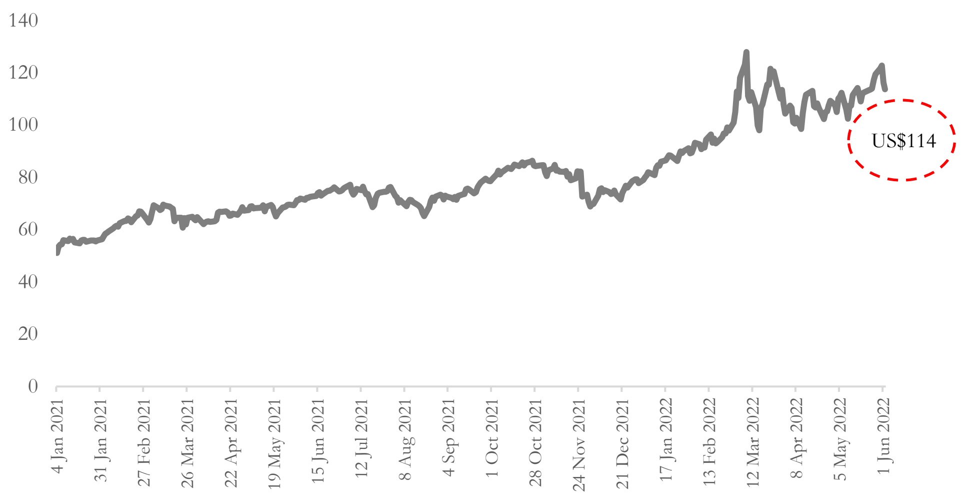
As Nigerian government intensifies its effort to curb oil theft, pipeline vandalism and bunkering, we expect this to have a positive implication on the country's oil output. We expect the country to ramp up oil production in the quarters ahead. In addition, we expect the crude oil prices to be supported by the supply shortage orchestrated by the ongoing war between Russia and Ukraine. The brent crude has stayed well above $100 per barrel in recent times and we expect the ongoing global challenges to continue to support oil prices above $100 per barrel in the short run. Consequently, we anticipate improved performance in Nigerian oil sector in coming quarters.

Fig. 4: Crude oil production (mbpd)



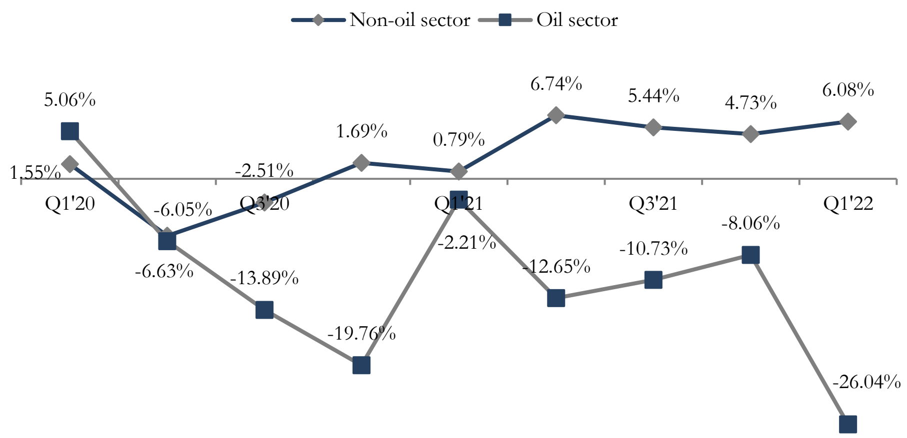
Source: NBS, PAC Research

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



Source: Bloomberg, PAC Research

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



Source: NBS, PAC Research

The agriculture sector rises by 3.16% (year-on-year) in Q1'22, driven by various government interventions: In the first quarter of 2022, the agriculture sector recorded real GDP growth rate of 3.16% as the interventions of government, through various programmes, continued to have positve impact on the sector. However, the growth recorded in the first quarter of 2022 was lower than the growth rate of 3.58% achieved in the preceding quarter but higher than 2.28% recorded in the corresponding quarter of 2021. **(fig. 12)**. During the period, agricultural sector contributed 22.36% to overall GDP, in real term, in the first quarter of 2022. This is lower than the contribution of 26.84% in fourth quarter of 2021 but slightly higher than the 22.35% recorded in the first quarter of 2021. Only four sub-activities make up the Agricultural industry – Crop production, livestock, forestry and fishery – and they all recorded positve growth during the period.

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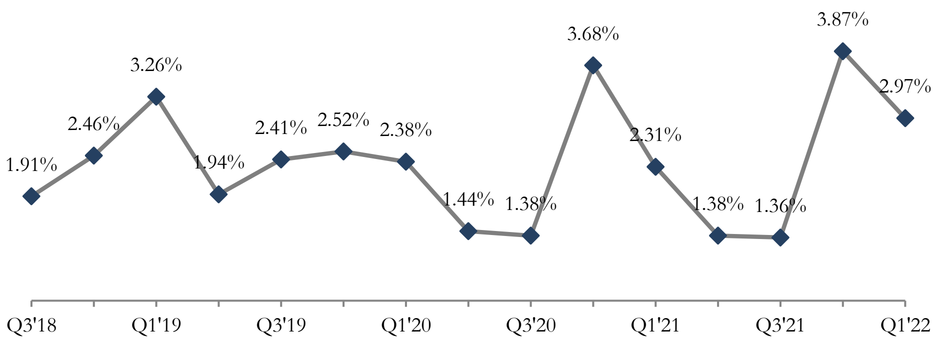
Crop production activity remained a major driver of the sector as it accounted for 87.42% of the agricultural industry in the first quarter of 2022, followed by Livestock (8.21%), Fishing (3.23%) and Forestry (1.14%). Crop production recorded real GDP growth rate of 2.97% in the period. This is lower than growth rate of 3.87% in the preceding quarter but higher than growth rate of 2.31% recorded in the corresponding quarter of 2021. Livestock economic activity recorded a real growth rate of 5.55% in the period, significantly higher than both the growth rate of 0.41% and 1.65% in the fourth quarter 2021 and first quarter of 2021 respectively. In addition, forestry and fishery recorded growth rate of 1.37% and 3.14% respectively in the first quarter of 2022.

Fig. 7: Crop production - quarterly real GDP growth rate



Source: NBS, PAC Research

Mining and Quarrying weigh down the growth in the industry sector: The industry sector extended negative growth to the fourth straight quarter as it declined by 6.81%, in real term, in the first quarter of 2022. This is lower than both the real growth rate of -0.05% and 0.94% recorded in the preceding quarter and corresponding quarter of the previous year respectively. The industry sector contributed 21.47% to overall GDP in the first quarter of 2022, higher than the 18.05% contribution in the preceding quarter but lower than the 23.75% recorded in the corresponding quarter of previous year. The lacklustre performance of the sector could be attributed to the setback recorded in the Mining and Quarrying subsector as it contracted by 25.89% during the period.

The performance of Mining and Quarrying subsector is lower than both the real growth of -6.16% and -2.19 reported in the preceding quarter and corresponding quarter of last year respectively. Crude Petroleum & Natural Gas, Coal Mining and Quarrying & Other Minerals are the economic activities that contributed to the setback in Mining and Quarrying sector as they recorded real GDP growth of -26.04%, -12.97% and -13.72% respectively during the period. However, only Metal Ores subsector recorded a positive real GDP growth rate of 30.76% during the period.

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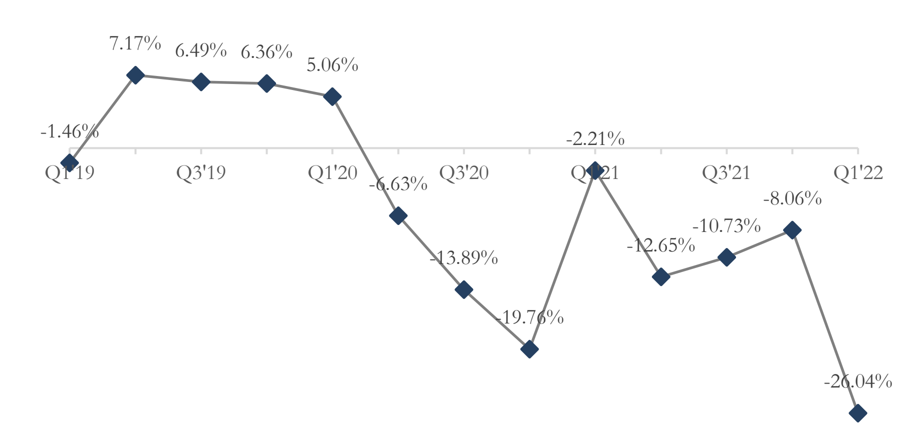
Despite the significant fall in the activities of oil refining, the manufacturing industry maintained impressive performance in the first quarter of 2022 as it recorded a real GDP growth rate of 5.89%, which is higher than both the growth rate of 2.28% and 3.40% recorded in the preceding quarter and corresponding quarter of the previous year respectively. All the economic activities in the manufacturing sub-sector recorded an impressive performance in the first quarter, except oil refining (-44.26%), textile, apparel & footwear (-1.23%), pulp, paper and paper products (-1.42%), electrical and electronics (-4.78%) and basic metal, iron and steel (-1.48%). In addition, construction sub-sector recorded a real growth rate of 4.83% in the quarter, higher than both the growth rate of 3.46% and 1.42% in the fourth quarter of 2021 and first quarter of 2021 respectively. The significant growth recorded in construction activities could be attributed to the improvement in economic activities during the period.

Fig. 8: Crude Petroleum and Natural Gas - quarterly real GDP growth rate



Source: NBS, PAC Research

The services sector remains the best performing sector in the first quarter of 2022: Of all the three main sectors in Nigeria's economy, the services sector recorded the highest growth in the first quarter of 2022 as it grew by 7.45% in real term during the period. This is higher than both the growth rate of 5.58% and -0.39% reported in the preceding quarter and corresponding quarter of the previous year respectively. The services sector contributed 56.17% to the overall GDP in the first quarter of 2022, which is higher than both the 55.11% and 53.90% recorded in the fourth quarter of 2021 and first quarter of 2021 respectively, All the economic activities under the services sector reported various level of increase, in real term, during the period, except electricity, gas, steam and air conditioning supply (-11.20%) and road transport (-24.63%).

In our opinion, the setback recorded in road transport activities during the period could be attributed to the insecurity in the country as many passengers switched from road transport to air transport during the period. This is notable in the real growth rate of 50.68% recorded in the air transport activities during the period.

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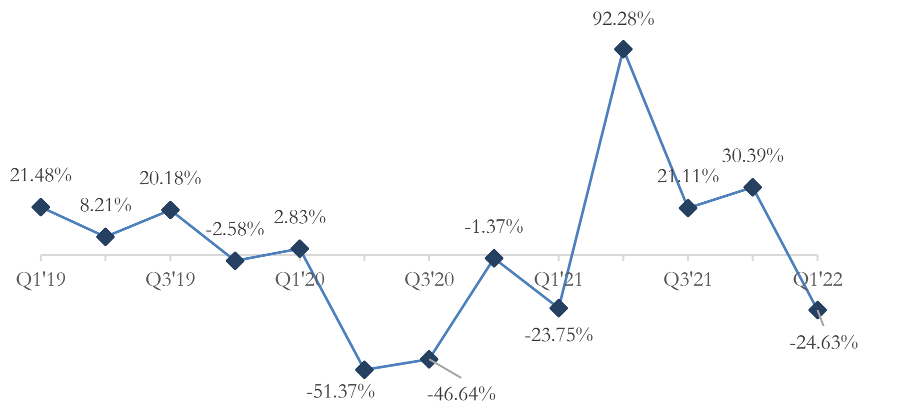
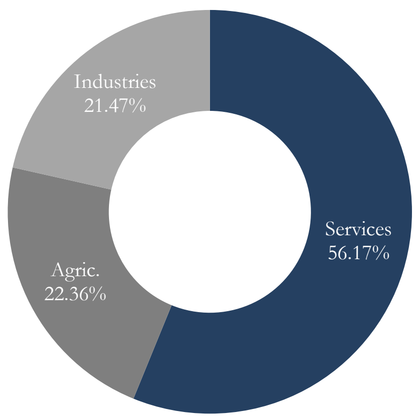
Fig. 9: Road Transport - quarterly real GDP growth rate



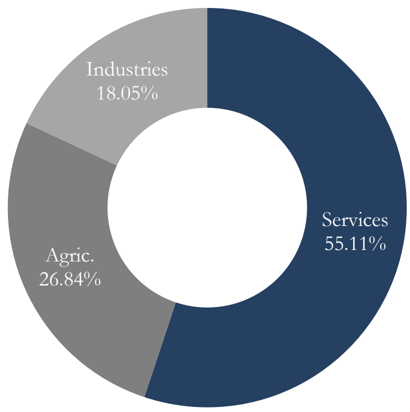
Source: NBS, PAC Research

Fig. 10: Sectoral contribution to real GDP in Q1'22



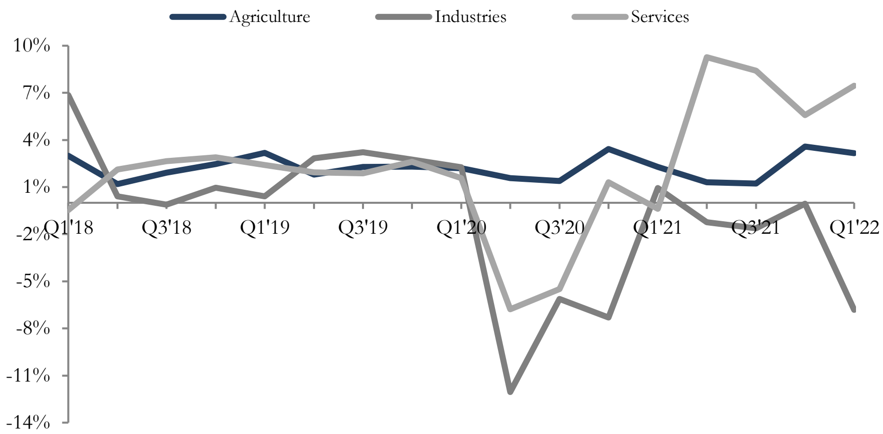
Source: NBS. PAC Research

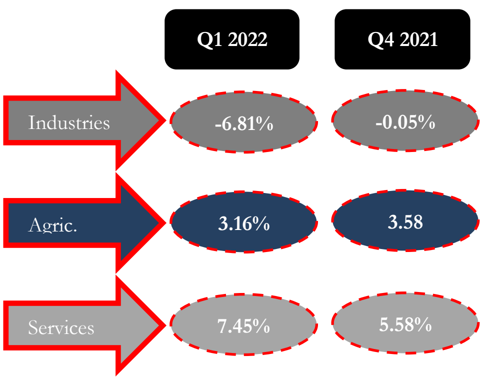
Fig. 11: Sectoral contribution to real GDP in Q4'21



Source: NBS, PAC Research

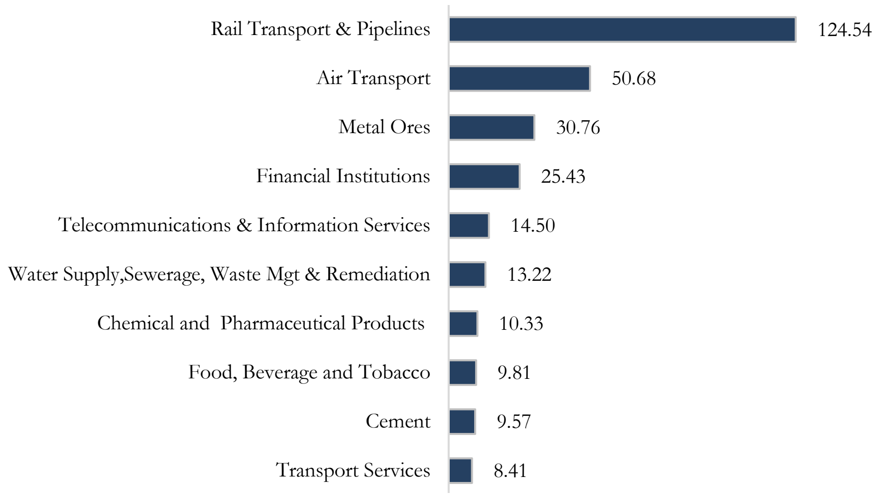
Fig. 12: Quarterly sectoral real GDP growth rate





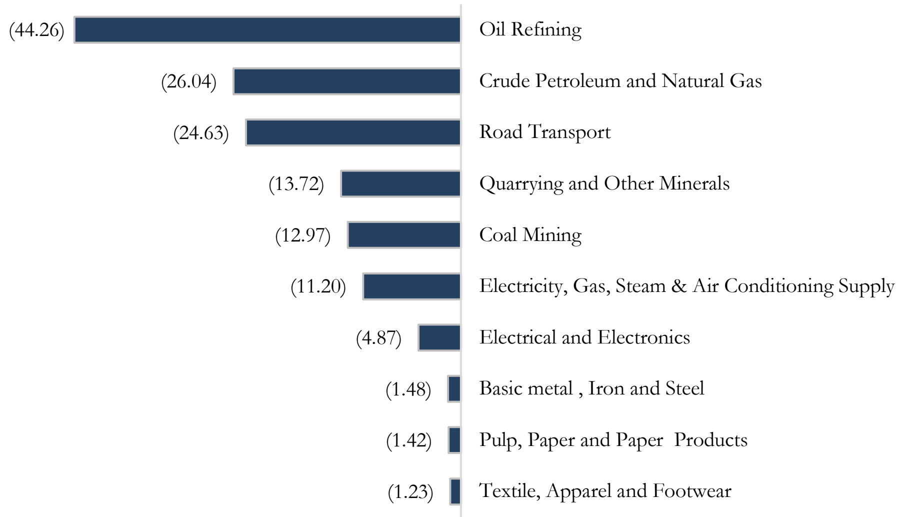
Source: NBS, PAC Research

Fig. 13: Economic activities: Top ten increase in real GDP growth rate in Q1'22 (%)



Source: NBS, PAC Research

Fig. 14: Economic activities: Least ten in real GDP growth rate in Q1'22 (%)



Source: NBS, PAC Research

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