

# Economic Update

Nigeria | Economy | 2Q 2019 GDP Report | September 13, 2019

PAC RESEARCH

## Economic output subdued by the post-election related issues

Nigeria's real gross domestic product (GDP) improved by 1.94% year-on-year in 2Q'19. In the second quarter to June 2019, Nigeria's gross domestic product expanded by 1.94% y/y in real terms, lower than the 2.10% in the first quarter of the year but higher than the 1.50% recorded in the corresponding period of the previous year (fig. 1). Moreover, the aggregate nominal economic output for the review quarter stood at N34.94 trillion, higher by 13.83% compared with the performance in the preceding quarter and 9.80% relative to the performance in the second quarter of the preceding year. Furthermore, a total of fifteen economic activities grew faster in the period relative to the second quarter of 2018, while thirteen economic activities had higher growth rates relative to the preceding quarter. Overall, thirty-one out of the forty-six economic activities in the nation's GDP basket recorded positive growth rate, while fifteen economic activities recorded various levels of decline. This is a decelerated performance compared with the thirty-six economic activities that recorded positive growth rate in the first quarter of the year. In our opinion, the moderated performance in the period was aided by the stability in the oil sector as well as the successful political transition.

The weak performance of the economic output in the review quarter relative to the preceding quarter was driven by the performance of the non-oil sector, however the performance of the oil sector mitigated the weaknesses. The oil sector recorded real growth rate of 5.15% in the period relative to the -1.46% recorded in 1Q'19 and -3.95% in 2Q'18. The impressive performance of the oil sector was driven by the stability in the production, despite the volatility in the prices. Brent Crude Oil traded at an average price of US\$66.22 per barrel in the review quarter, higher than the average price of US\$63.50 per barrel in the first quarter by 4.28% but lower than the average price of US\$68.63 per barrel in 2Q'18 by 3.51% (fig 5).

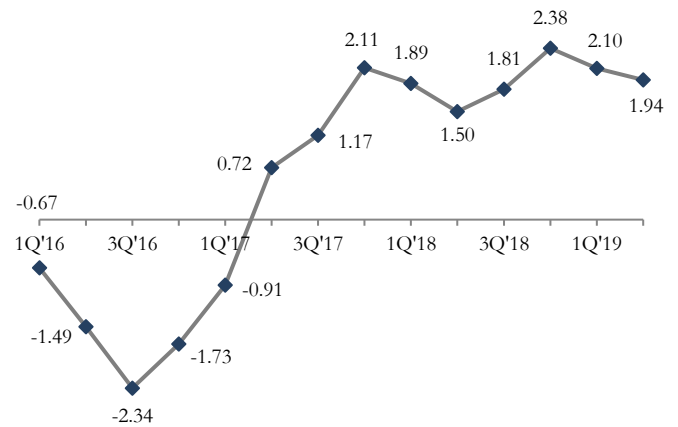
Table 1: Oil sector and non-oil sector – quarterly real GDP growth rates

	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19
Oil sector	-3.95%	-2.91%	-1.62%	-1.46%	+5.15%
Non-oil sector	+2.05%	+2.32%	+2.70%	+2.47%	+1.64%

Source: NBS, PAC Research

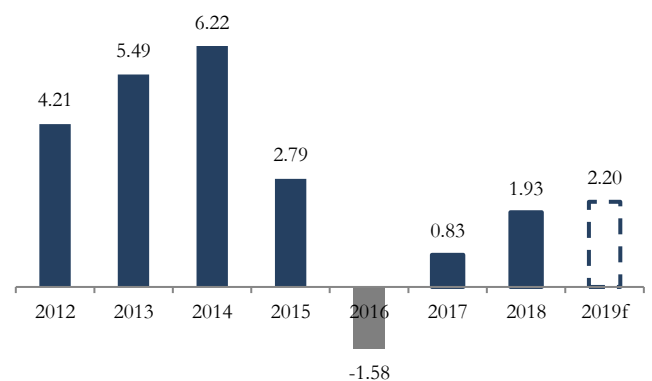
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Fig. 1: Quarterly real GDP growth rates (%)



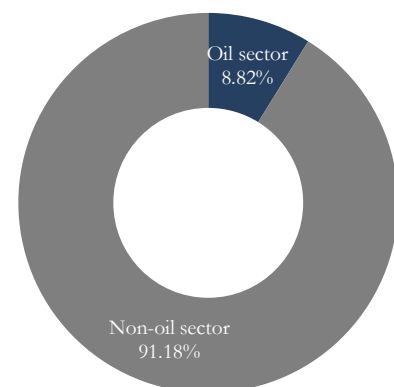
Source: NBS, PAC Research

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



Source: NBS, PAC Research

Fig. 3: Contribution to GDP in 2Q'19 – oil sector and non-oil sector

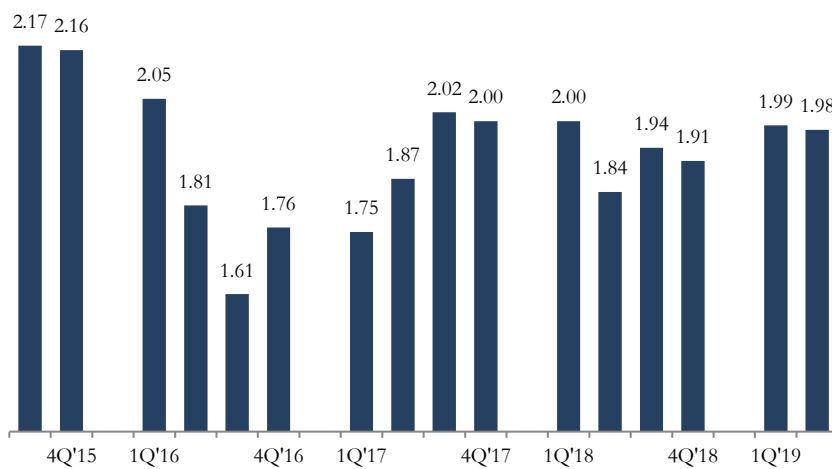


Source: NBS, PAC Research

On the other hand, Nigeria recorded average crude oil production of 1.98 million barrel per day (mbpd) in the period, almost flat with the 1.99 mbpd in the first quarter (**fig. 4**). In addition, the review quarter's production volume was higher than the average production of 1.84 mbpd in the second quarter of 2018 by 7.61%. There was minimal disruption to production in the review period due to the ability of the policymakers to rein on the unrest in the oil producing region. For 2019, we estimated average production of 2.00 mbpd including condensates, despite 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, the factors that will affect production in the quarters ahead are the ability of the policymakers to sustain the current peaceful atmosphere in the oil producing region in order to avoid incessant attack against oil production infrastructures. Overall, the oil sector contributed 8.82% to the GDP in the quarter, relative to the 9.22% in the first quarter and the 8.55% in the corresponding quarter of the previous year (**fig. 3**).

*There was minimal disruption to production in the review period due to the ability of the policymakers to rein on the unrest in the oil producing region.*

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



Source: NBS, PAC Research

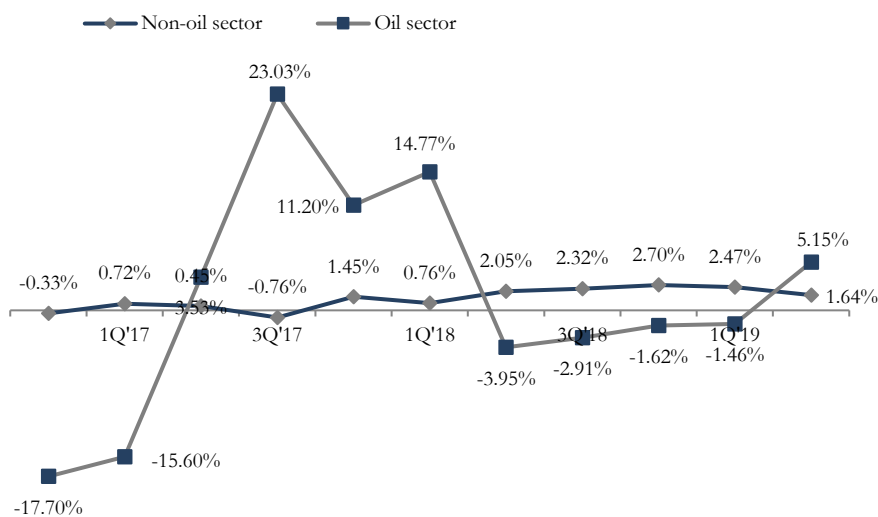
Fig. 5: Prices of Brent crude oil (US\$/barrel)



Source: Bloomberg, PAC Research

**Non-oil sector weakens for the second consecutive quarters.** For the review quarter, the non-oil sector recorded a weak performance of 1.64%, lower than both the 2.47% in the first quarter of the year and the 2.05% in the corresponding quarter of the previous year (fig. 6). The weak performance of the sector was driven by the economic activities in the non-oil industries sector, services sector and the agricultural sector. The non-oil sector contributed 91.18% to the output in the quarter, slightly higher than the 90.78% in the first quarter but almost flat with the 91.45% in the second quarter of the previous year.

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

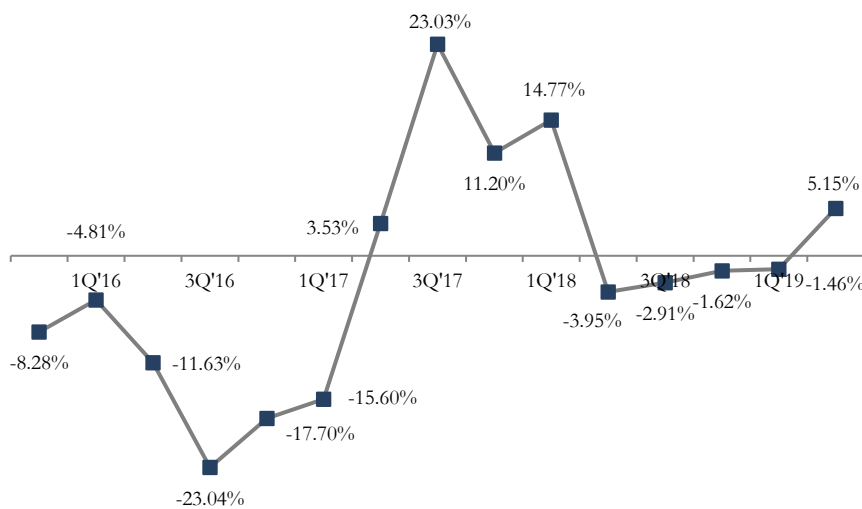


Source: NBS, PAC Research

**Industry sector emerges the best performing sector.** In the review quarter, industry sector recorded real GDP growth rate of 2.10%, this translated to a quarterly growth rate of 1.68% relative to the 0.42% in the first quarter (**fig. 15**). The improvement recorded by the sector was aided by the economic activities in the oil-industry sector, on the other hand the non-oil industry sector recorded a dismal performance in the period. While mining and quarrying recorded real growth rate of 5.02%, aided by crude petroleum and natural gas sector with real growth rate of 5.15% and coal mining which grew impressively by 7.63%, although lower than the 31.1% in the first quarter. In addition, mining and quarrying sector contributed 8.97% to the real GDP in the period, slightly lower than the 9.29% in the previous quarter but almost the same with the 8.71% recorded in the corresponding quarter of the previous year. Manufacturing sector contracted by 0.13% (**fig. 8**), the weak performance was mitigated by pulp, paper and paper products economic activities with real growth rate of 2.33%. The contribution of the manufacturing sector declined slightly to 9.10% relative to the 9.79% in the first quarter and the 9.29% in the second quarter of 2018. Also, construction sector grew by 0.67% lower than the growth rate of 3.18% recorded in the first quarter of the year and the 7.66% in the corresponding quarter of the previous year (**fig. 9**). The construction sector accounted for 4.45% of the total real GDP slightly higher than the 4.09% in the first quarter of the year, but marginally lower than the 4.51% in 2018. Overall, the industry sector contributed 23.21% to the output in the review period relative to the 23.56% in the first quarter of the year and 23.18% in the second quarter of the previous year (**fig. 13 & 14**).

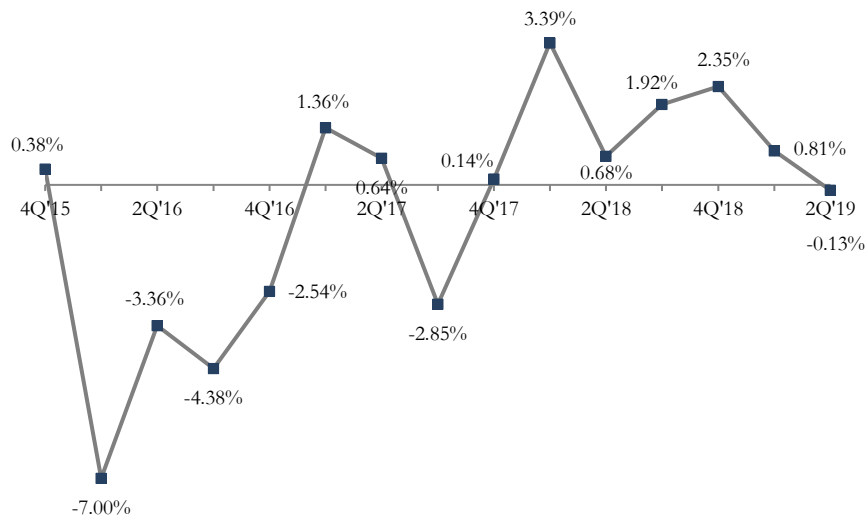
*The improvement recorded by the sector was aided by the economic activities in the oil-industry sector...*

Fig. 7: Crude petroleum & natural gas sector - quarterly real GDP growth rate



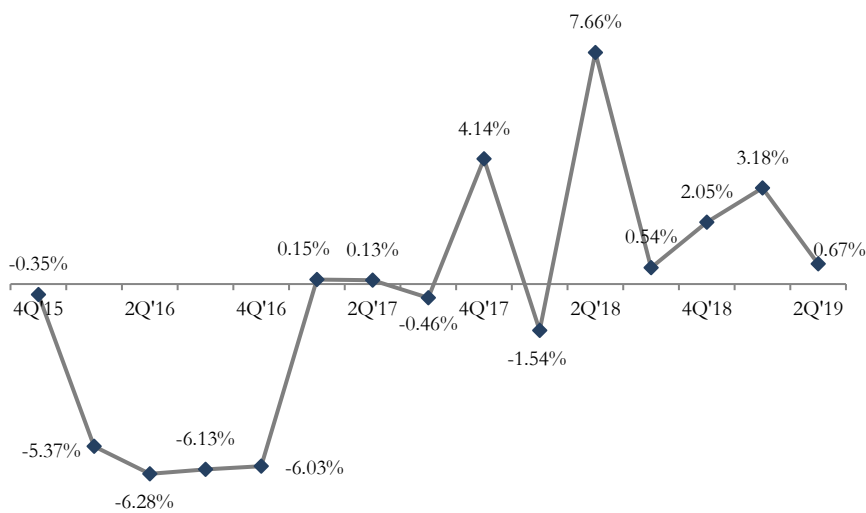
Source: NBS, PAC Research

Fig. 8: Manufacturing sector - quarterly real GDP growth rate



Source: NBS, PAC Research

Fig. 9: Construction sector - quarterly real GDP growth rate



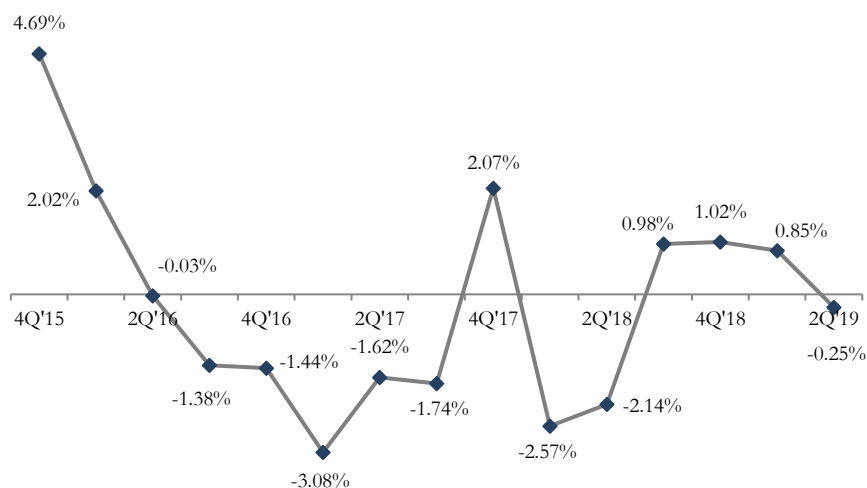
Source: NBS, PAC Research

**Services sector, still on the downward trend.** The downward trend that started in the first quarter of the year continued in the review quarter with real growth rate of 1.94%, lower than the 2.41% and the 2.90% in the first quarter of the year and the fourth quarter of 2018 respectively. Also, the growth rate of the sector in the review quarter is lower than the 2.12% in the second quarter of the previous year. The weakness of the sector in the period was due to the poor performance of trade, real estate and finance & insurance sectors. Trade sector recorded a decline of 0.25% in the review period relative to a growth rate of 0.85% and 7.66% in the first quarter of the year and the second quarter of the previous year respectively (**fig. 10**). Moreover, the contribution of trade sector decline to 16.10% relative to the 16.86% and the 16.45% in the preceding quarter and the second quarter of 2018 respectively. It is worthy of note to state that the operational and logistic challenges in the Apapa seaport contributed significantly to the dismal performance of trade sector among other factors.

In addition, real estate sector pulled back into negative trajectory with real growth rate of -3.84% after emerging from recession in the first quarter of the year with real growth rate of 0.93% (**fig. 11**). The positive development recorded by the sector in the first quarter could not be sustained as a result of the aftermath of political activities in the country in the period. The sector accounted for 6.44% of the total output in the review quarter, higher than the 5.57% in the first quarter but slightly lower than the 6.83% in the corresponding quarter of the previous year. On the other hand, the positive performance of transport & storage sector and information & communications sector mitigated the effects of the dismal performance of services sector in the period. Transport & storage sector recorded real growth rate of 8.02%, lower than the 19.50% and the 21.76% in the first quarter and the second quarter of 2018 and the sector contributed 1.38% to the total real GDP, lower than the 1.76% in the first quarter but slightly higher than the 1.30% in the previous year. The positive growth rate recorded by the transport and storage sector was supported by the road transport and air transport economic activities with real growth rate of 8.21% and 12.31% respectively. Also, information & communication sector grew by 9.01% compared with 9.48% and 11.81% in the last quarter and the same quarter of the previous year. This was aided by the economic activities in telecommunication and information services with real growth rate of 11.34% in the review period (**fig. 12**). Overall, services sector contributed 54.55% to the total real GDP in the review quarter relative to the 52.63% in the first quarter and the 53.97% in the second quarter of the previous year.

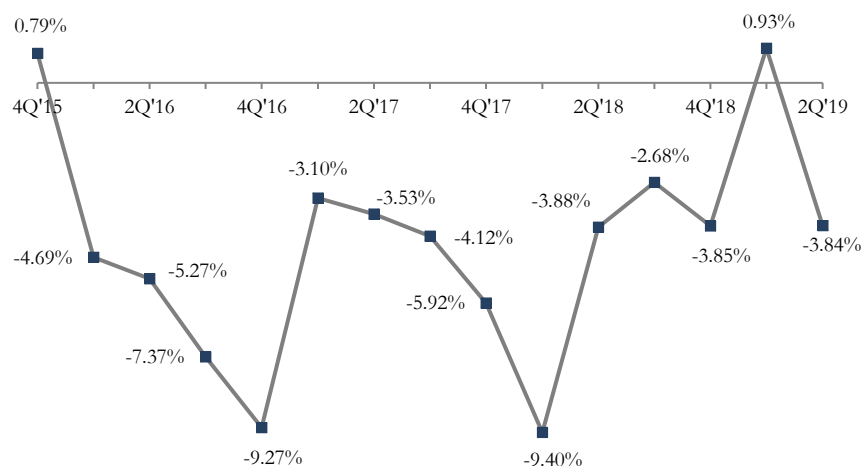
*Overall, services sector contributed 54.55% to the total real GDP in the review quarter relative to the 52.63% in the first quarter and the 53.97% in the second quarter of the previous year.*

**Fig. 10: Trade sector - quarterly real GDP growth rate**



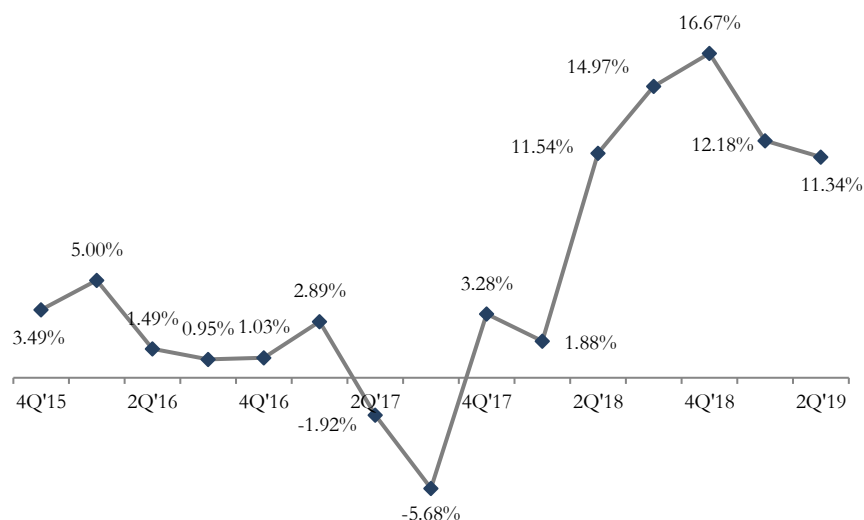
Source: NBS, PAC Research

Fig. 11: Real estate sector - quarterly real GDP growth rate



Source: NBS, PAC Research

Fig. 12: Telecommunication &amp; information service sector - quarterly real GDP growth rate



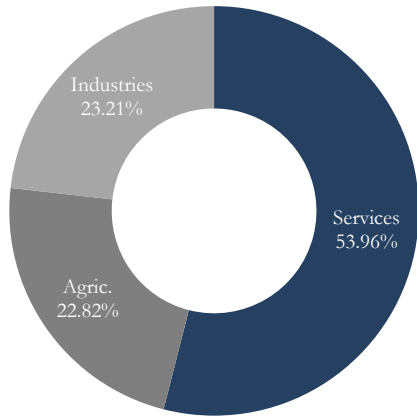
Source: NBS, PAC Research

### Agriculture sector recedes in performance due to weakness in crop production. In

the period, the performance of agriculture sector weakens significantly relative to the first quarter of the year. The sector recorded real GDP growth rate of 1.79% compared with the 3.17% in the preceding quarter, but slightly higher than the 1.19% in the second quarter of the previous year. Crop production sub-sector is the major driver of the sector contributed 82.26% to the economic activities in the sector in the review quarter, the sub-sector recorded real growth rate of 1.94%, lower than the 3.26% in the first quarter. The weak performance of crop production sub-sector can be attributed to the negative effects of insecurity in the northern region of the country which led to the displacement of crop producing farmers. Furthermore, crop production contributed 20.37% to the total output in the period, marginally higher than the 19.13% in the first quarter but it remains flat against the contribution recorded in the same quarter of the previous year. In addition, forestry recorded real growth rate of 3.23% relative to the 2.19% in the first quarter and the 3.96% in the second quarter of the previous year.

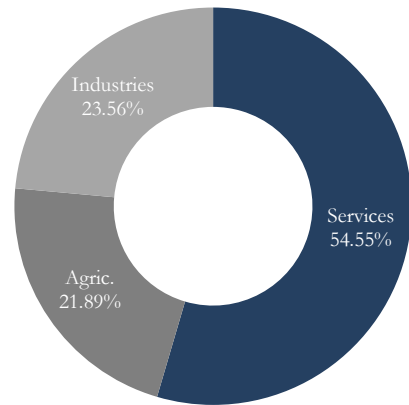
Similarly, fishery recorded improvement of 1.09% significantly lower than the 7.09% in the first quarter but higher than the growth rate of -1.35% in the second quarter of the preceding year. On the other hand, livestock recorded a marginal decline of 0.01% relative to the growth rate of 0.88% in the first quarter and the decline of 1.95% in the previous year.

Fig. 13: Sectoral contribution to real GDP in 2Q'19



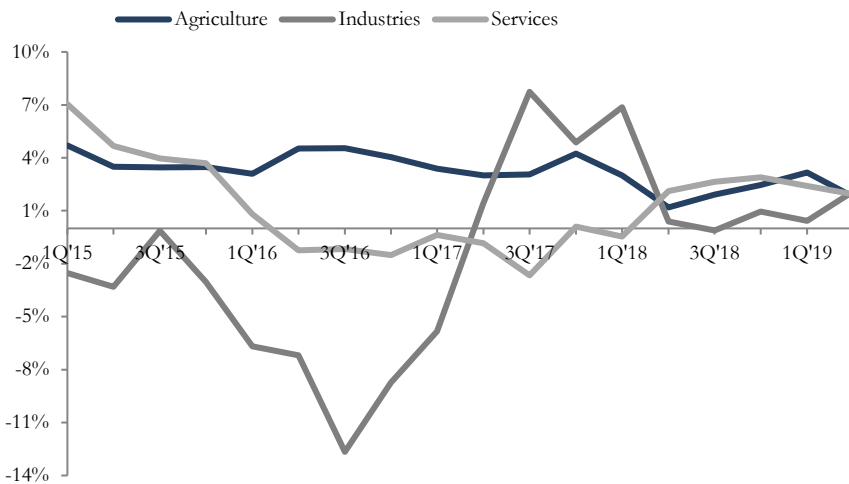
Source: NBS, PAC Research

Fig. 14: Sectoral contribution to real GDP in 1Q'19



Source: NBS, PAC Research

Fig. 15: Quarterly sectoral real GDP growth rate



Source: NBS, PAC Research

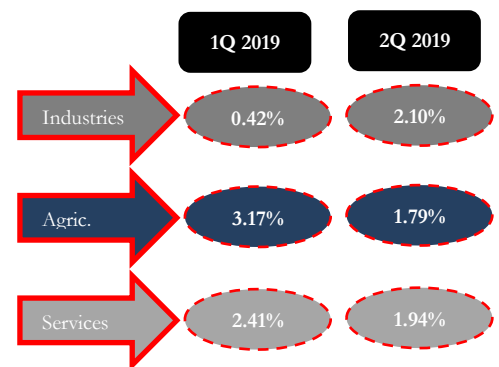
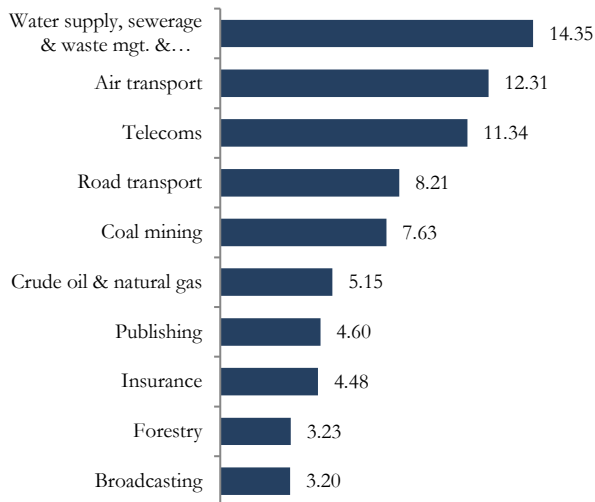


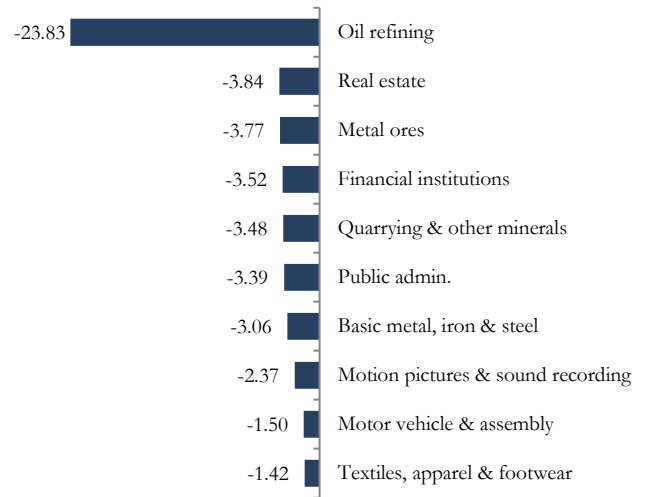


Fig. 16: Economic activities: Top ten increase in real GDP growth rate in 2Q'19 (%)



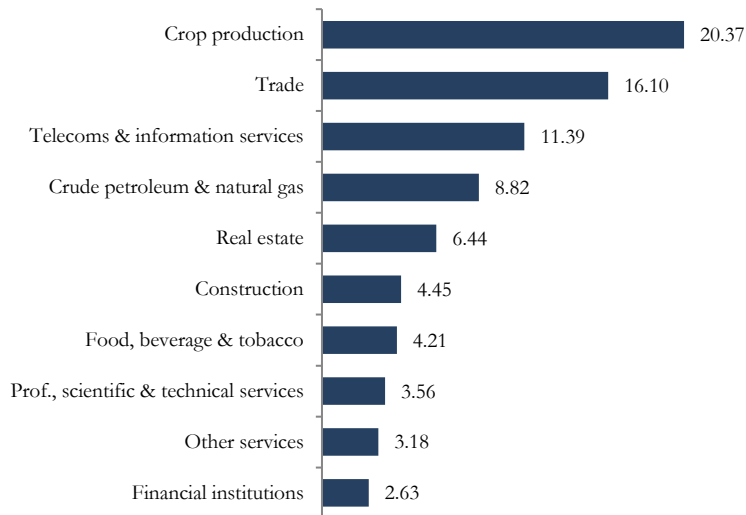
Source: NBS, PAC Research

Fig. 17: Economic activities: Decline in real GDP growth rate in 2Q'19 (%)



Source: NBS, PAC Research

Fig. 18: Economic activities: Top ten contributors to real GDP in 2Q'19 (%)



Source: NBS, PAC Research

## IMPORTANT DISCLOSURES

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