

Economic Update

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

PAC RESEARCH

COVID-19: Containment measures drags the economy southward

Nigeria's economic output contracted by 6.10% year-on-year in 2Q'20. In the second quarter to June 2020, Nigeria's economic output as measured by gross domestic product (GDP) recorded a decline of 6.1% y/y in real terms relative to both the 2.12% recorded in the corresponding quarter of the previous year and the 1.87% in the first quarter of the year (fig. 1). The strong contraction in the economic output in the period was due largely to the low levels of both domestic and international economic activities in the review period which was consequent to the nation-wide lockdowns as part of the efforts to contain the spread of COVID-19 pandemic. The efforts of policymakers towards the containment of the spread of the pandemic ranges from restrictions of human and vehicular movements, curfew in some States, closure of both domestic and international airspace and closure of schools among others which affected economic activities domestically.

Furthermore, aggregate nominal GDP for the review quarter declined by 2.80% to ₦34.65 trillion, compared with the ₦35.00 trillion in the corresponding quarter of the previous year. Overall, thirteen out of the forty-six economic activities in the nation's GDP basket recorded positive growth rate, while thirty-three recorded various degrees of decline in the period. The significant weakness in performance relative to the preceding quarter when there were twenty-nine economic activities with positive growth rate was due to the impact of the global healthcare crisis on the economy in the review period. In our view, with the gradual re-opening of the economy, we expect to see a moderate impact of the pandemic on economic activities in the third quarter. Although, the cautious re-opening of the economy when the curve has not been flattened is expected to lead to a resurgence in the infections in the quarters ahead. However, it might not lead to another wave of lockdown.

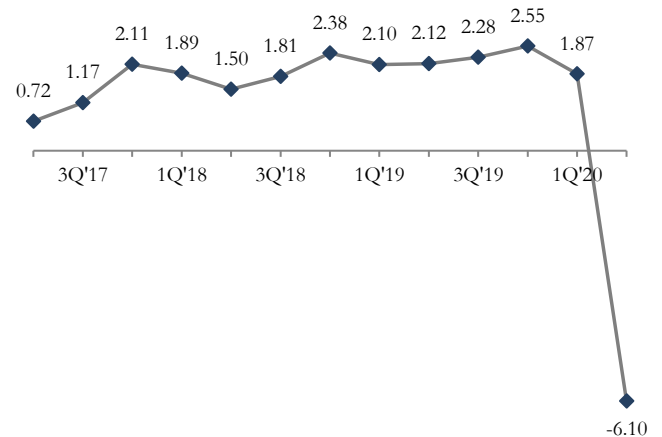
Table 1: Oil sector and non-oil sector – quarterly real GDP growth rates

	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20
Oil sector	+7.17%	+6.49%	+6.36%	+5.06%	-6.63%
Non-oil sector	+1.64%	+1.85%	+2.26%	+1.55%	-6.05%

Source: NBS, PAC Research

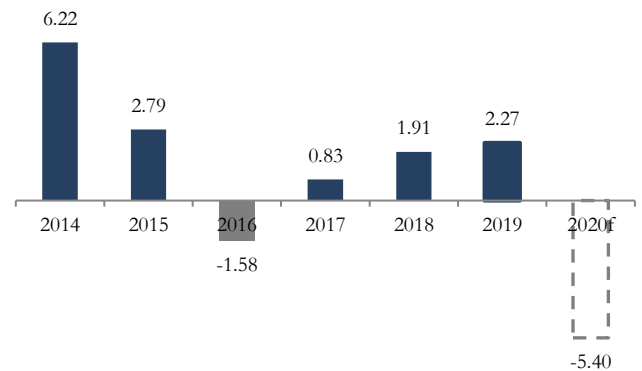
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Fig. 1: Quarterly real GDP growth rates (%)



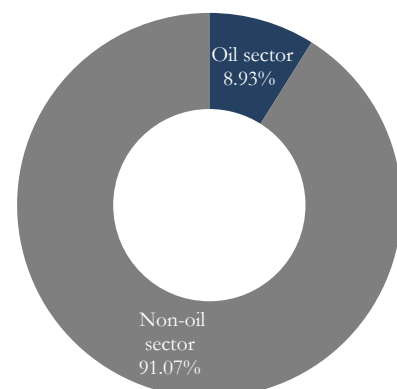
Source: NBS, PAC Research

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



Source: NBS, PAC Research

Fig. 3: Contribution to GDP in 2Q'20 – oil sector and non-oil sector

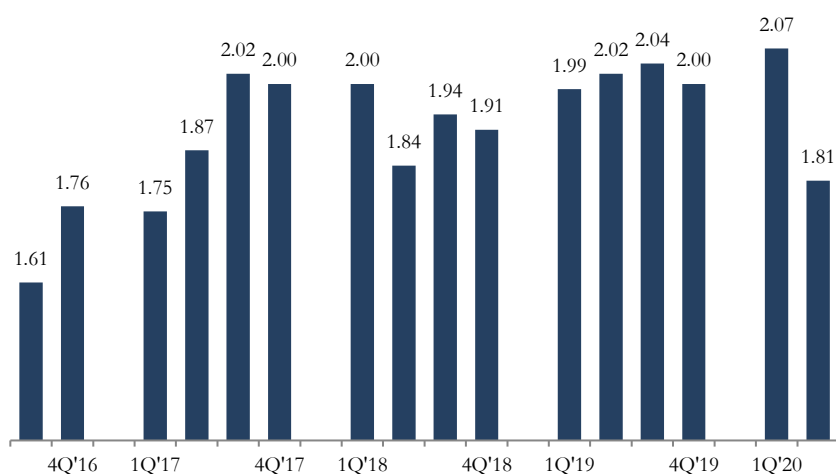


Source: NBS, PAC Research

The weakness in the economic output in the second quarter was driven by the dismal performance of both the oil sector and non-oil sector. The oil sector recorded a decline of 6.63% in the period, relative to the growth rate of 7.17% in the corresponding quarter of the previous year, also the review quarter's performance is lower than the growth rate of 5.06% in the first quarter of the year. Furthermore, the weak performance of the oil sector was driven by both the price of crude oil and production quantity in the period. Brent crude oil traded at an average price of US\$36.65 per barrel in the review quarter, lower by 42.31% relative to the average price of US\$63.52 per barrel in the second quarter of the previous year. The decline in the prices of crude oil in the period was consequent to the depressed demand which was also a result of low consumption due to the impact of the pandemic. However, the prices of Brent Crude Oil has improved with cautious re-opening of the economy globally and it is currently trading at around US\$45 per barrel which is expected to be sustained until the end of the year.

Similarly, production declined by 10.40% to an average of 1.81 million barrel per day (mbpd) in the period, relative to the average production of 2.02 mbpd in the second quarter of the previous year. Also, the review quarter's production is lower by 12.56% compared with the average daily production of 2.07 mbpd in the first quarter of 2020 (**fig. 4**). In addition, the lower average daily production in the period was also due to the negative impact of the pandemic. It is worthy of note to state that the oil sector contributed 8.93% to the output in the period, relative to the contribution of 8.98% in the corresponding period of 2019 and the contribution of 9.50% in the first quarter of the year.

Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

The decline in the prices of crude oil in the period was consequent to the depressed demand which was also a result of low consumption...

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

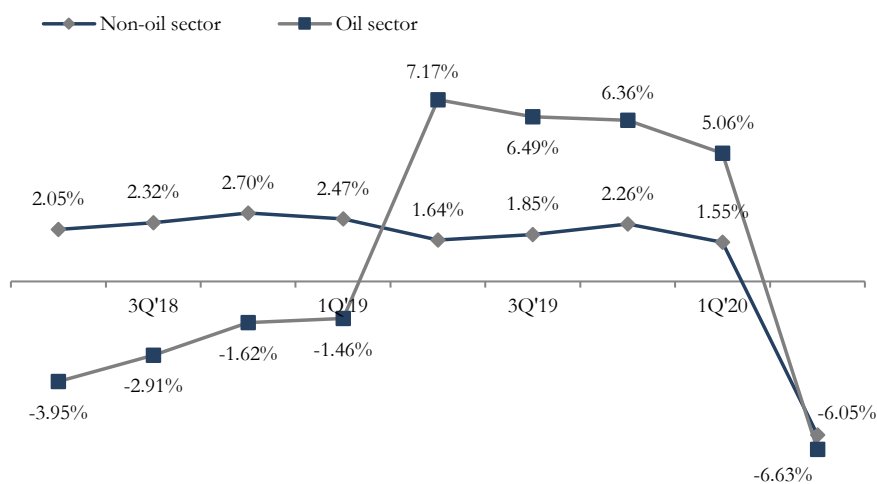


Source: Bloomberg, PAC Research

Non-oil sector performance driven by non-oil industry sector and services sector.

For the review period, the non-oil sector recorded a decline of 6.05%, lower than the growth rate of 1.64% and the 1.55% in the second quarter of 2019 and the preceding quarter of the current year. The effects of the pandemic that weigh heavily on the services sector and the non-oil industry sector in the period led to the dismal performance in the review quarter. The non-oil sector contributed 91.07% to the output in the quarter, almost flat with the 91.02% in the second quarter of 2019 but slightly higher than the 90.50% in the preceding quarter.

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



Source: NBS, PAC Research

Agriculture industry emerges the best performer. In the review period, agriculture sector recorded real GDP growth rate of 1.58%, lower than both the growth rate of 1.79% recorded in the corresponding quarter of the previous year and the 2.20% in the preceding quarter of the year. (fig. 9). The sector comprises crop production, livestock, forestry and fishery, however crop production activity is the major driver of the sector and it accounted for 89.13% of all the activities of agriculture sector in the review period. Crop production recorded real GDP growth rate of 1.44% in the period, lower than both the growth rate of 1.94% in the second quarter of the previous year and the 2.38% recorded in the first quarter of the year. Besides the impact of the pandemic, the persistent security challenges in the northern region of the nation is negatively affecting the activities of crop production sub-sector. Also, livestock accounts for 7.38% of the total activities in the agriculture sector, the sub-sector recorded real growth rate of 2.26% in the period, higher than both the contraction on 0.01% in the second quarter of 2019 and the growth rate of 0.63% in the preceding quarter. The sector contributed 1.82% to the overall real GDP in the review quarter. In addition, while forestry recorded real growth rate of 1.08%, fishery posted real growth rate of 5.68% in the period, higher than both the 1.09% and the 1.49% in the corresponding quarter of 2019 and the preceding quarter respectively. Overall, agriculture sector contributed 24.65% to the overall economic output in the review quarter relative to both the contribution of 22.78% in the second quarter of 2019 and the 21.96% in the first quarter of the year.

Both the mining & quarrying sector and the manufacturing sector hinders the growth of industry sector. The performance of the industry sector in the review quarter was very weak relative to its performance in the recent period, the sector recorded real GDP contraction rate of 12.05% relative to the growth rate of 2.84% in the second quarter of the previous year and the 2.26% in the preceding quarter. The weak performance of the sector in the period was driven by the dismal performance of the manufacturing sector, the construction sector and the mining & quarrying sector. The manufacturing sector recorded a contraction of 8.78% in the period, lower than both the contraction of 0.13% in the second quarter of 2019 and the growth rate of 0.43% in the first quarter of 2020. The construction sector recorded a contraction of 31.77% relative to the growth rate of 0.67% in the same period of the previous year and 1.69% in the first quarter of the year. In addition, the manufacturing sector, mining & quarrying and the construction sector accounted for 40.33%, 41.52% and 14.77% of all the activities in the industry sector. Overall, the sector contributed 21.87% to the economic output in the period.

Transport & storage and real estate drags the performance of the services sector downward. In the review period, services sector recorded a contraction of 6.78%, lower than both the growth rate of 1.94% and the 1.57% in 2019 and the first quarter of 2020 respectively (fig. 9). The weak performance of the sector was driven by the performance of transport & storage sector, real estate sector and trade sector among others. The transport & storage sector recorded a contraction of 49.23% compared with the growth rate of 8.02% in 2019 and the 2.82% in the first quarter of the year (fig. 10).

Besides the impact of the pandemic, the persistent security challenges in the northern region of the nation is negatively affecting the activities of crop production sub-sector.

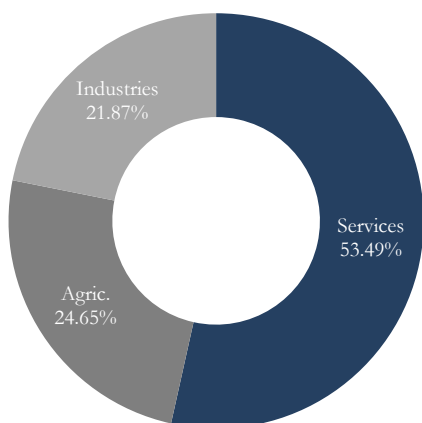
The weak performance of the sector was driven by the performance of transport & storage sector, real estate sector and trade sector among others.

Also, the real estate sector recorded a contraction of 21.99% in the period relative to both the contraction of 3.84% in 2019 and the 4.75% in the first quarter of the year. On the other hand, information & communication sector and finance & insurance sector mitigated the contraction in the sector with GDP growth rate of 15.09% and 18.49% in the quarter respectively. Furthermore, the information and communication sector comprise 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 79.22% to the economic output of the information & communication sector. In addition, telecommunications & information services economic activity recorded real GDP growth rate of 18.10%, higher than both the 11.34% in the second quarter of 2019 and the 9.71% in the first quarter of the year (fig. 12). 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 especially during the period of lockdown. Information & communication sector contributed 18.05% to the total economic output in the period, higher than both the 14.78% in the corresponding quarter of the previous year and the 14.38% in the first quarter of 2019.

Moreover, finance & insurance sector recorded real growth rate of 18.10%, significantly higher than the decline of 2.24% in the second quarter of 2019 but lower than the 20.79% in the first quarter of the year. In addition, financial institutions was the major driver of the sector’s activities with real GDP growth rate of 28.41% in the review quarter, higher than the decline of 3.52% and the growth rate of 24.00% respectively in the corresponding quarter of 2019 and the preceding quarter (fig. 13). It is worthy of note to state that the policy of the Central Bank of Nigeria around the loan-to-deposit ratio was the single most important factor that supported the high growth rate recorded by the financial institutions economic activities in the review quarter.

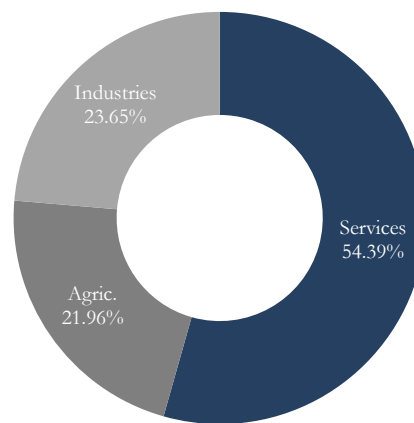
The factors that supported the consistent growth rate of telecommunications & information services economic activities are high mobile phone penetration...

Fig. 7: Sectoral contribution to real GDP in 2Q'20



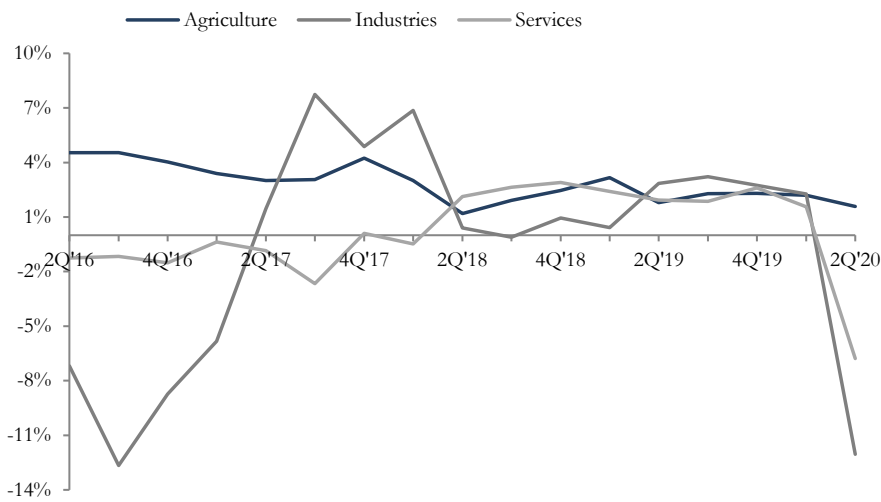
Source: NBS, PAC Research

Fig. 8: Sectoral contribution to real GDP in 1Q'20



Source: NBS, PAC Research

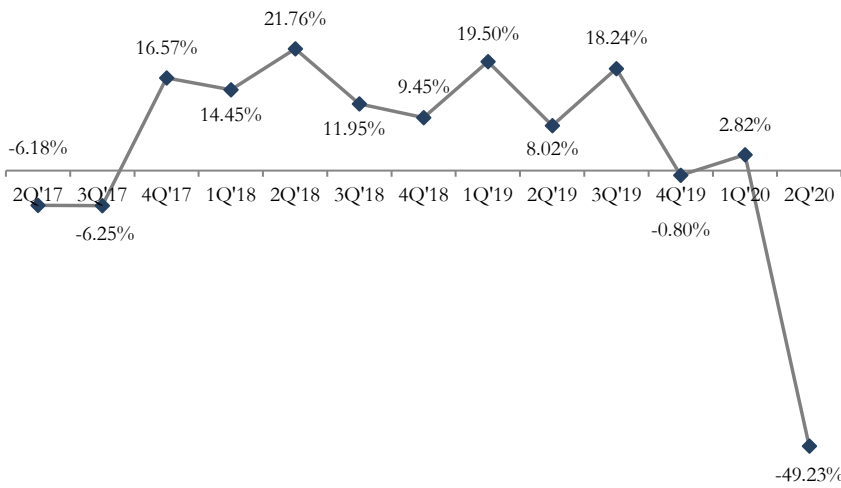
Fig. 9: Quarterly sectoral real GDP growth rate



	2Q 2020	1Q 2020
Industries	-12.05%	2.26%
Agric.	1.58%	2.20%
Services	-6.78%	1.57%

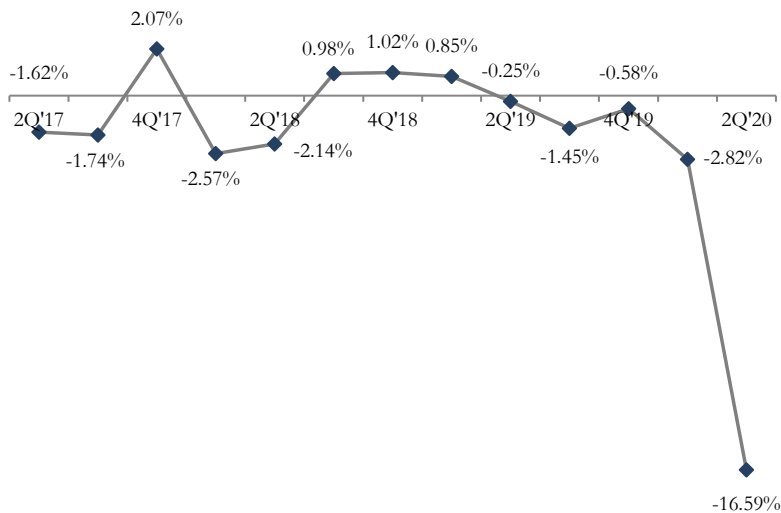
Source: NBS, PAC Research

Fig. 10: Transport & storage - quarterly real GDP growth rate



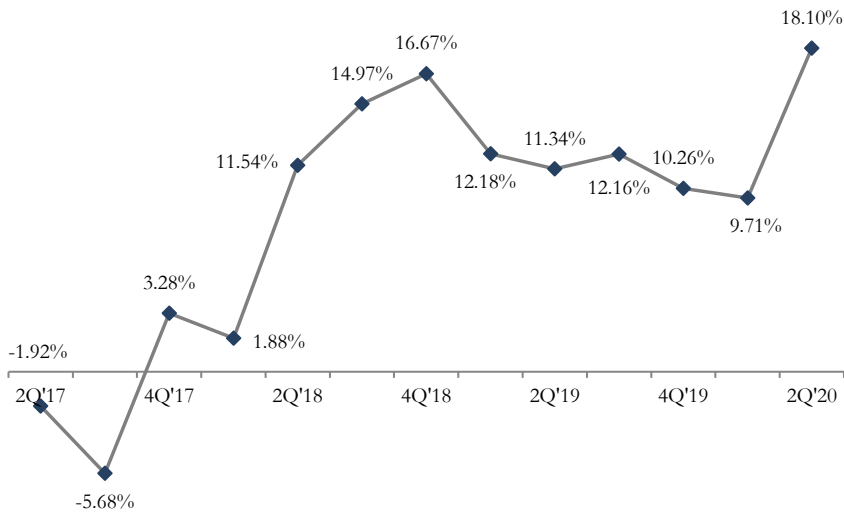
Source: NBS, PAC Research

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



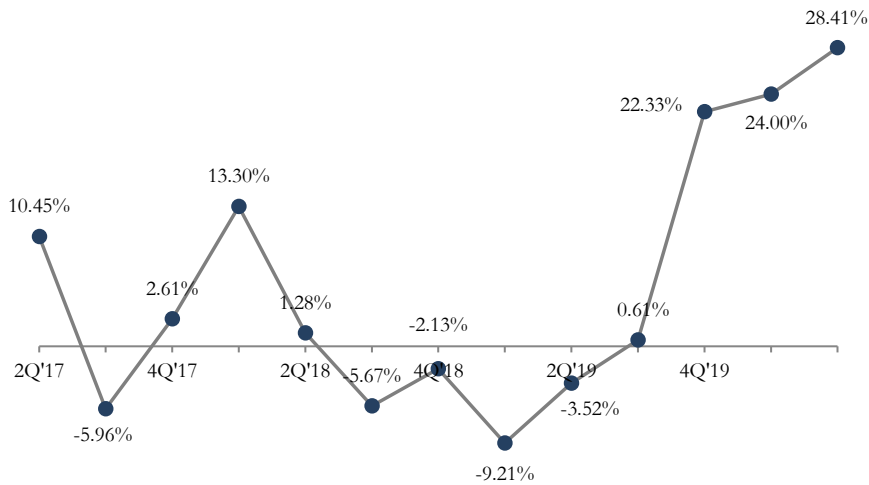
Source: NBS, PAC Research

Fig. 12: Telecoms & information services - quarterly real GDP growth rate



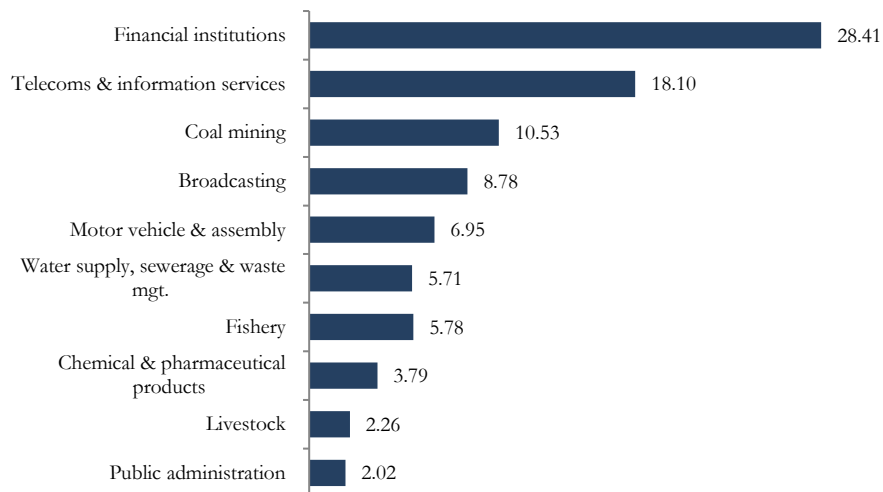
Source: NBS, PAC Research

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



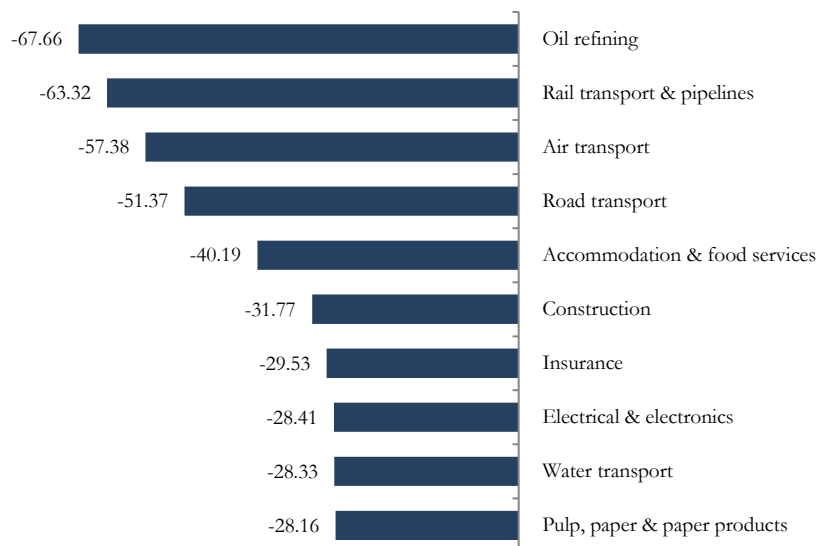
Source: NBS, PAC Research

Fig. 14: Economic activities: Top ten increase in real GDP growth rate in 2Q'20 (%)



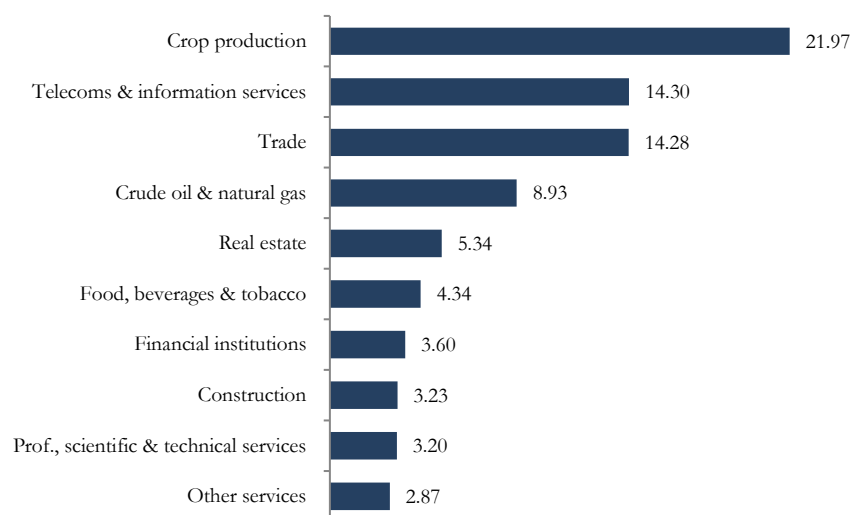
Source: NBS, PAC Research

Fig. 15: Economic activities: Decline in real GDP growth rate in 2Q'20 (%)



Source: NBS, PAC Research

Fig. 16: Economic activities: Top ten contributors to real GDP in 2Q'20 (%)



Source: NBS, PAC Research

IMPORTANT DISCLOSURES

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