

# Economic Update

Nigeria | Economy | 3Q'18 GDP Report | December 20, 2018

PAC RESEARCH

## Non-oil sector sustains growth on the back of improvement in the services sector

Nigeria's real gross domestic product (GDP) improved by 1.81% year-on-year in 3Q'18. In the third quarter to September 2018, Nigerian economy recorded real GDP growth rate of 1.81%, higher than both the 1.50% in 2Q'18 and 1.17% recorded in the corresponding period of the previous year (fig. 1). Also, the aggregate nominal GDP of ₦33.37 trillion in 3Q'18 is higher than ₦29.38 trillion recorded in 3Q'17 by 13.58%. Overall, thirty-four out of the forty-six economic activities in the nation's GDP basket recorded positive growth rate, while twelve recorded various degree of decline. This is an improvement compared with the thirty-one economic activities that recorded positive growth rate in the second quarter of the year. While the overall GDP growth rate improved in 3Q'18, the slow pace of growth indicated that the economic recovery is still fragile, hence it is vulnerable to both internal and external shocks. In our opinion, the full year GDP real growth rate is expected to be less than 2.00% which will be less than the nation's annual population growth rate about 3.00%.

Furthermore, the improvement in the performance of the economic output in the review quarter was driven by both the oil sector and the non-oil sector. The oil sector contracted by 2.91% in the review quarter, this is a growth rate of 1.04% (q/q) compared with a contraction of 3.95% in the second quarter of the year. Although, the oil sector's performance in the review quarter represents a decline of 25.94% compared with the positive growth rate of 23.03% in the third quarter of the previous year. Moreover, the positive performance of the oil sector in the review quarter relative to the preceding quarter was driven by the improvement in both production quantity and prices. The oil sector contributed 9.38% to the economic output in the quarter compared with 8.55% in the second quarter of the year and 10.04% in 3Q 2017 (fig. 3).

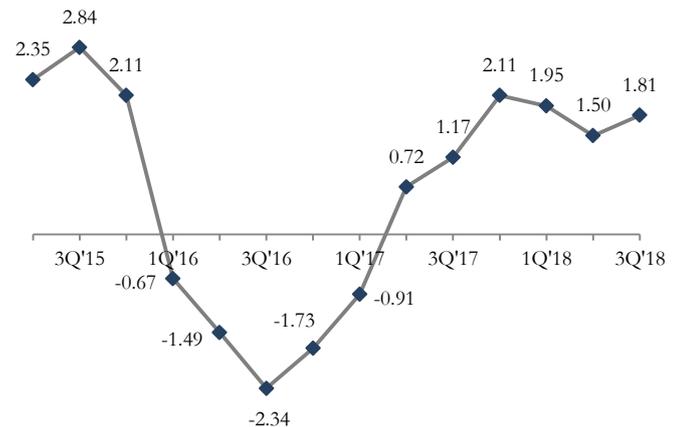
Table 1: Oil sector and non-oil sector – quarterly real GDP growth rates

	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18
Oil sector	+23.03%	+11.20%	+14.77%	-3.95%	-2.91%
Non-oil sector	-0.76%	+1.45%	+0.76%	+2.05%	+2.32%

Source: NBS, PAC Research

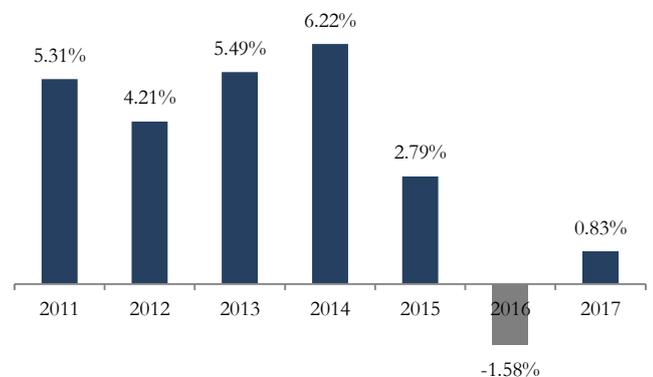
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Fig. 1: Quarterly real GDP growth rates (%)



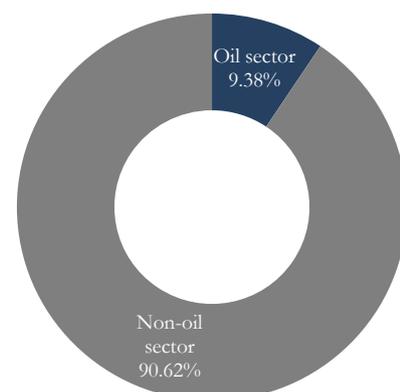
Source: NBS, PAC Research

Fig. 2: Yearly GDP real growth rates



Source: NBS, PAC Research

Fig. 3: Contribution to GDP in 3Q'18 – oil sector and non-oil sector

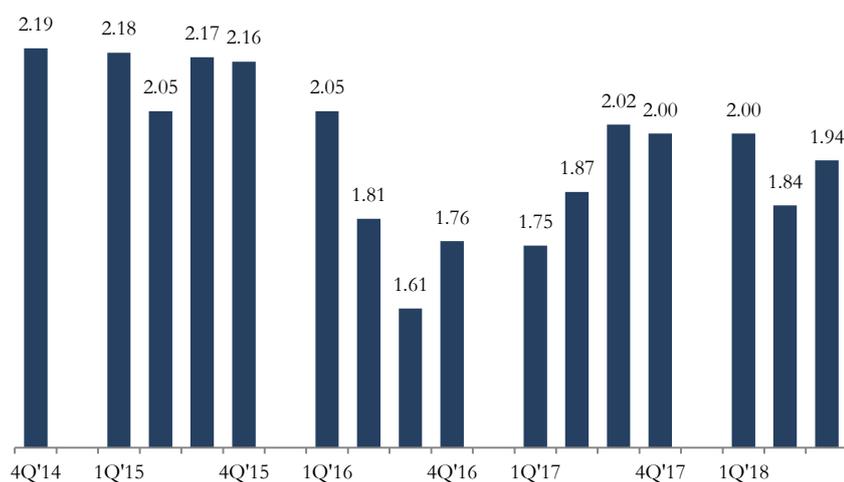


Source: NBS, PAC Research

Average production volume of 1.94 million barrel per day (mbpd) was recorded in the third quarter, higher by 5.43% compared with 1.84 mbpd in the second quarter. On the contrary, the average production quantity recorded in the review quarter is slightly lower than 2.02 mbpd achieved in the third quarter of 2017 by 3.96% (**fig. 4**). On the other hand, Brent Crude Oil traded at an average price of US\$75.44 per barrel in the review period, higher by 4.60% and 42.16% compared with an average price of US\$72.12 and US\$53.07 per barrel respectively in the second quarter of 2018 and the third quarter of 2017. However, the prices of crude oil has turned downward from the beginning of the month of October, specifically Brent Crude Oil has lost 33.41% in eleven weeks to December 19 when it traded at US\$56.90 per barrel compared with US\$85.45 per barrel on October 4 (**fig. 5**). This development corroborated our opinion in our previous reports that the high prices of crude oil regime then might not be sustainable in the medium to long term because it was caused by heightened risk of supply concern which was consequent to the tension between the United States and Iran over the controversial nuclear program of the later. While the level of recovery in Nigeria's oil production is still less than optimal, the nation might not be exempted further from any production cut that may be proposed by OPEC in the future. Also, the peaceful atmosphere that is currently prevailing in the oil producing region has reduced the level of attack against oil production infrastructures to the barest minimum. This has aided improvement in production; in our opinion the continuous sustenance of the peaceful atmosphere in the region will ameliorate production shock in the months ahead. Other factors that may pose major risk to the prices of crude oil in the future are geopolitical tension and unexpected shift in supply and demand.

*This development corroborated our opinion in our previous reports that the high prices of crude oil regime then might not be sustainable in the medium to long term...*

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



Source: NBS, PAC Research

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

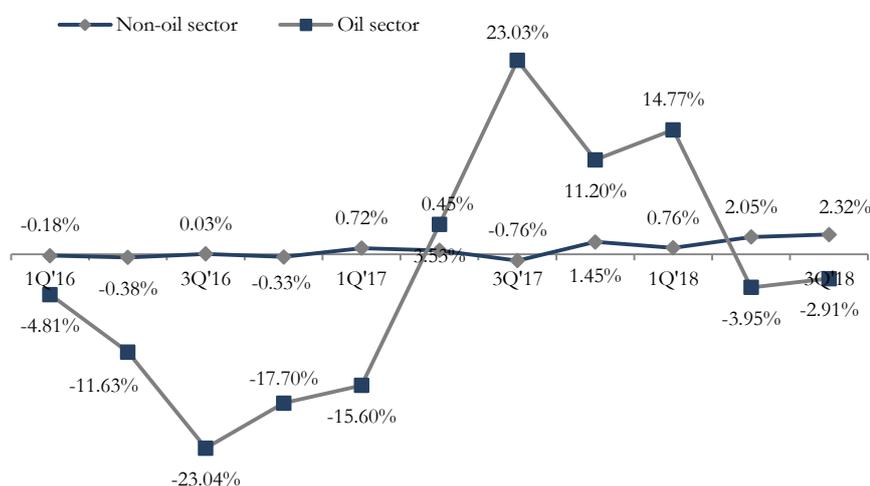


Source: Bloomberg, PAC Research

**Information and communication sector lifts the non-oil sector growth.** In the review quarter, the non-oil sector recorded real growth rate of 2.32% y/y, higher than 2.05% in the second quarter and the -0.76% in the corresponding quarter of the previous year (fig. 6). The improvement in the performance of the non-oil sector was driven mainly by the strong growth in telecommunications and information services. Other sectors that aided the growth of the non-oil sector in the quarter are agriculture, transportation and storage, manufacturing and trade. The non-oil sector contributed 90.62% to the economic output in the quarter, slightly lower than the 91.45% in the preceding quarter. Furthermore, services sector recorded real growth rate of 2.64% in the period, the sector sustained the improvement in growth rate that started from the first quarter of the year. The performance of the sector in the period is higher than both the 2.12% recorded in the second quarter by 0.51% and the contraction of the 2.66% recorded in the third quarter of 2017 by 5.30% (fig. 9).

*The improvement in the performance of the non-oil sector was driven mainly by the strong growth in telecommunications and information services sector.*

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



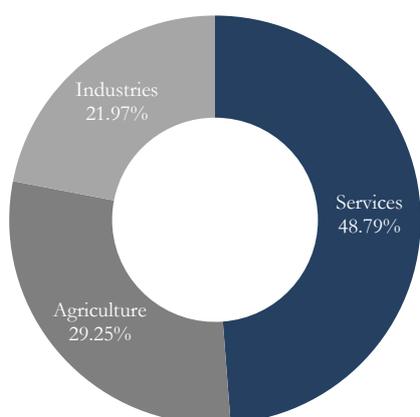
Source: NBS, PAC Research

Moreover, despite the improvement in the performance of the services sector, its contribution to the overall real GDP declined to 48.79% against 53.97% in the second quarter but it remained almost flat with the contribution of 48.39% in the third quarter of 2017 (**fig. 7**). This was a result of the cyclical nature of some economic activities in the GDP basket which tends to expand in the third quarter of the year, hence the reduction in the contribution of other sectors. On the other hand, the economic activities in the industries sector contracted in the review quarter with real GDP growth rate of 0.11% compared with the positive real growth rate of 0.40% in the second quarter of the year and the 7.74% in the third quarter of the previous year (**fig. 9**). The performance of the sector was negatively impacted by the low level of economic activities in the construction sector in the period which recorded real growth rate of 0.54% compared with the 7.66% in the second quarter, i.e. a decline of 7.12% q/q. In addition, the weakness of the industries sector was mitigated by the improvement in the performance of mining and quarrying and manufacturing sectors. The contribution of the industries sector to the overall real GDP declined to 21.97% relative to 23.18% in the preceding quarter and the 22.39% in the corresponding quarter of 2017 (**fig. 7**).

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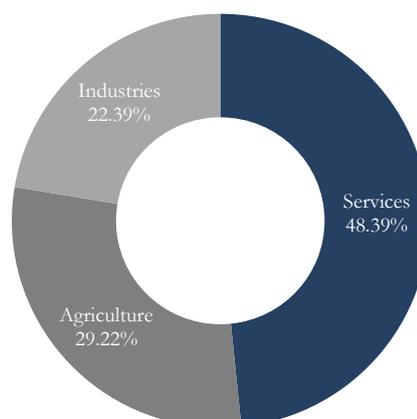
On the contrary, agriculture sector recorded real GDP growth rate of 1.91%, higher than 1.19% in the second quarter but lower than 3.06% in the third quarter of the previous year. It is worthy of note to state that crop production represented the largest activities in the agriculture sector with contribution of 92.21% to the sector. Whereas, livestock, forestry and fishing accounted for 5.50%, 1.44% and 0.24% of the economic activities in the sector accordingly. The improvement in the real growth rate of agriculture in the period was driven by the performance of crop production which was a result of the harvest season of food crops across the country that started in the third quarter of the year.

**Fig. 7: Sectoral contribution to real GDP in 3Q'18**



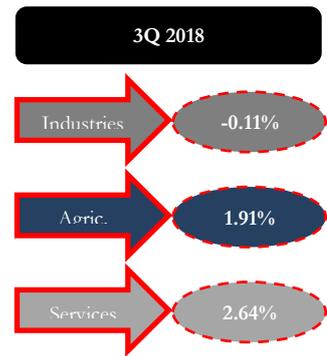
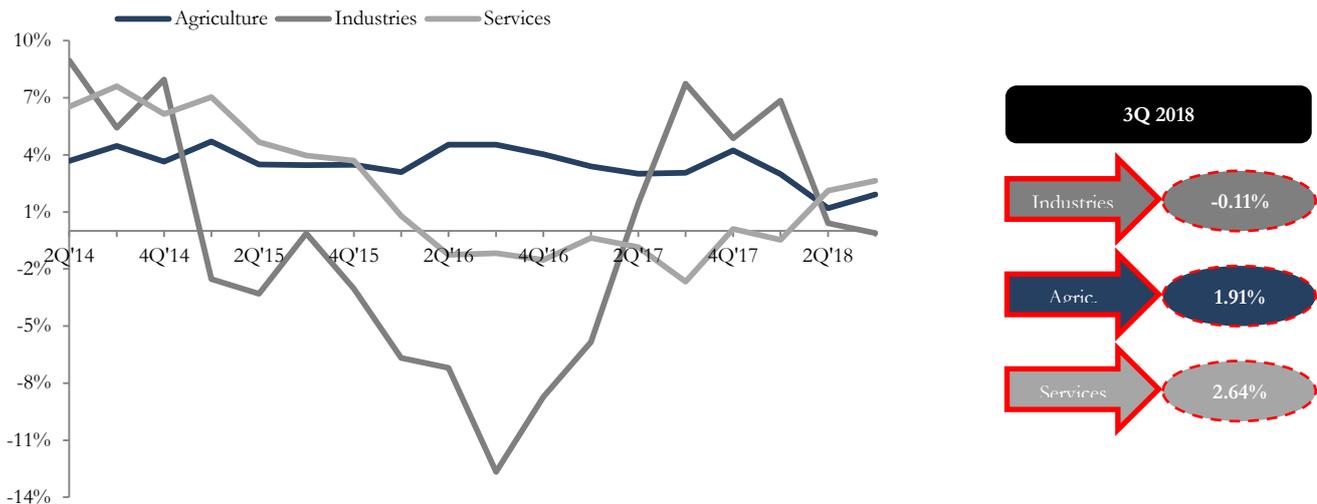
Source: NBS, PAC Research

**Fig. 8: Sectoral contribution to real GDP in 3Q'17**



Source: NBS, PAC Research

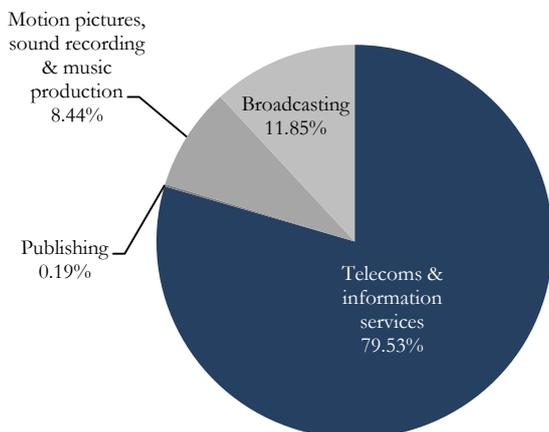
Fig. 9: Quarterly sectoral real GDP growth rate



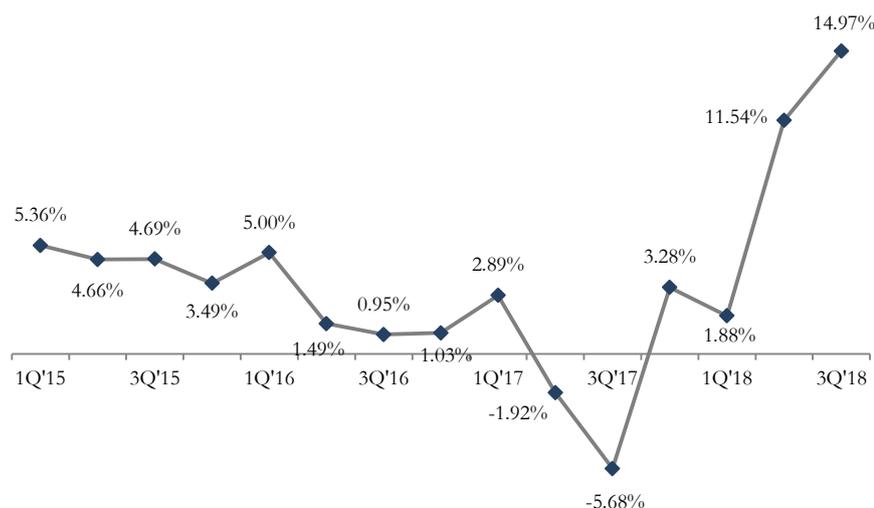
Source: NBS, PAC Research

**Strong growth in telecommunications and information services lifts the services sector.** Information and communication sector recorded strong real GDP growth rate of 12.09%, higher than the 11.81% and the -4.48% in the second quarter of 2018 and the third quarter of 2017 respectively by 0.28% and 16.57%. The sector comprises of four economic activities; telecommunications and information services, publishing, motion pictures, sound recording & music production and broadcasting. Telecommunications and information services dominated the sector and it accounted for 79.53% of the activities in the review quarter (**fig. 10**). The economic activity recorded strong growth rate of 14.97% in the review period, higher than the 11.54% in the second quarter and the -5.68% in the third quarter of 2017 by 3.43% and 20.65% accordingly (**fig. 11**). Also, publishing recorded real GDP growth rate of 4.32%, higher than both the 3.38% in 2Q'18 and the 2.12% in the corresponding quarter of 2017. Although, motion pictures, sound recording and music production recorded a contraction of 0.45%, yet it achieved real growth rate of 1.84% relative to -2.29% in the second quarter. On the other hand, broadcasting recorded real growth rate of 4.01%, lower than 21.92% in the preceding quarter but higher than 1.60% in 3Q'17.

Fig. 10: Sectoral analysis – Information and communication services (3Q'18)



Source: NBS, PAC Research

**Fig. 11: Telecommunications and information services - quarterly real GDP growth rate**

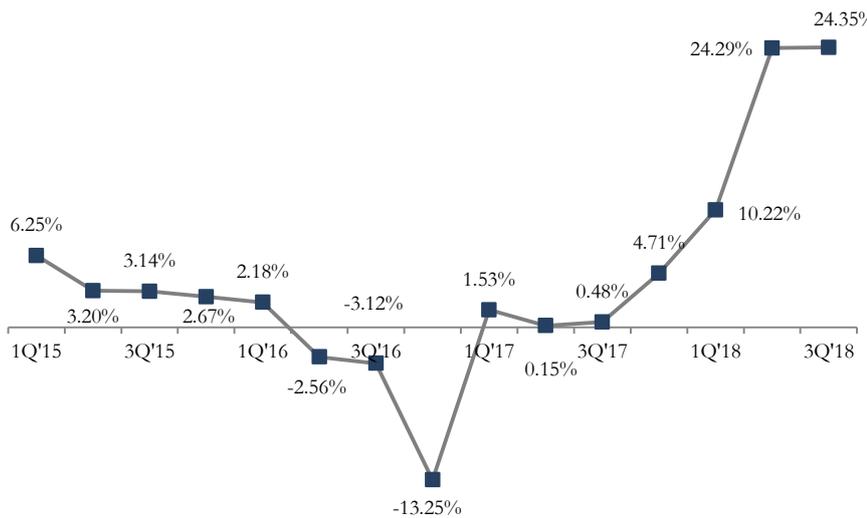
Source: NBS, PAC Research

**Air transport, cement, crop production and trade lifts the performance of the broad economy.** In the review period, some other economic activities recorded impressive performance with positive impact on the overall economy with various degree of real growth rate. Air transport achieved notable real GDP growth rate of 24.35%, relatively flat compared with 24.29% in the preceding quarter but significantly higher than the 0.48% in the third quarter of 2017 (**fig. 12**). The impressive performance of the air transport in 2018 corroborated the increased level of activity in the sector recently; however air transport contributed 0.11% to the overall GDP in the period. Furthermore, in the manufacturing sector, cement sustained its growth with a strong real growth rate of 8.14% in the review quarter compared with the 3.84% in the second quarter of 2018 and the -4.56% in the third quarter of the previous year (**fig. 13**). However, cement as an economic activity accounted for 0.80% of the entire real GDP. Also, food, beverage and tobacco recorded real GDP growth rate of 2.90%, higher than both the 1.21% in the preceding quarter and the 0.58% in the same period of the previous year (**fig. 14**). The economic activity accounted for 3.97% of the overall GDP in the period, it is worthy of note to state that the impressive performance of the two economic activities lifted the growth rate of manufacturing sector to 1.92% against 0.68% in the second quarter. In our view, the improvement in the performance of the manufacturing sector in the period was a result of the availability and relative stability of foreign exchange and improved power distribution.

Furthermore, crop production recorded improvement in real growth rate to 1.87% from 1.49% in the second quarter, although the growth rate is less than 3.19% in the third quarter of 2017. We are keen to state that the improvement in the performance of crop production was a result of the harvest of food crops across the country which falls in the third quarter of the year. Similarly, all the other economic activities in the agriculture sector recorded improved real GDP growth rate in the quarter; livestock – 2.56%, forestry – 3.72% and fishery recorded real growth rate of 0.84% compared with a contraction of 1.35% in the preceding quarter.

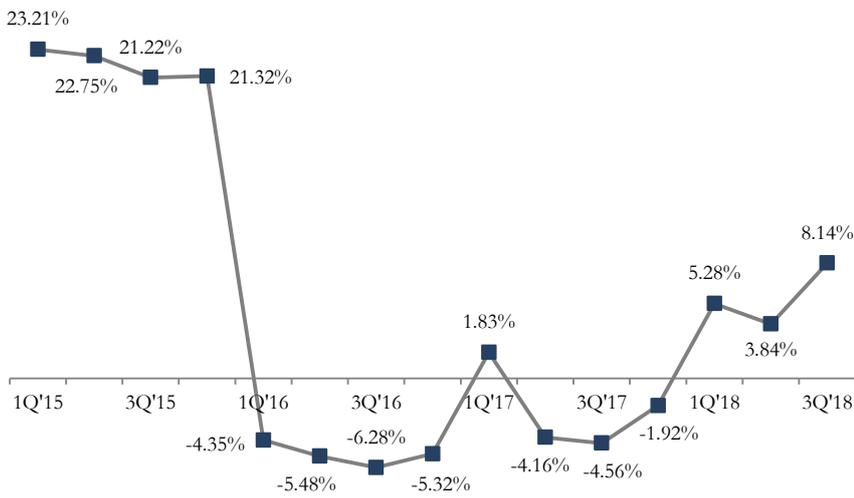
*...it is worthy of note to state that the impressive performance of the two economic activities lifted the growth rate of manufacturing sector to 1.92% against 0.68% in the second quarter.*

Fig. 12: Air transport - quarterly real GDP growth rates



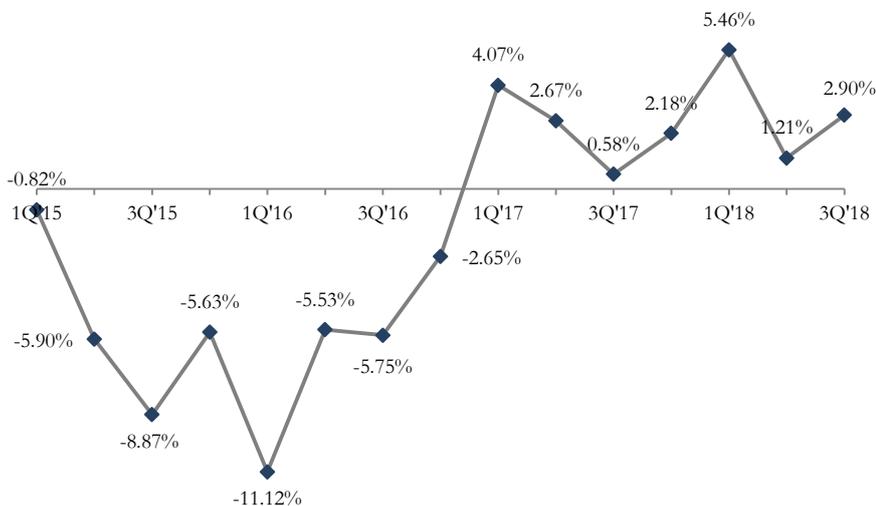
Source: NBS, PAC Research

Fig. 13: Cement - quarterly real GDP growth rates



Source: NBS, PAC Research

Fig. 14: Food, beverage and tobacco - quarterly real GDP growth rates

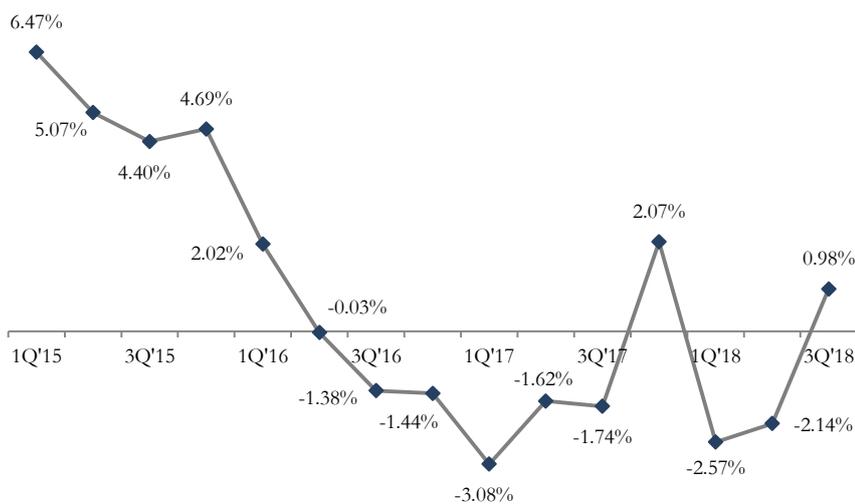


Source: NBS, PAC Research

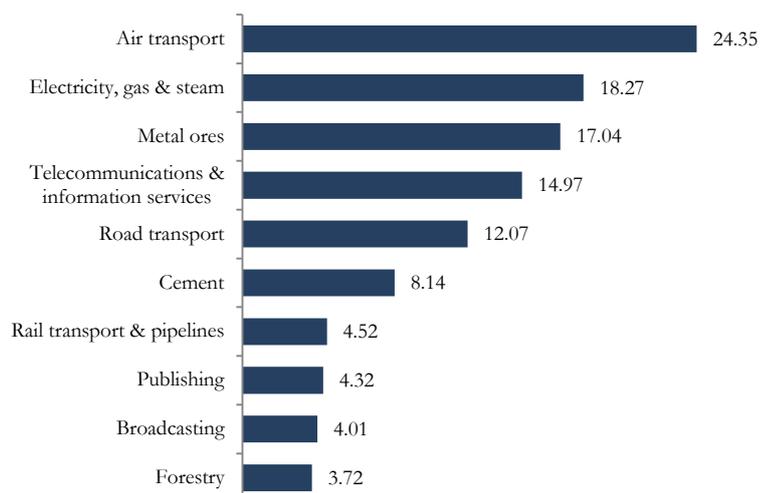
**Trade sector emerges out of recession on the back of foreign exchange availability.** In the review quarter, wholesale and retail trade sector recorded positive real GDP growth rate of 0.98% after two consecutive quarters of contraction. The sector recorded quarter-on-quarter real growth rate of 3.12% relative to -2.14% in the second quarter (**fig. 15**), the improvement in the performance of the sector was due to improved availability of foreign exchange for importation of goods in the period. Trade contributed 15.80% to the nation's GDP in the quarter, we are keen to highlight that the contribution of the sector has been consistently declining over time which was a result of the expansion in the contribution of other sectors of the economy. On the other hand, real estate sector is still in recession but its performance improved in the period with real growth rate of -2.68% relative to -3.88% in 2Q'18 and -4.12% in the third quarter of 2017; therefore the sector recorded real growth rate of 1.2% (q/q). While we expect the current season of election to have mixed effects on the fortune of the real estate sector, we are of the view that the sector will fully emerge out of recession after the 2019 election. Real estate sector contributed 6.50% to the real GDP in the review period, this is slightly lower than the 6.83% and the 6.80% in the second quarter of 2018 and the third quarter of 2017 accordingly.

*...the improvement in the performance of the sector was due to improved availability of foreign exchange for importation of goods in the period.*

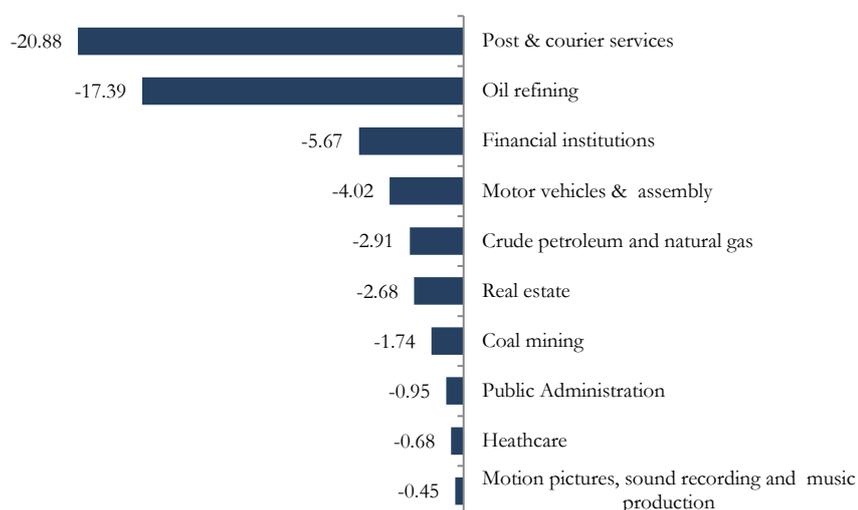
**Fig. 15: Trade sector - quarterly real GDP growth rates**



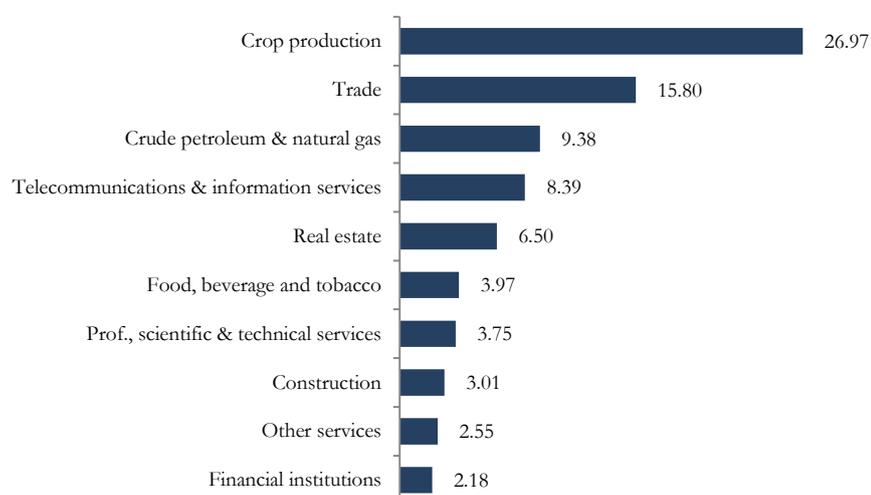
Source: NBS, PAC Research

**Fig. 16: Economic activities: Top ten increase in real GDP growth rate in 3Q'18**

Source: NBS, PAC Research

**Fig. 17: Economic activities: Top ten decline in real GDP growth rate in 3Q'18**

Source: NBS, PAC Research

**Fig. 18: Economic activities: Top ten contributors to real GDP in 3Q'18**

Source: NBS, PAC Research

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