

Economic Update

Nigeria | Economy | 3Q 2019 GDP Report | December 02, 2019

PAC RESEARCH

Stability in oil production lifts overall economic output performance

Nigeria's real gross domestic product (GDP) expanded by 2.28% year-on-year in the third quarter. In the third quarter to September 2019, Nigeria's economic output improved by 2.28% y/y in real terms, higher than the 1.81% in the third quarter of the previous year and the 2.12% in the second quarter (**fig. 1**). Furthermore, the aggregate nominal economic output for the period stood at ₦37.81 trillion, higher by 13.30% compared with the ₦33.37 trillion in the third quarter of the previous year. Furthermore, thirty-four out of the forty-six economic activities in the nation's GDP basket recorded positive growth rate, while twelve economic activities recorded various levels of decline. This is an improved performance compared with the thirty-one economic activities that recorded positive growth rate in 2Q2019. In our opinion, the slight improvement in performance in the period was supported by the stability in the oil sector.

The improved performance of the economy in the review quarter relative to the preceding quarter was driven by the performance of the oil sector. The oil sector recorded real GDP growth rate of 6.49% in the period slightly lower than the 7.17% recorded in 2Q'19 but higher than the -2.91% in the third quarter of the previous year. The performance of the oil sector was driven by the slight increase in production, despite the volatility in oil prices. Brent Crude Oil traded at an average price of US\$60.61 per barrel in the third quarter of 2019, lower than both the average prices of US\$65.63 per barrel in the second quarter by 7.66% and US\$72.38 per barrel in the third quarter of 2018 by 16.26% (**fig 5**). Year-to-date, Brent Crude Oil traded at an average price of US\$62.73 per barrel. The World Bank projected an average price of US\$60 per barrel for the year compared with an actual average price of US\$67 per barrel in 2018. The major factors that are weighing on the prices of crude oil are concerns about the weak global growth outlook and robust oil production from major producers.

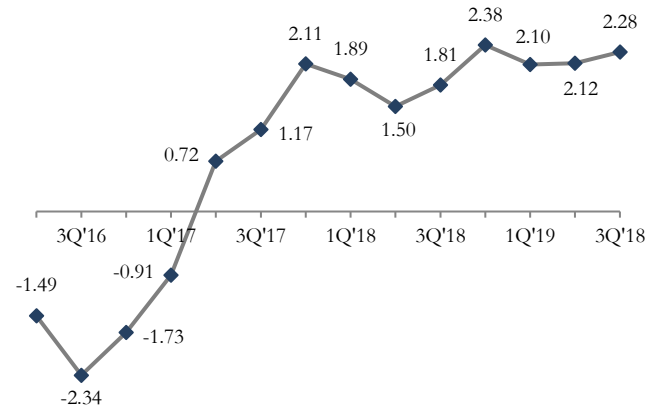
Table 1: Oil sector and non-oil sector – quarterly real GDP growth rates

| | 3Q'18 | 4Q'18 | 1Q'19 | 2Q'19 | 3Q'19 |
|----------------|--------|--------|--------|--------|--------|
| Oil sector | -2.91% | -1.62% | -1.46% | +7.17% | +6.49% |
| Non-oil sector | +2.32% | +2.70% | +2.47% | +1.64% | +1.85% |

Source: NBS, PAC Research

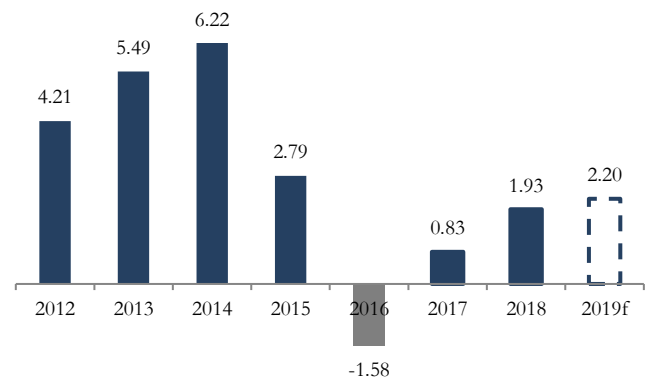
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Fig. 1: Quarterly real GDP growth rates (%)



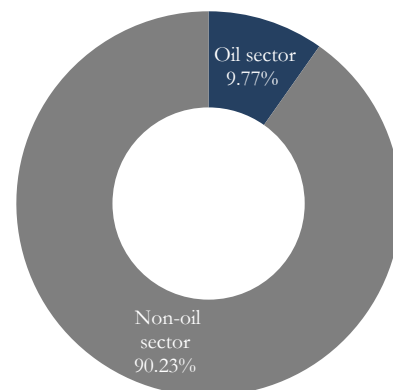
Source: NBS, PAC Research

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



Source: NBS, PAC Research

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

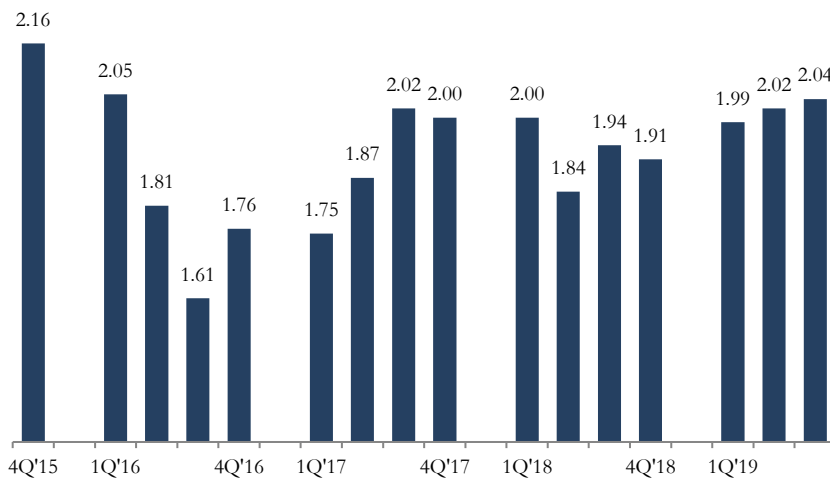


Source: NBS, PAC Research

Furthermore, Nigeria recorded average crude oil production of 2.04 million barrel per day (mbpd) in the review quarter, higher marginally by 0.99% compared with the average production of 2.02 mbpd in the second quarter. Also, the average production in the period is higher than the average production of 1.94 mbpd in the third quarter of 2018 by 10.87% (fig. 4). There was minimal disruption to production in the review period due to the low level of unrest in the oil producing region, also the level of production shut-in by the oil producing companies also reduced drastically in the period. For the current year, we estimated average production of 2.02 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 geopolitical concerns 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 ability of the policymakers to sustain the peaceful atmosphere in the oil producing region is important to production stability in the quarters ahead. Overall, the oil sector contributed 9.77% to the GDP in the quarter, relative to the 8.98% in the second quarter and the 9.38% in the corresponding quarter of the previous year (fig. 3).

On the domestic front, the ability of the policymakers to sustain the peaceful atmosphere in the oil producing region is important to production stability in the quarters ahead.

Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

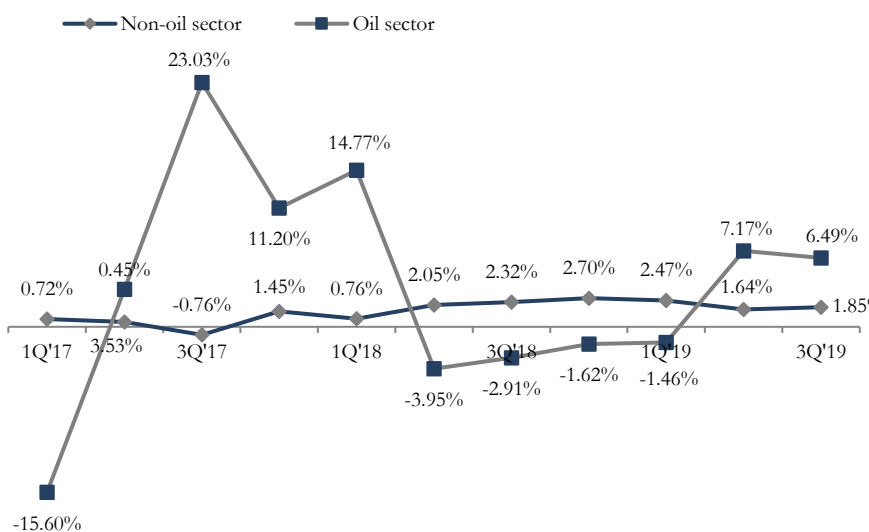
Fig. 5: Prices of Brent Crude Oil (US\$/barrel)



Source: Bloomberg, PAC Research

Non-oil sector recovery aided by information & communications sector. The non-oil sector has been in a decline trajectory in the preceding three quarters, however for the review quarter, the sector recorded real growth rate of 1.85%, lower than the 2.32% in the third quarter of the previous year but marginally higher than the 1.64% in the second quarter of the year (fig. 6). The performance of the non-oil sector was driven by the economic activities in the information & communications sector, agriculture, manufacturing and construction sector. In our view, the sustainability of the upward reversal of the growth in the sector will be the game-changer for the economy in the short to medium term. The non-oil sector contributed 90.23% to the overall GDP in the period, almost flat with the 90.62% in the corresponding quarter of the previous year but slightly lower than the 91.02% contribution in the second quarter of the year.

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

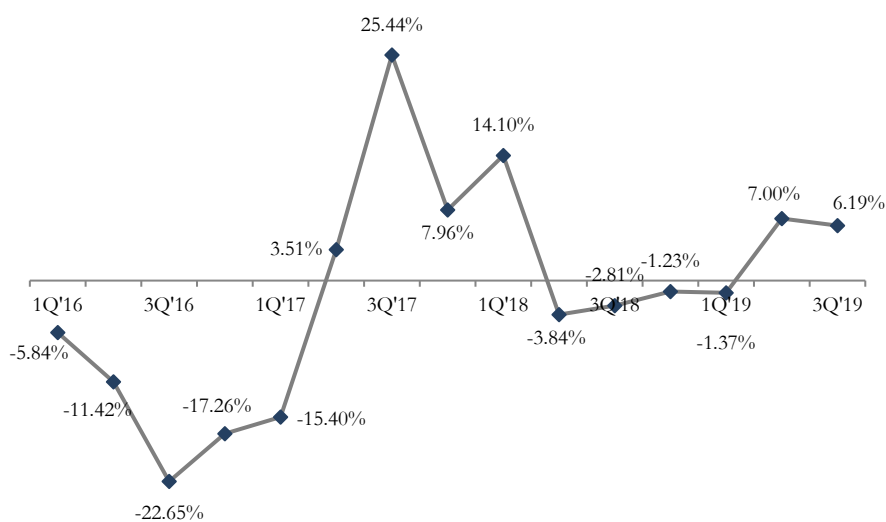


Source: NBS, PAC Research

Industry sector sustains its leading role with improved growth rate. In the review quarter, industry sector recorded real GDP growth rate of 3.21%, this translated to a quarterly growth rate of 0.37% relative to the 2.84% in the second quarter (**fig. 17**). The improvement recorded by the sector was aided by the economic activities in the mining and quarrying sector which recorded real growth rate of 6.19% compared with the decline of 2.81% in the corresponding period of the previous year. In addition, mining and quarrying sector contributed 9.90% to the overall output in the period. It is worthy of note to state that crude oil and natural gas is the major driver of mining and quarrying sector which contributed 98.70% of the economic activities in the sector. Similarly, the non-oil industry sector also contributed moderately to the performance of the industry sector in the period. For example, construction sector recorded real growth rate of 2.37% in the period relative to the 0.54% in the third quarter of 2018 and it contributed 3.01% to the total economic output in the review quarter (**fig. 9**). Manufacturing sector recorded a modest growth rate of 1.10% in the period relative to the 1.92% in the corresponding period of the previous year. This was supported by the economic activities in cement and food, beverages & tobacco with real growth rate of 6.87% and 2.98% respectively. The two economic activities contributed 55.35% to the total activities in the manufacturing sector. Therefore, manufacturing sector accounted for 8.74% of the output in the period relatively flat with the 8.84% recorded in the third quarter of 2018. Overall, the industry sector contributed 22.17% to the output in the review period relative to the 23.34% in the second (**fig. 15 & 16**).

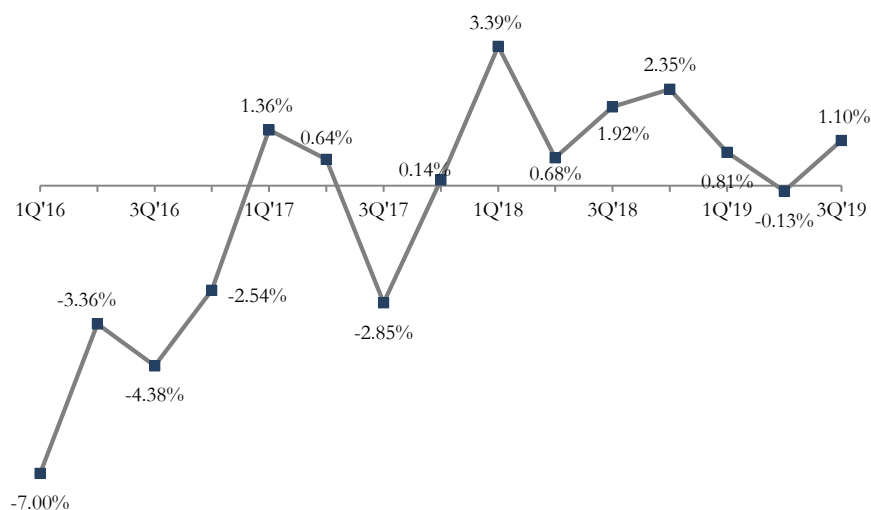
It is worthy of note to state that crude oil and natural gas is the major driver of mining and quarrying sector which contributed 98.70% of the economic activities in the sector.

Fig. 7: Mining & quarrying - quarterly real GDP growth rate



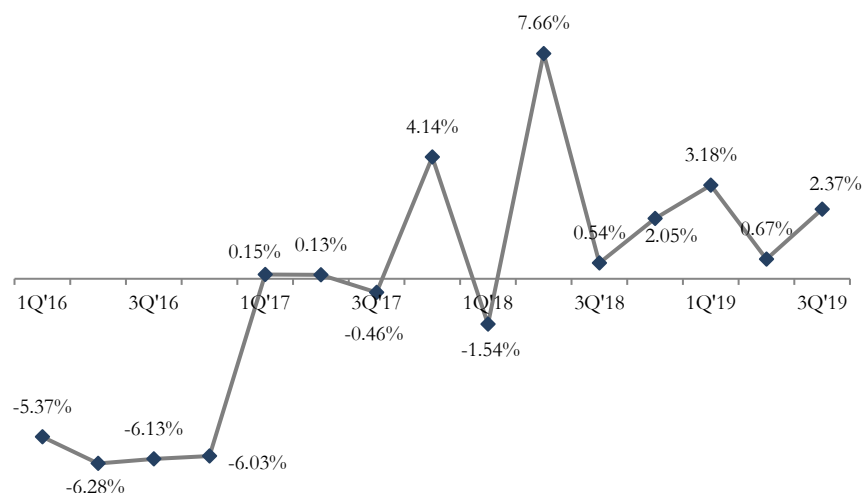
Source: NBS, PAC Research

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



Source: NBS, PAC Research

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



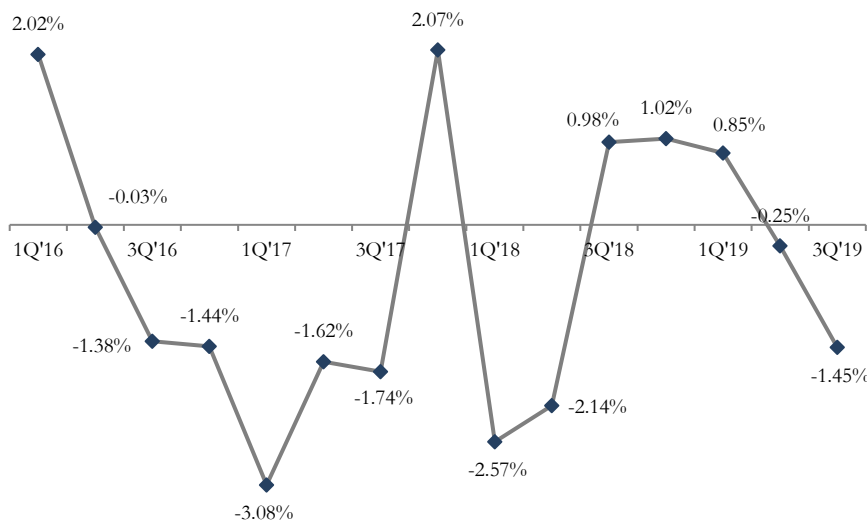
Source: NBS, PAC Research

Services sector, downward trend persists. The services sector continued with the downward trend that started from the first quarter of the year. The sector recorded real GDP growth rate of 1.87%, i.e. quarter-on-quarter decline of seven basis points relative to the real growth rate of 1.94% in the second quarter. Also, the growth rate of the sector in the review quarter is lower than the 2.64% recorded in the third quarter of the previous year. The weakness of the sector in the period relative to the previous periods was due to the poor performance of trade sector which accounted for 31.34% of the economic activities in the services sector in the review quarter. Trade sector recorded a decline of 1.45%, higher than both the decline of 0.25% in the third quarter and the growth rate of 0.98% in the third quarter of the previous year (**fig. 10**). Moreover, the contribution of trade sector to the output declined to 15.23% relative to the 16.07% in the second quarter of the year. We are keen to highlight that the closure of Nigerian land border against neighbouring countries – Republic of Benin, Republic of Niger and Cameroon - that started in the review period impacted economic activities that pertains to trade sector.

On the other hand, the strong positive performance of information & communications sector mitigated the effects of the weak performance of services sector in the review quarter with real growth rate of 9.88%, higher than the 11.34% in the second quarter. Moreover, information and communications sector accounted for 23.74% of the economic activities in the services sector in the period and 11.52% of the total real GDP. In addition, transport & storage sector recorded a strong real growth rate of 18.24%, significantly higher than the 8.02% and the 11.95% in the second quarter of the year and the third quarter of the previous year respectively. The sector contributed 2.91% to the economic activities in the services sector in the period, the strong 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 20.18% and 15.23% respectively. Overall, services sector contributed 48.59% to the total economic output in the review period, almost flat with the 48.79% in the third quarter of 2018.

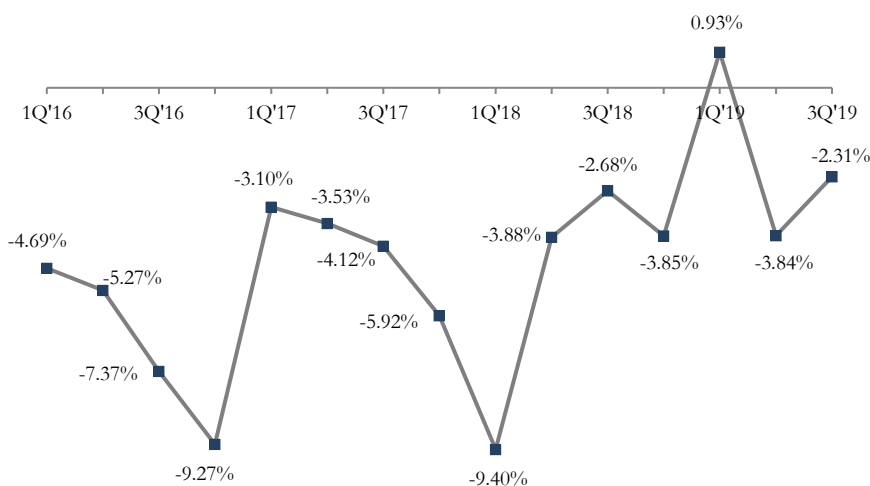
In addition, transport & storage sector recorded a strong real growth rate of 18.24%, significantly higher than the 8.02%...

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



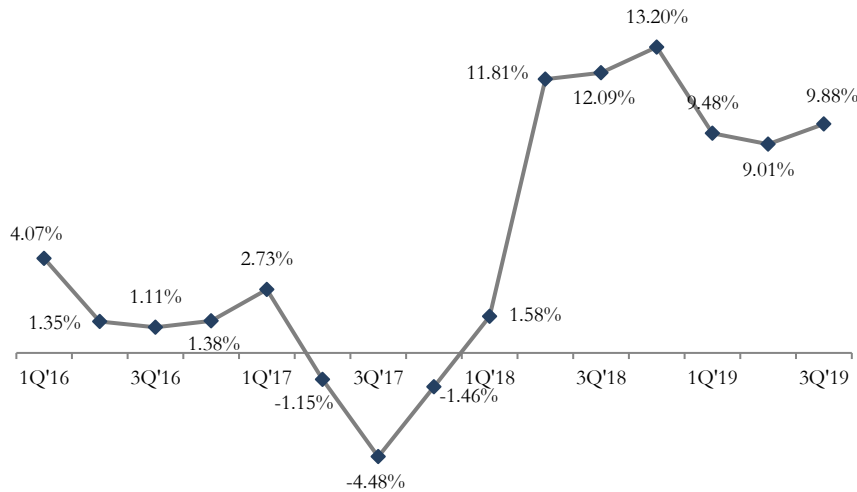
Source: NBS, PAC Research

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



Source: NBS, PAC Research

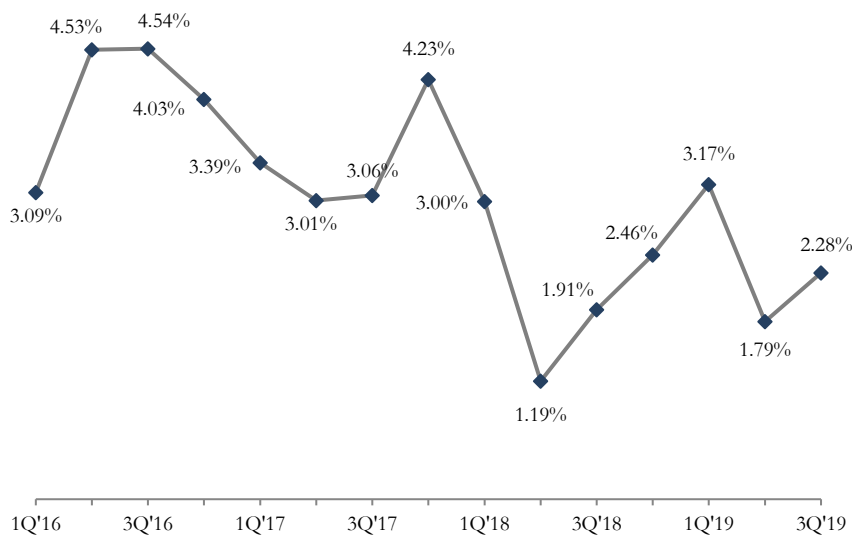
Fig. 12: Information & communications service sector - quarterly real GDP growth rate



Source: NBS, PAC Research

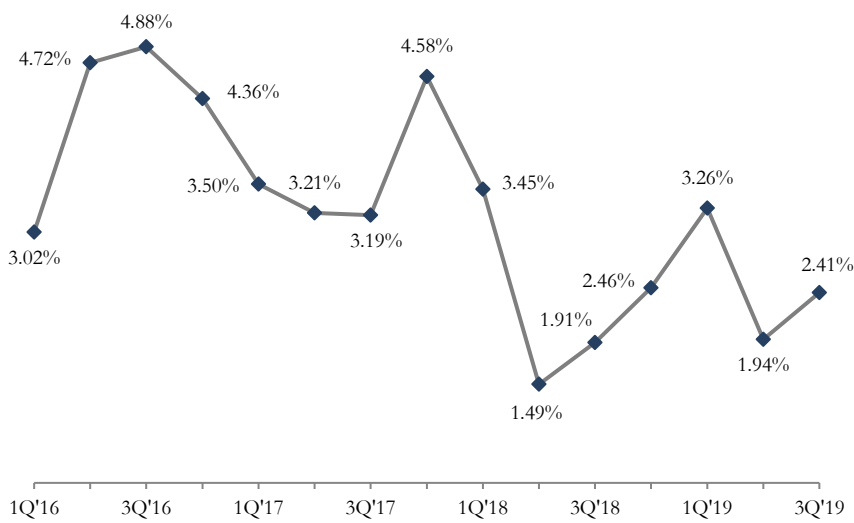
Agriculture sector expands modestly by 2.28%. In the review period, the performance of agriculture sector strengthened marginally with real GDP growth rate of 2.28% relative to the 1.79% in the second quarter of the year and the 1.91% in the third quarter of the previous year. Crop production sub-sector is the main driver of the growth of the sector, with real growth rate of 2.41% and accounted for 92.34% of the economic activities in the agriculture sector. The modest improvement in the performance of crop production sub-sector in the period can be attributed to the effects of the beginning of the harvest season in the country. In addition, crop production contributed 27.01% to the total output in the period, marginally higher than the 26.97% in the third quarter of 2018, also the contribution of the sub-sector is higher than the 20.34% in the preceding quarter. Overall, agriculture sector contributed 29.25% to the real GDP in the quarter, which remained unchanged relative to the contribution in the same period of the previous year.

Fig. 13: Agriculture sector - quarterly real GDP growth rate



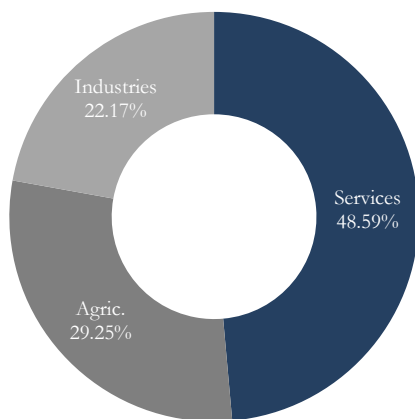
Source: NBS, PAC Research

Fig. 14: Crop production - quarterly real GDP growth rate



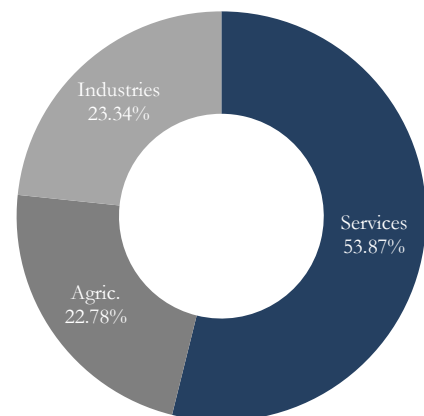
Source: NBS, PAC Research

Fig. 15: Sectoral contribution to real GDP in 3Q'19



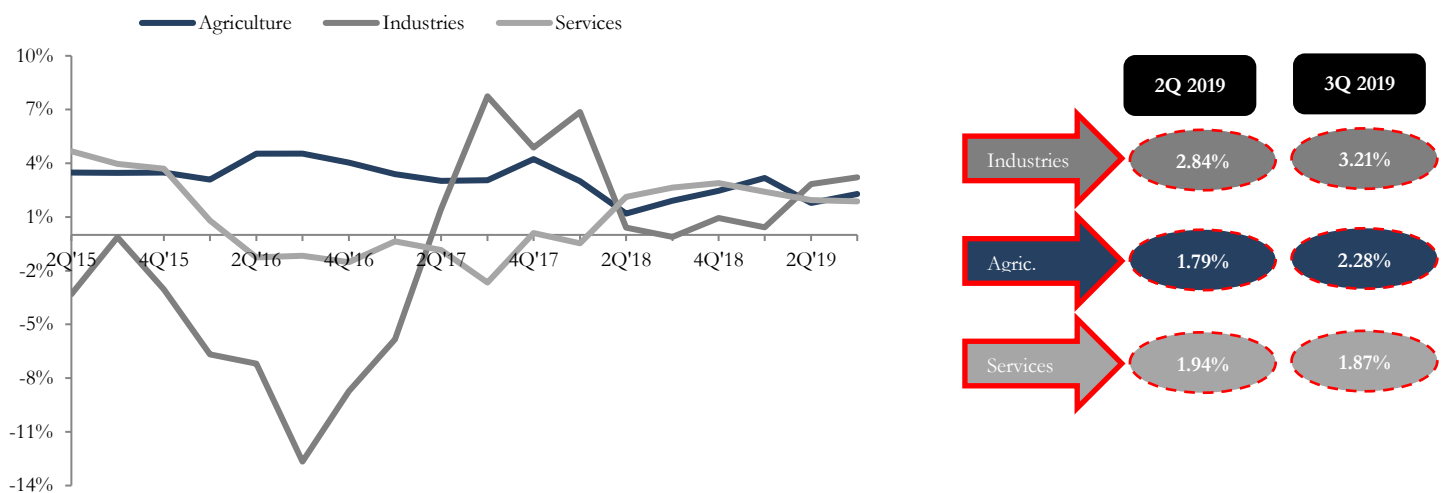
Source: NBS, PAC Research

Fig. 16: Sectoral contribution to real GDP in 2Q'19



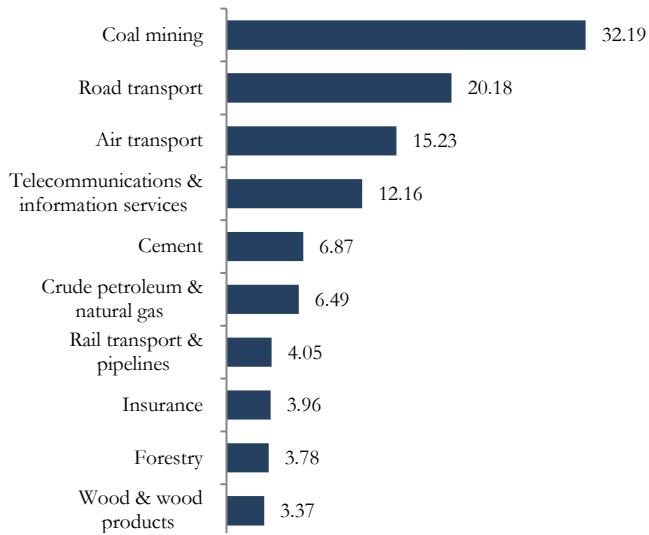
Source: NBS, PAC Research

Fig. 17: Quarterly sectoral real GDP growth rate



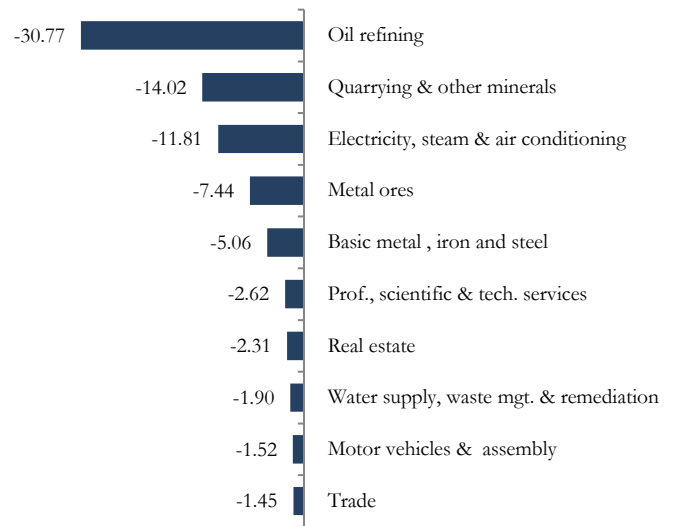
Source: NBS, PAC Research

Fig. 18: Economic activities: Top ten increase in real GDP growth rate in 3Q'19 (%)



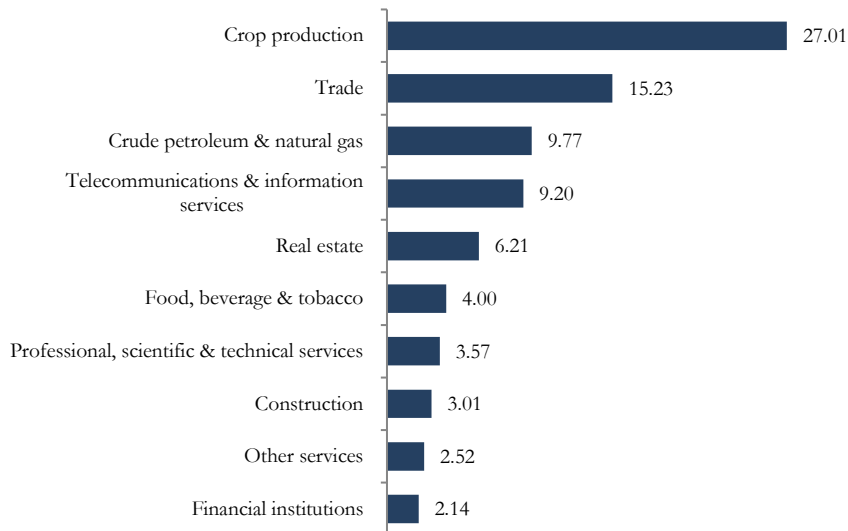
Source: NBS, PAC Research

Fig. 19: Economic activities: Decline in real GDP growth rate in 3Q'19 (%)



Source: NBS, PAC Research

Fig. 20: Economic activities: Top ten contributors to real GDP in 3Q'19 (%)



Source: NBS, PAC Research

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