

Economic Update

Nigeria | Economy | 3Q'20 GDP Report | November 30, 2020

PAC RESEARCH

V-Shape Recovery: Easing of lockdown energises economic activities

Nigeria's economic output contracts by 3.62% year-on-year in 3Q'20. In the third quarter to September 2020, Nigeria's economic output recorded a decline of 3.62% y/y in real terms relative to both the growth rate of 2.28% recorded in the corresponding quarter of the previous year and the contraction of 6.10% in the second quarter of the year (**fig. 1**). The contraction in the economic output in the review period moderated compared with the contraction of 6.10% recorded in the preceding quarter. This is largely due to the gradual easing of COVID-19 pandemic containment measures in the period which lifted economic activities. The measures put in place by policymakers in the second quarter 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 in the second quarter and in the part of the review quarter.

Furthermore, aggregate nominal GDP for the review quarter stood at ₦39.09 trillion, higher by 3.39% compared with the ₦37.81 trillion in the third quarter of 2019, also the nominal GDP is higher by 12.81% relative to the ₦34.65 trillion in the preceding quarter. Furthermore, the number of economic activities that recorded positive growth in the period increased to eighteen compared with the thirteen in the second quarter out of the forty-six economic activities in the nation's GDP basket. In our view, we expect to see improved economic activities in the quarters ahead and the nation is expected to exit recession in the first quarter of 2021. This opinion is based on the backdrop of the emergence of vaccines whose clinical trial against the pandemic have proven to have a high level of effectiveness and the assumption that the vaccines will be produced and distributed massively.

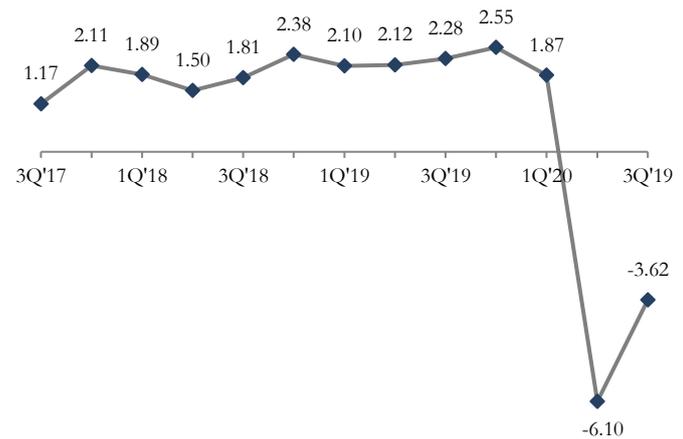
Table 1: Oil sector and non-oil sector – quarterly real GDP growth rates

	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20
Oil sector	+6.49%	+6.36%	+5.06%	-6.63%	-13.89%
Non-oil sector	+1.85%	+2.26%	+1.55%	-6.05%	-2.51%

Source: NBS, PAC Research

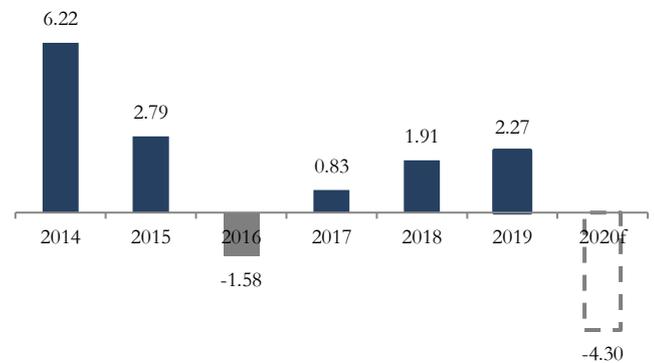
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Fig. 1: Quarterly real GDP growth rates (%)



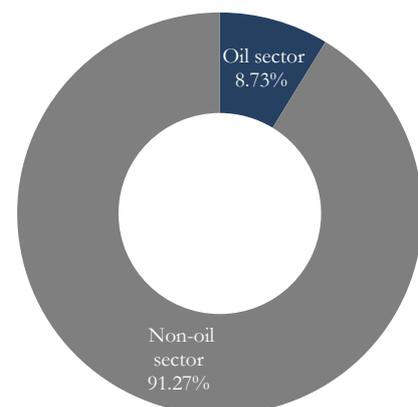
Source: NBS, PAC Research

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



Source: NBS, PAC Research

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



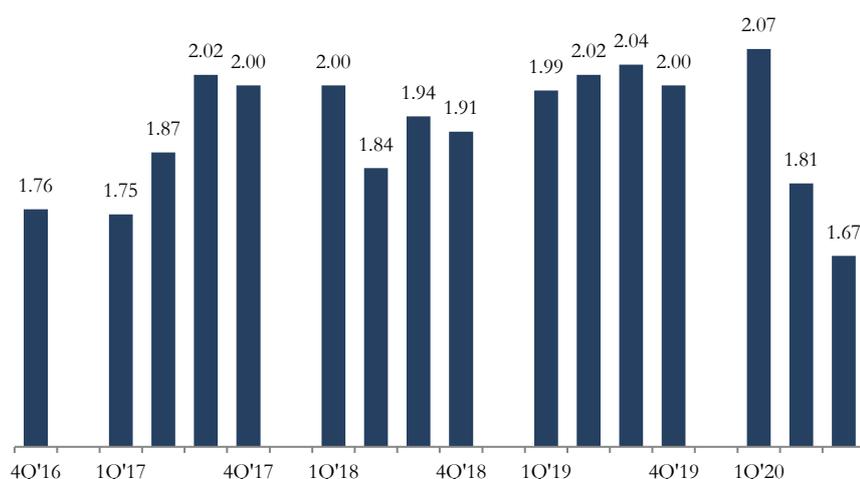
Source: NBS, PAC Research

Morover, the weakness in the economic output in the third quarter was driven by the performance of both the oil sector and the non-oil sector. The oil sector contracted by 13.89% in the review period, relative to the growth rate of 6.49% in the third quarter of 2019. Also, the performance of the oil sector in the review quarter is worse than the contraction of 6.63% in the second quarter of the year. In addition, the weak performance of the sector was driven by both the fall in the price of crude oil and low production quantity in the period. Brent crude oil traded at an average price of US\$44.40 per barrel in the quarter, lower by 23.89% relative to the average price of US\$58.34 per barrel in the third quarter of the previous year. The drop in the prices of crude oil in the period was as a result of the negative impact of the pandemic on the demand for crude oil in the global market. However, the prices of Brent Crude Oil has improved relative to the average price of US\$36.65 in the second quarter of the year. This was consequent to the discovery of vaccines which was reported to have proven effective against COVID-19 virus and the actions of OPEC in support of the improvement in the prices of oil by sustaining production cut . Consequently, we expect the price of crude oil to improve to around US\$50 per barrel in the months ahead.

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Similarly, crude oil production stood at an average of 1.67 million barrel per day (mbpd) in the period, lower by 18.14% compared with an average of 2.04 (mbpd) in the third quarter of the previous year. Also, the review quarter's production is lower by 7.73% compared with the average daily production of 1.81 mb in the second quarter of 2020 (fig. 4). In addition, the lower average daily production in the period was also due to the negative impact of the COVID-19 global healthcare crisis and the need to comply with the production quota of OPEC. It is worthy of note to state that the oil sector contributed 8.73% to the output in the period, relative to the contribution of 9.77% in the third quarter of 2019 and the contribution of 8.93% in the preceding quarter.

Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

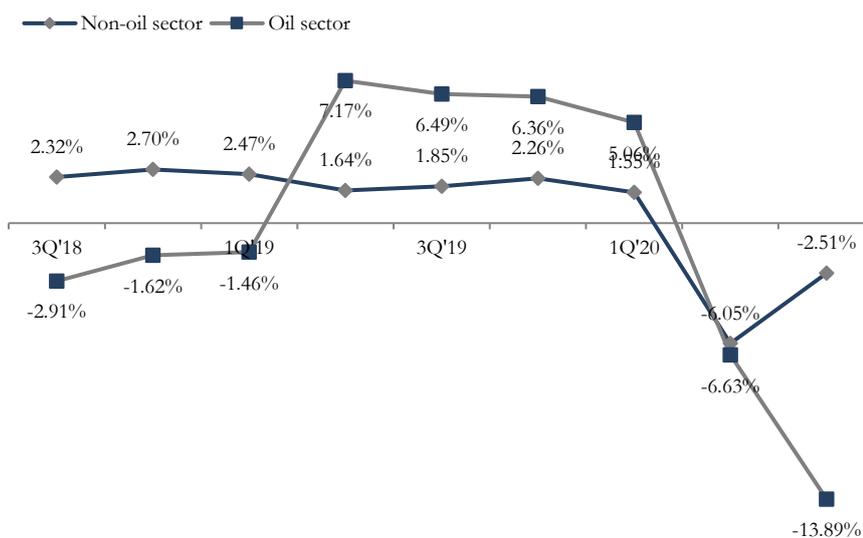
Fig. 5: Prices of Brent crude oil (US\$/barrel)



Source: Bloomberg, PAC Research

The non-oil sector outperforms the oil sector in the period. In the review period, the non-oil sector recorded a decline of 2.51% lower than the growth rate of 1.85% in the corresponding quarter of the previous year but better than the decline of 6.05% in the second quarter of 2020. The weak performance of the non-oil sector was driven by the dismal performance of the non-oil industry sector and the services sector. On the other hand, the weak performance of the non-oil sector was mitigated by the performance of the agriculture sector.

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



Source: NBS, PAC Research

Agriculture industry still maintains the lead as the best performer. In the period, agriculture sector recorded real GDP growth rate of 1.39%, lower than both the growth rate of 2.28% recorded in the corresponding quarter of the 2019 and the 1.58% in the second quarter of the year. (fig. 9). The sector comprises crop production, livestock, forestry and fishery, however crop production activity remains the major driver of the sector and it accounted for 92.33% of all the economic activities in the agriculture sector in the review period. Crop production recorded real GDP growth rate of 1.38% in the period, lower than both the growth rate of 2.41% in the corresponding quarter of 2019 and the 1.44% recorded in the preceding quarter. The low growth rate recorded by crop production economic activity was majorly consequent to the protracted security challenges in the northern region of the nation. Also, livestock accounted for 5.43% of the total activities in the agriculture sector, the economic activity recorded real growth rate of 2.29% in the period, higher than both the growth rate of 0.02% in the third quarter of 2019 and the 2.26% in the preceding quarter. Livestock economic activity contributed 1.67% to the overall real GDP in the review quarter. Furthermore, forestry recorded real growth rate of 2.55% while fishery posted a contraction of 2.07% in the period, lower than both the growth rate 1.68% and the 5.68% in the corresponding quarter of 2019 and the previous quarter of the year respectively. Overall, agriculture sector contributed 30.77% to the total economic output in the period higher than both the contribution of 29.25% in the third quarter of the previous year and the 24.65% in the second quarter of the year 2020.

Industry sector records mixed performance. In the third quarter to September 2020, the economic activities in the industry sector recorded mixed performance in the period; out of the twenty economic activities in the sector, seven recorded various levels of growth rates while thirteen recorded a decline. The sector recorded a contraction of 6.12% in the review quarter compared with the growth rate of 3.21% in the third quarter of 2019 and the contraction of 12.05% in the second quarter of the year. The economic activities that contributed to the contraction are oil refining, wood and wood products, non-metallic products among others while the economic activities that mitigated the contraction are cement, food, beverage & tobacco, chemical & pharmaceutical products, construction among others. Oil refining contracted by 68.29%, higher than the contraction of 30.77% in the corresponding period of the previous year and almost flat with the contraction of 67.66% in the second quarter of 2019. Cement economic activities recorded an impressive growth rate of 11.96% compared with the growth rate of 6.87% in the third quarter of the previous year and the decline of 5.54% in the preceding quarter. Similarly, textile, apparel & footwear economic activities recorded a decline of 12.12% in the period while food, beverage & tobacco economic activities and construction economic activities recorded growth rate of 5.57% and 2.84% respectively in the quarter. The contribution of the industry sector in the period remain relatively flat at 21.59% compared with the contribution of 22.17% and the 21.87% in the third quarter of 2019 and the second quarter of 2020 respectively. In our opinion, we expect to see a significant improvement in the performance of the industry sector in the quarters ahead with the hope of increase in the prices of crude oil.

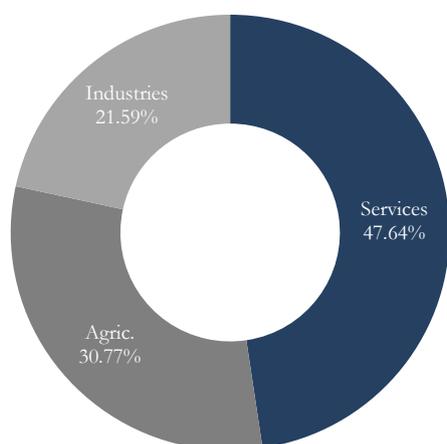
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Trade, transport & storage and real estate weakens the performance of the services sector. In the review quarter, services sector recorded weak performance with contraction of 5.49%, this is an improvement relative to the contraction of 6.78% in the preceding quarter but lower than the growth rate of 1.87% in the corresponding quarter of 2019 (**fig. 9**). Furthermore, out of the twenty-two economic activities in the services sector, seven recorded different levels of growth rate while fifteen recorded various degree of decline. The weak performance of the sector was driven by the performance of trade sector, transport & storage sector and real estate sector among others. Trade sector recorded a decline of 12.12% in the period, lower than the decline of 1.45% in the third quarter of 2019 but an improvement relative to the contraction of 16.59% in the preceding quarter. Also, transport & storage sector recorded a contraction of 42.98% relative to the growth rate of 18.24% in the third quarter of 2019 and the contraction of 49.23% in the preceding quarter (**fig. 10**). Similarly, real estate sector recorded a decline of 13.40% in the period, this is an improvement relative to the contraction of 21.99% in the second quarter of the year but weaker than the decline of 2.31% in the corresponding quarter of 2019. On the flip side, information & communication sector mitigated the weak performance of the sector with real growth rate of 14.56%, higher than the growth rate of 9.88% in the third quarter of 2019 but slightly lower than the growth rate of 16.52% in the second quarter of the year. Moreover, telecommunications & information services is the major driver of the economic activities in information & communication sector which accounted for 83.15%. In addition, telecommunications & information services economic activity recorded real growth rate of 17.36%, higher than the 12.16% in the third quarter of 2019 but slightly lower than the 18.10% in the second 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. Information & communication sector contributed 13.47% to the overall real GDP in the period, higher than the 11.34% in the third quarter of the previous year but lower than the 17.83% in the second quarter of the year.

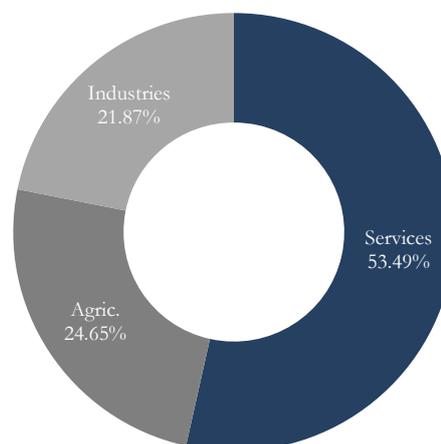
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Fig. 7: Sectoral contribution to real GDP in 3Q'20



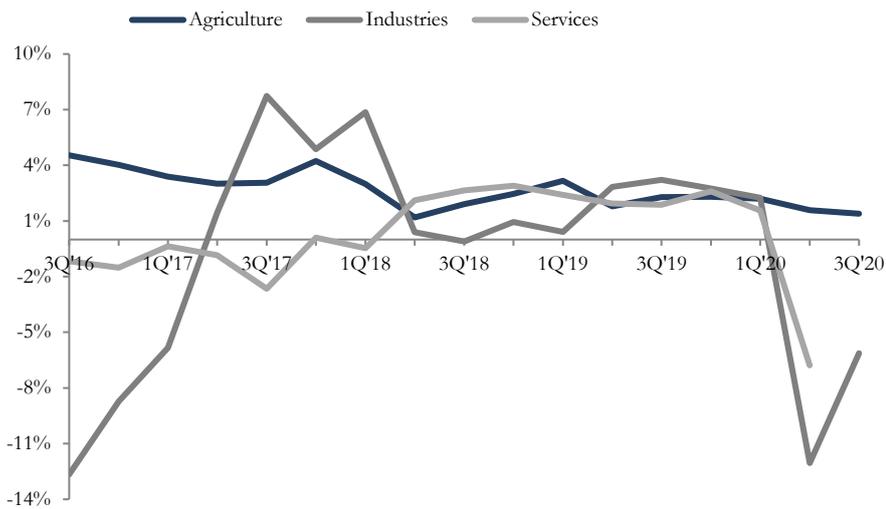
Source: NBS, PAC Research

Fig. 8: Sectoral contribution to real GDP in 2Q'20



Source: NBS, PAC Research

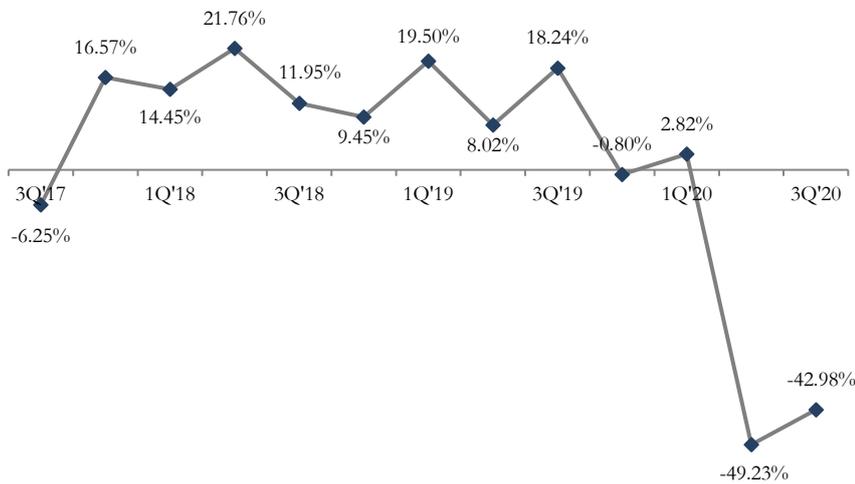
Fig. 9: Quarterly sectoral real GDP growth rate



	3Q 2020	2Q 2020
Industries	-6.12%	-12.05%
Agric.	1.39%	1.58%
Services	-5.49%	-6.78%

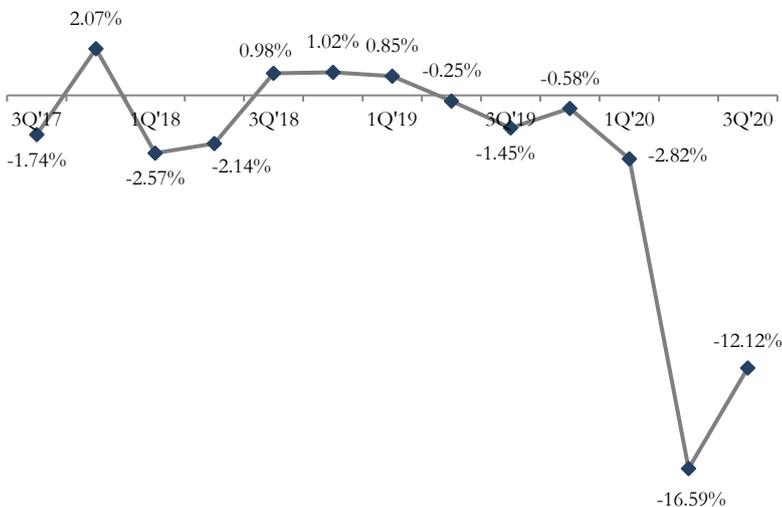
Source: NBS, PAC Research

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



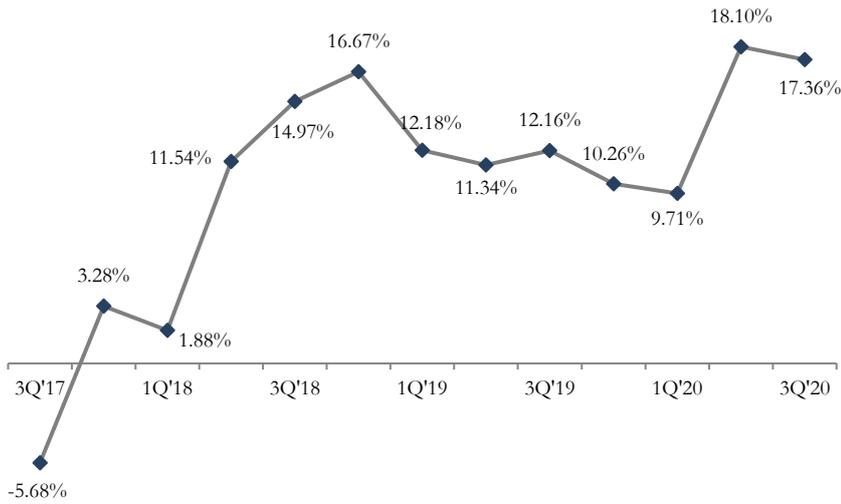
Source: NBS, PAC Research

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



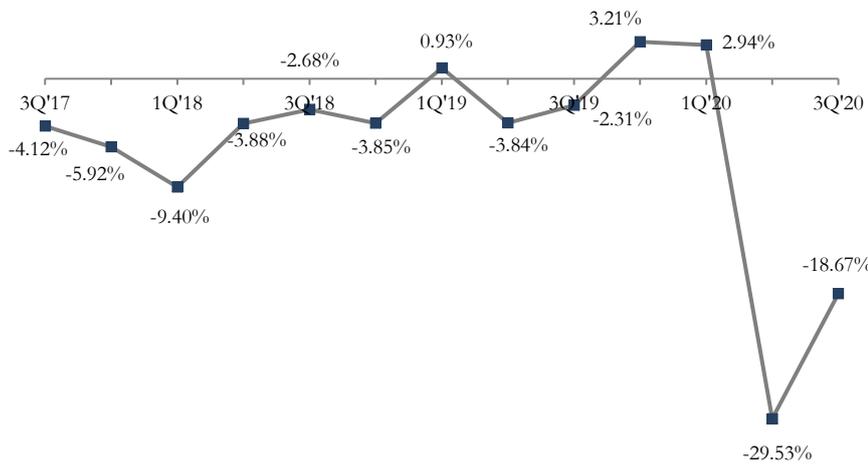
Source: NBS, PAC Research

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



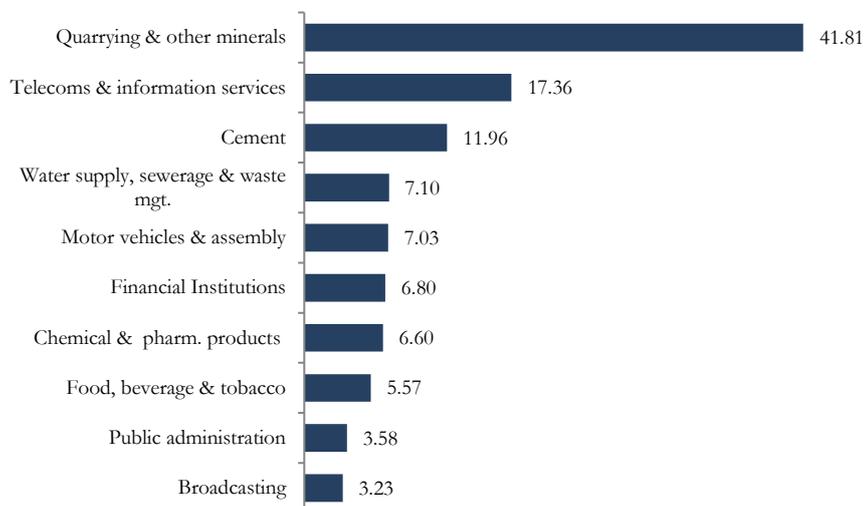
Source: NBS, PAC Research

Fig. 13: Real estate - quarterly real GDP growth rates



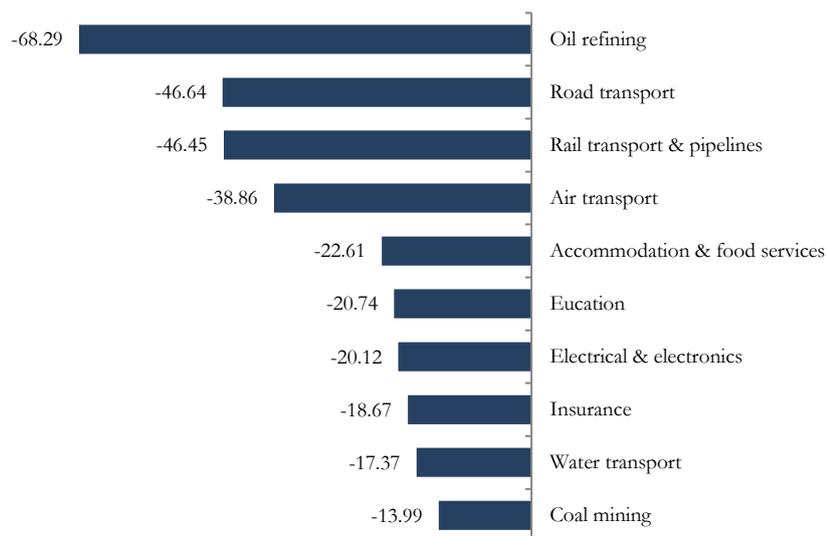
Source: NBS, PAC Research

Fig. 14: Economic activities: Top ten increase in real GDP growth rate in 3Q'20 (%)



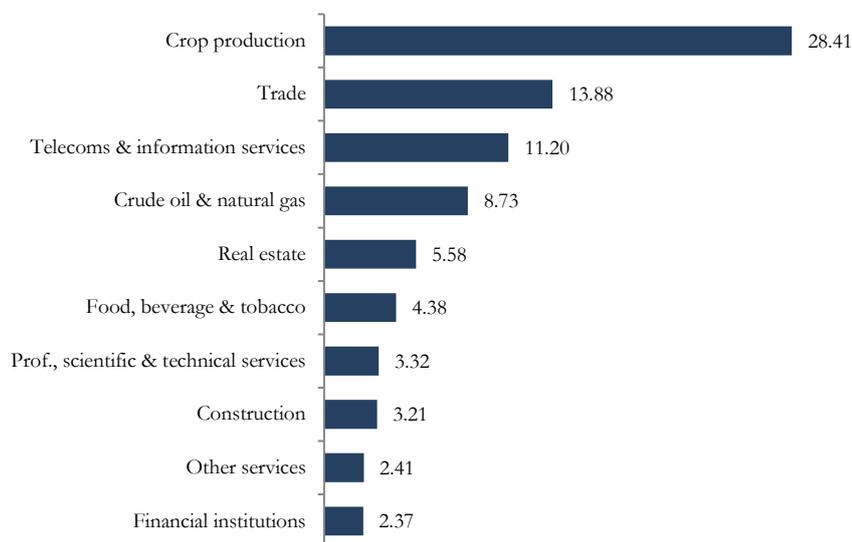
Source: NBS, PAC Research

Fig. 15: Economic activities: Decline in real GDP growth rate in 3Q'20 (%)



Source: NBS, PAC Research

Fig. 16: Economic activities: Top ten contributors to real GDP in 3Q'20 (%)



Source: NBS, PAC Research

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