Economic Update

Non-oil sector resilience: Ease of doing business reform yielding fruits

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Nigeria's real gross domestic product (GDP) improved by 2.38% year-on-year in 4Q'18 and 1.93% in FY'18. In the fourth quarter to December 2018, Nigeria's gross domestic product recorded real growth rate of 2.38% y/y. This is an improvement relative to the 1.81% in the third quarter of the year and the 2.11% in the fourth quarter of the previous year **(fig. 1)**. Similarly, the economy recorded real GDP growth rate of 1.93% for the year 2018 which is in line with our estimate. In addition, the full year 2018 real GDP growth rate is higher than the 0.83% recorded in the previous year **(fig. 2)**. Furthermore, aggregate nominal GDP for the review quarter stood at ₦35.23 trillion, higher by 12.66% compared with the ₦31.27 trillion in the corresponding quarter of the previous year. Also, nominal GDP for the full year 2018 was ₦127.76 trillion, higher by 12.36% compared with the ₦113.71 trillion in the previous year. Overall, thirty-nine out of the forty-six economic activities in the nation's GDP basket recorded positive growth rate, while seven recorded various degrees of decline in the fourth quarter. This is an improvement compared with the thirty-four economic activities that recorded positive growth rate in the third quarter of 2018. While the real GDP growth rate has been slow since the economy exited recession in the second quarter of 2017, yet it has been modest and consistent. In our view, we expect a muted expansion in economic output in the first quarter of 2019 due to the political activities that pertains to the general election.

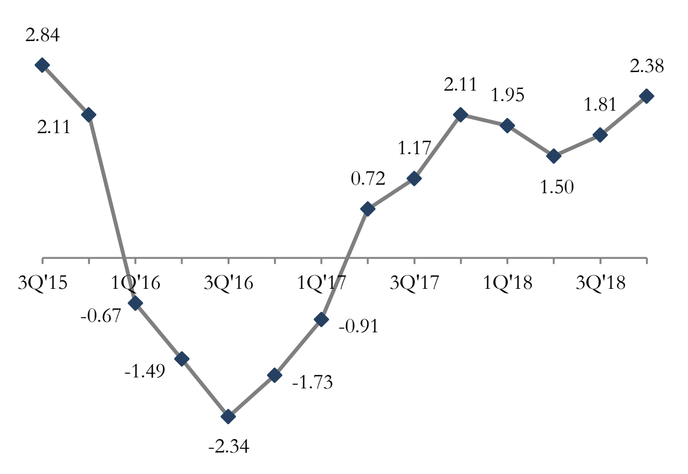
The improvement in the real GDP growth rate in the review period was driven by both the oil sector and the non-oil sector. The oil sector recorded real growth rate of -1.62% y/y in the fourth quarter of 2018. On the other hand, the sector recorded real growth rate of 1.29% q/q, (i.e. relative to a contraction of 2.91% in the third quarter) and 1.14% y/y for the full year.

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

	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18
Oil sector	+11.20%	+14.77%	-3.95%	-2.91%	-1.62%
Non-oil sector	+1.45%	+0.76%	+2.05%	+2.32%	+2.70%

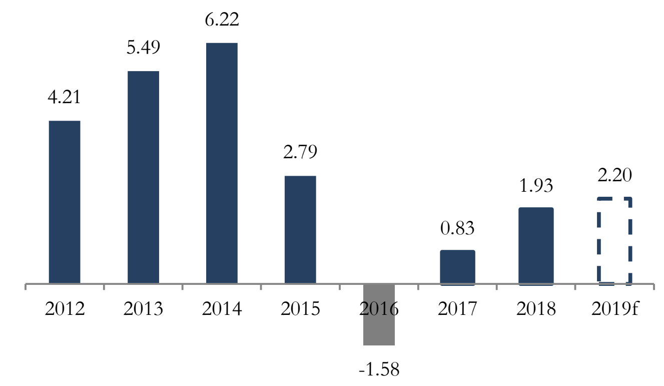
Source: NBS, PAC Research

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



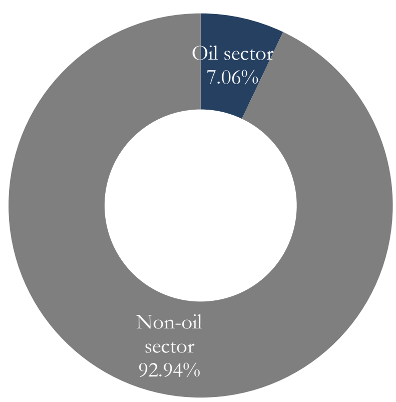
Source: NBS, PAC Research

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



Source: NBS, PAC Research

Fig. 3: Contribution to GDP in 4Q'18 – oil sector and non-oil sector



Source: NBS, PAC Research

The performance of the oil sector was driven by the positive movement in the prices of crude oil in the review period. Brent Crude Oil traded at an average price of US$68.62 per barrel in the fourth quarter of 2018, higher by 17.82% compared with an average price of US$58.24 per barrel in the corresponding quarter of the previous year **(fig. 5)**. However, the average price of crude oil in the review quarter was down by 8.94% relative to the average price of US$74.99 per barrel in the third quarter of the year. Also, for the full year 2018, Brent Crude Oil traded at an average price of US$69.54 per barrel, up by 27.18% against the average price of US$54.68 per barrel in the previous year. It is worthy of note to state that prices of crude oil was volatile in 2018 and the factors that contributed to the volatility are; the expectation of the impact of the United State's sanction against Iran, the collpase of production in Venezuela, unexpected outages in Canada, disruptions in production in Libya and the actions and the reactions of OPEC. In our view, Brent Crude Oil price is estimated to average US$60 per barrel in 2019 due to consumption concerns that mostly bothers on the signal of weaknesses in the global economy.

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On the other hand, Nigeria recorded average crude oil production of 1.91 million barrel per day (mbpd) in the review quarter, marginally lower by 1.55% against 1.94 mbpd in the third quarter of the year and lower by 4.50% compared with 2.00 mbpd in the fourth quarter of 2017 **(fig. 4)**. Similarly, average production quantity of 1.92 mbpd was achieved in 2018, almost flat relaitvely with the average production of 1.91 mbpd in the preceding year. The production in the review year was disrupted by the repair work that was carried out on Nembe Creek pipleline that is being used to transport crude oil for export. For 2019, we estimated average production of 2.00 mbpd including condensates, depsite 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 about 200,000 barrels per day to the nation's production. Other factor that may affect production in the quarters ahead is political instability that may result from the outcome of the 2019 general election.

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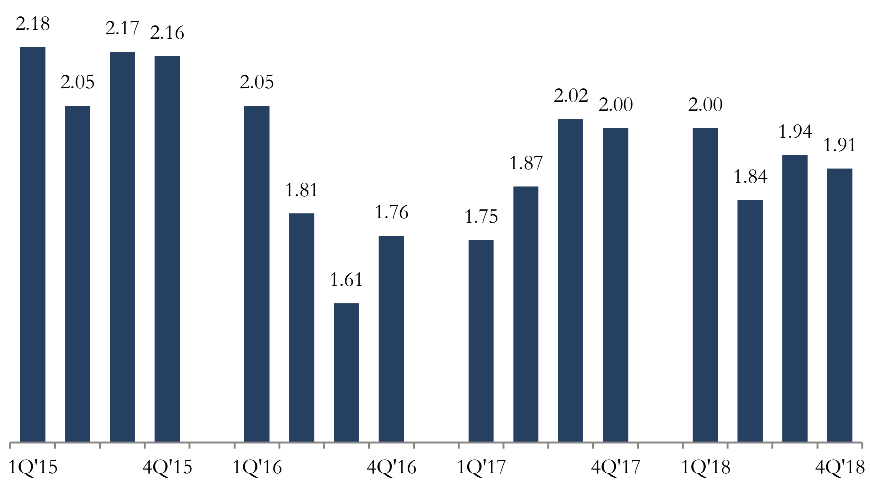
Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

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

Source: Bloomberg, PAC Research

Non-oil sector performance was driven by the non-oil industries sector. For the review quarter, the non-oil sector recorded real GDP growth rate of 2.70%, this translates to growth rate of 0.38% q/q compared with the 2.32% in the third quarter of the year **(fig. 6)**. Also, the sector recorded real growth rate of 2.00% for the full year 2018, this is an improved performance relative to the 0.47% recorded in the previous year. The performance of the non-oil sector was driven majorly by the performance of some economic activities in the non-oil industries sector and in the agriculture sector. The non-oil sector contributed 92.94% to the GDP in the quarter, marginally higher than both the contribution of 90.62% in the preceding quarter and the 92.65% in 4Q 2017. In our view, the resilience of the non-oil sector in the medium to long term depends mostly on the sustainability of the ease of doing business reforms, and other factors that are affecting the sector such as the availability of foreign exchange.

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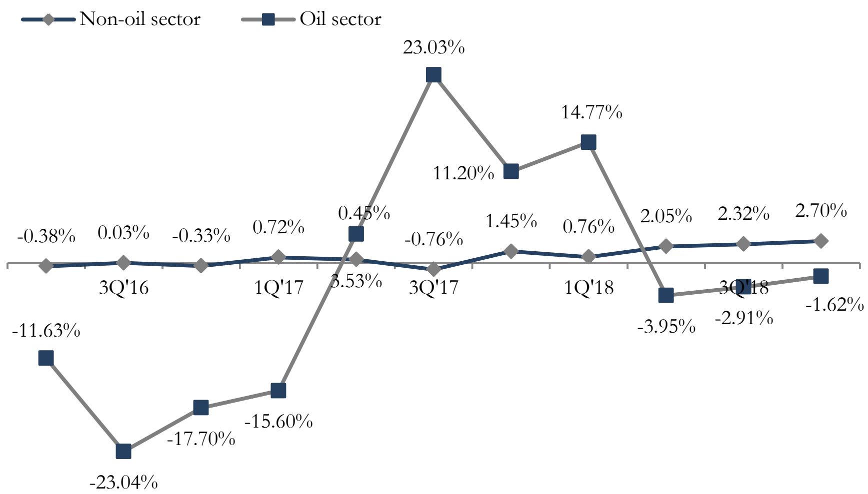
Fig. 6: Oil sector and non-oil sector – quarterly real GDP growth rates



Source: NBS, PAC Research

Agriculture emerges the best performing sector in 2018. In the review quarter, agriculture sector recorded real GDP growth rate of 2.46%, this translates to a quarterly growth rate of 0.55% relative to 1.91% in the third quarter. In addition, the sector posted real growth rate of 2.12% for the full year 2018, lower than the 3.45% in 2017 and it contributed 26.15% to the output in the review quarter **(fig. 7 & 8).** The sector comprises four economic activities; crop production, livestock, forestry and fishery. However, crop production is the major driver of the sector which accounted for 90.10% of the total economic activities in the sector in the fourth quarter of 2018. Crop production recorded real growth rate of 2.48% in the review quarter, higher than the 1.87% in the preceding quarter but lower than the 4.58% in the corresponding quarter of the previous year **(fig. 10)**. For the full year 2018, crop production posted growth rate of 2.26%, lower than the 3.645% recorded in 2017. The relative weakness in the performance of the sector was due to the protracted security challenges in the north-central and in the north-eastern part of the country which led to the displacement of several food crop producing farmers. Crop production contributed 23.56% to the overall economic output in the fourth quarter of 2018, lower than the 26.97% in the third quarter.

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Furthermore, Livestock recorded real growth rate of 2.35%, marginally lower than the 2.56% in the third quarter but higher than the 0.19% in the fourth quarter of 2017 and it contributed 1.79% to the total GDP in the quarter. In addition, forestry and fishery recorded real growth rate of 1.73% and 1.97% in the period respectively, the performance of forestry was lower than the 3.72% in the preceding quarter. On the other hand, the performance of fishery was higher than the 0.84% recorded in the third quarter, while forestry contributed 0.26% to the total economic output, fishery accounted for 0.53% in the quarter.

Industries sector returns to growth trajectory. The industry sector recorded real growth rate of 0.95% in the review quarter, higher than the contraction of 0.11% in the preceding quarter but lower than the growth rate of 4.87% in the same quarter of the previous year. Also, the sector posted real growth rate of 1.94% for the year, lower than the 2.15% in 2017, the performance of the sector was driven by the non-oil industries sectors, i.e. manufacturing sector and construction sector. While mining and quarrying contracted by 1.23%, this is an improvement relative to the -2.81% recorded in the third quarter of 2017. Manufacturing sector recorded real growth rate of 2.35%, i.e. quarter-on-quarter growth rate of 0.43% relative to the 1.92% in the preceding quarter **(fig. 11)**. In addition, the review quarter's performance of manufacturing sector was higher than the 0.14% in the previous year. For the full year 2018, the sector posted real growth rate of 2.09% relative to a contraction of 0.21% in the preceding year. Furthermore, construction sector recorded real GDP growth rate of 2.05%, this represents a significant improvement relative to the growth rate 0.54% in the third quarter but lower that the 4.14% in the fourth quarter of 2017. On the other hand, the sector recorded real growth rate of 2.33% in full year 2018, i.e. 133 basis points higher than the 1.00% recorded in the previous year.

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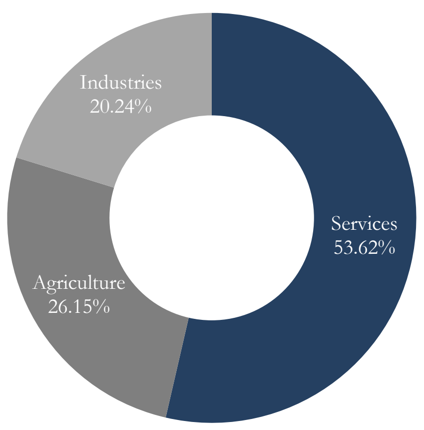
The contribution of the industries sector to the GDP in the fourth quarter of 2018 stands at 20.24%, relatively flat compared with the contribution of 20.52% in the fourth quarter of 2017 **(fig. 7 & 8)**. Also, the sector contributed 22.25% to the overall GDP in full year 2018.

Transport & storage sector and information & communications sector spurs the growth of the services sector. For the review quarter, services sector recorded growth rate of 2.90%, significantly higher than the 0.10% posted in the corresponding quarter of the previous year and slightly higher than the 2.64% recorded in the third quarter of 2018 **(fig. 9)**. In addition, the sector recorded real growth rate of 1.83% for the full year 2018, higher than the contraction of 0.91% in 2017. The sector has been recording significant growth rate since the first quarter of 2018; this was being driven by the transport & storage sector and the information & communications sector. Transport & storage sector recorded real growth rate of 9.48% in the review quarter, lower than both the 11.95% in the third quarter and the 16.57% in the fourth quarter of 2017. In addition, the sector had real growth rate of 13.91% in full year 2018, significantly higher than the 3.86% in 2017. Transport & storage sector contributed 1.46% to the total economic output in the fourth quarter of 2018 and 1.37% for the full year 2018. Furthermore, information & communications sector recorded real GDP growth rate of 13.20% in the review quarter, higher than both the 12.09% in the preceding quarter and the contraction of 1.46% in the fourth quarter of 2017. Also, the sector recorded real GDP growth rate of 9.65% for the full year 2018, this is an improved performance relative to the -1.04% posted in the previous year. Also, information & communications sector accounted for 12.40% of the total GDP in the review quarter and 12.22% for the full year 2018.

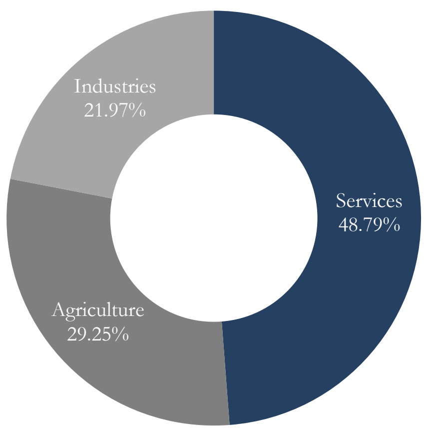
The sector has been recording significant growth rate since the first quarter of 2018; this was being driven by the transport & storage sector...

Fig. 7: Sectoral contribution to real GDP in 4Q'18



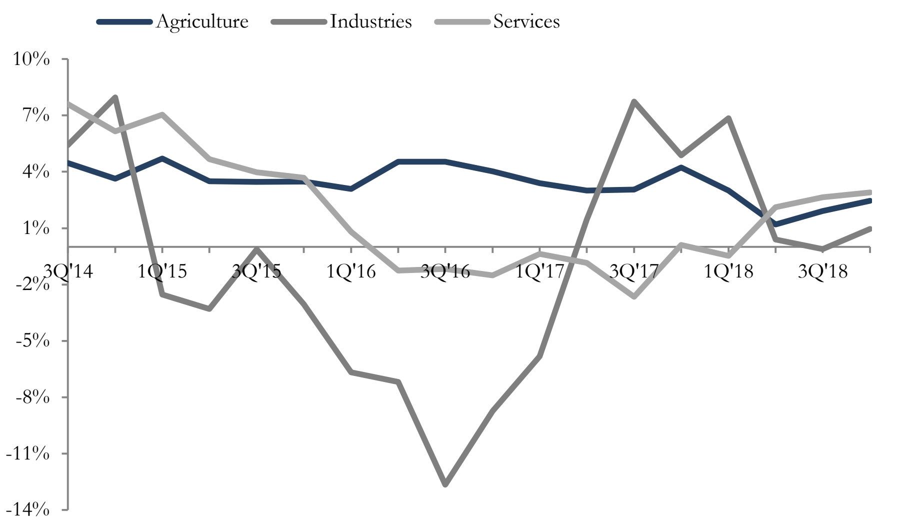
Source: NBS, PAC Research

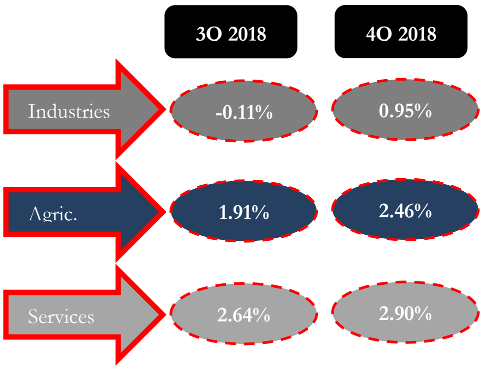
Fig. 8: Sectoral contribution to real GDP in 3Q'18



Source: NBS, PAC Research

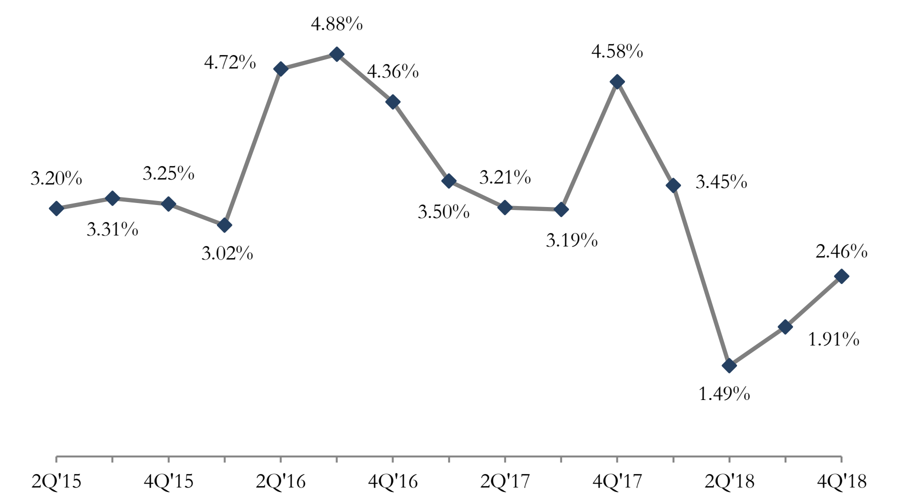
Fig. 9: Quarterly sectoral real GDP growth rate





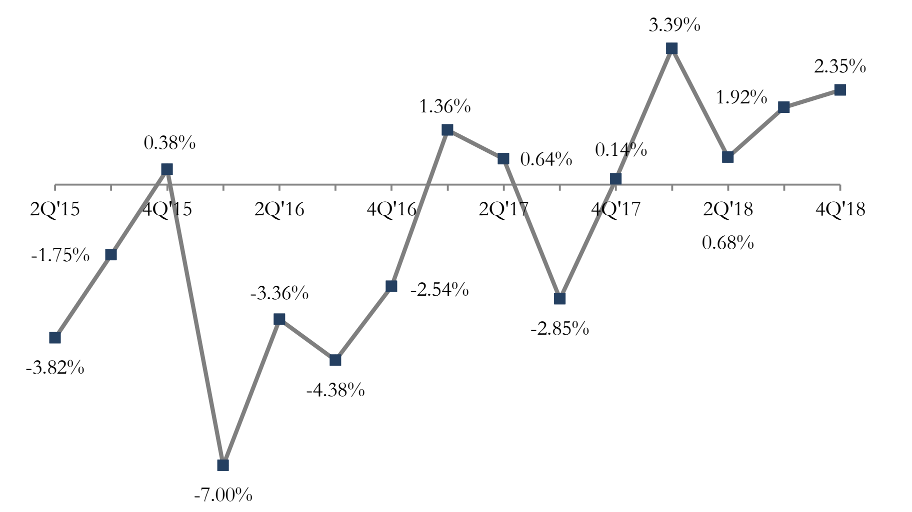
Source: NBS, PAC Research

Fig. 10: Crop production - quarterly real GDP growth rate



Source: NBS, PAC Research

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



Source: NBS, PAC Research

Oil refining economic activity recovers with real GDP growth rate of 33.60%. In the fourth quarter to December 2018, oil refining economic activity recorded a significant improvement with real GDP growth rate of 33.60%, higher by 50.99% relative to the contraction of 17.39% in the preceding quarter. Moreover, the review quarter's performance of oil refining was higher than the -46.24% recorded in the fourth quarter of the previous year **(fig. 12)**. Also, for the review year, the economic activity posted a contraction of 3.97% relative to a contraction of 27.70% in the previous year. The stellar performance recorded by oil refining revealed that there was a significant improvement in local refining of petroleum products in the period. In our opinion, if the positive development in the economic activity can be sustained in the months ahead, this will assist in reducing the level of dependence on the importation of refined products.

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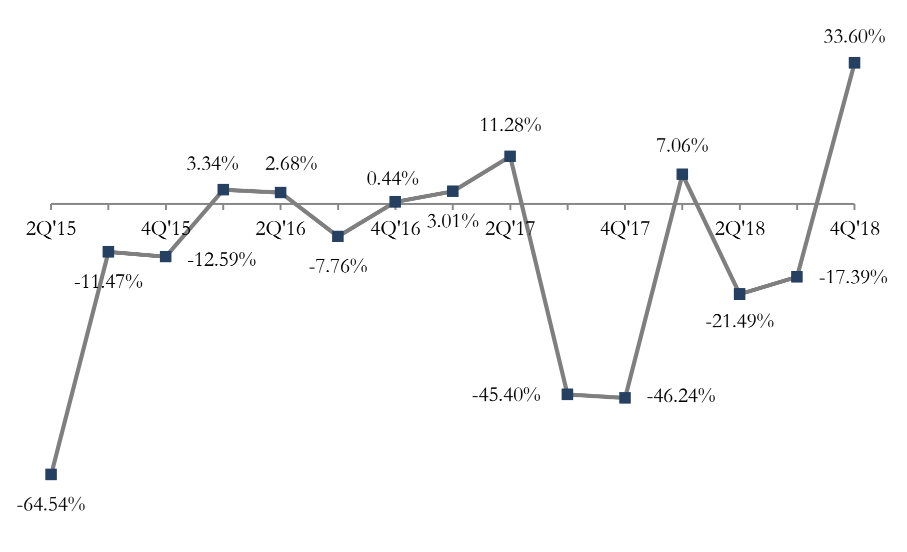
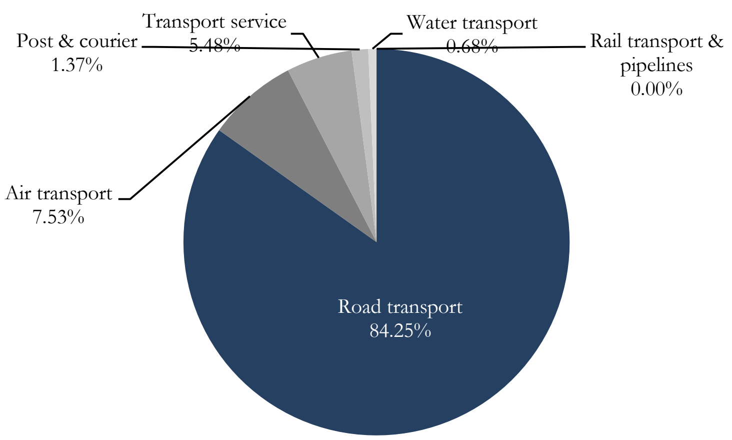
Furthermore, road transport economic activity recorded real growth rate of 9.10% in the fourth quarter, lower than both the 12.07% in the preceding quarter and the 19.70% in the fourth quarter of 2017 **(fig. 14)**. Also, the economic activity posted real GDP growth rate of 14.47% for the full year 2018, higher than the 4.84% in the previous year. Road transport contributed 1.23% to the total output in the period and accounted for 84.25% of the entire activities in the transport & storage sector **(fig. 13)**. Similarly, the economic activities in the quarrying & other minerals was boosted in the review quarter with real growth rate of 20.95%, significantly higher than both the 3.08% in the third quarter of 2018 and the contraction of 10.94% in the same quarter of the previous year. The improvement in the growth rate underscores the determination of policymakers to enhance the contribution of the solid mineral sector to the economy. Quarrying & other minerals contributed 0.16% to the overall GDP in the quarter; this is a slight improvement from the contribution of the economic activity in the recent quarters.

Fig. 12: Oil refining - quarterly real GDP growth rate



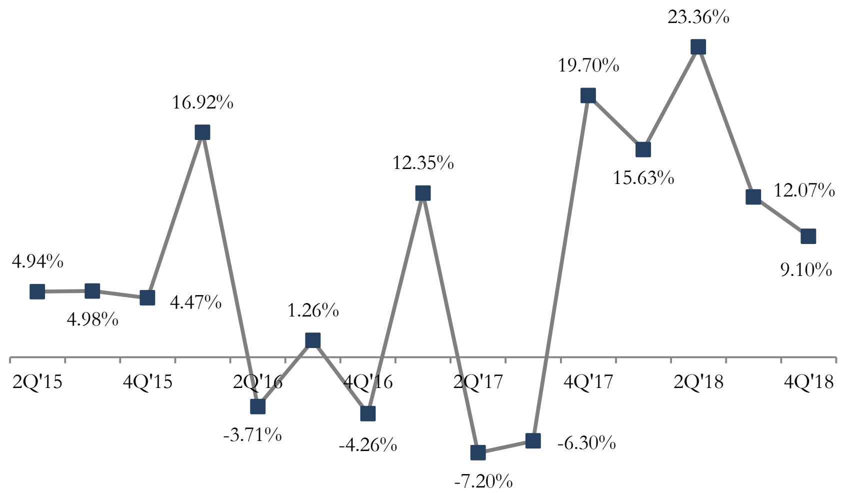
Source: NBS, PAC Research

Fig. 13: Sectoral analysis – Transport & storage (4Q'18)



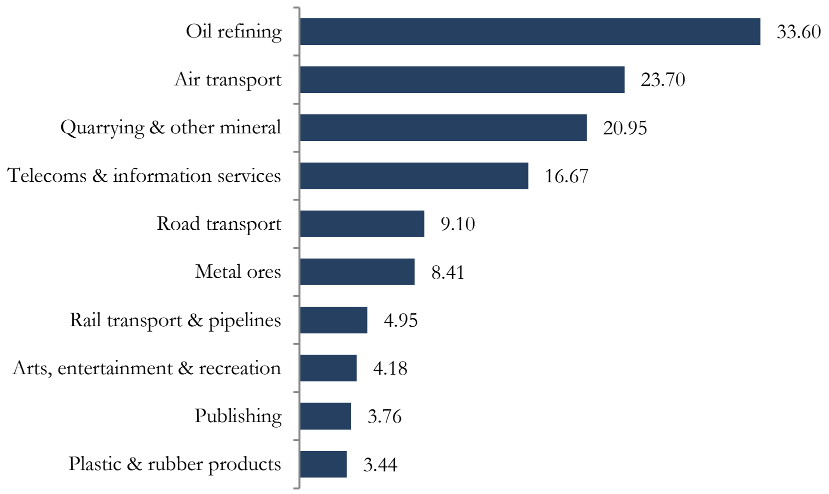
Source: NBS, PAC Research

Fig. 14: Road transport - quarterly real GDP growth rates



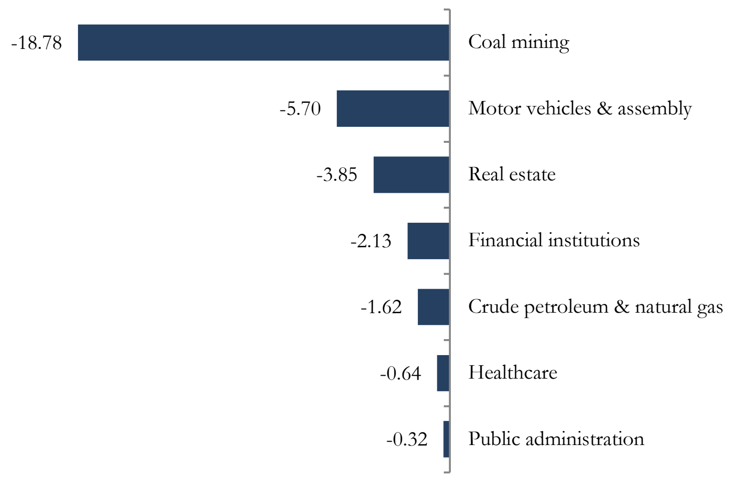
Source: NBS, PAC Research

Fig. 15: Economic activities: Top ten increase in real GDP growth rate in 4Q'18 (%)



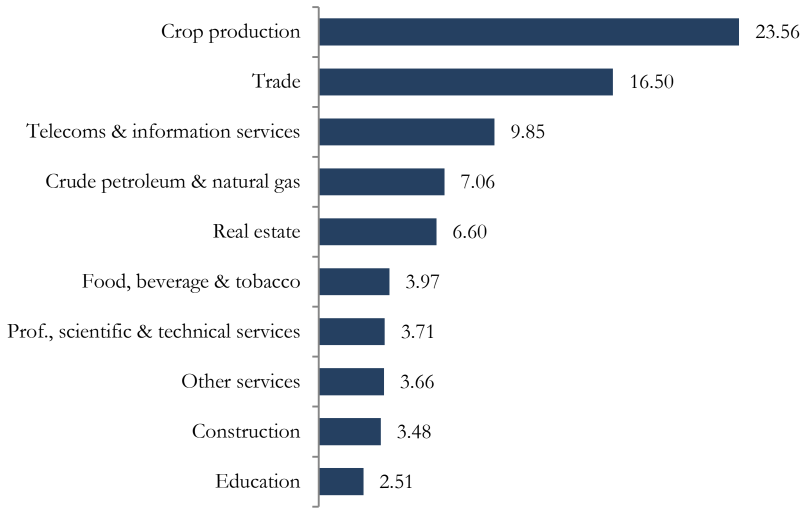
Source: NBS, PAC Research

Fig. 16: Economic activities: Decline in real GDP growth rate in 4Q'18 (%)



Source: NBS, PAC Research

Fig. 17: Economic activities: Top ten contributors to real GDP in 4Q'18 (%)



Source: NBS, PAC Research

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