

Economic Update

Nigeria | Economy | 4Q'19 & FY'19 GDP Report | February 27, 2020

PAC RESEARCH

Financial services sector: Strong growth on the back of CBN policies

Nigeria's economic output improved by 2.55% year-on-year in 4Q'19 and 2.27% for full year 2019. In the fourth quarter to December 2019, Nigeria's gross domestic product (GDP) recorded real growth rate of 2.55% y/y relative to the 2.38% recorded in the corresponding quarter of the previous year (fig. 1). Also, for the full year 2019, real GDP growth rate stands at 2.27%, higher than the 1.91% recorded in 2018 (fig. 2). It is worthy of note to state that the growth rate recorded in 2019 is in line with our projection of 2.30% for the year. Furthermore, aggregate nominal GDP for the review quarter stands at ₦39.58 trillion, higher by 12.35% compared with the ₦35.23 trillion in the fourth quarter of the previous year. Overall, thirty-four out of the forty-six economic activities in the nation's GDP basket recorded positive growth rate, while twelve recorded various degrees of decline in the fourth quarter. The breath of the economic activities maintained the same level in the third quarter of 2019 in this regard. While the real GDP growth rate has been sluggish since the economy exited recession in 2Q2017, the growth rate for the review quarter was the strongest. In our view, we expect the sluggish recovery to continue in the quarters ahead until reforms that are necessary to boost economic growth are implemented.

The improvement in the real GDP growth rate in the fourth quarter of 2019 was driven by both the oil sector and the non-oil sector. The oil sector recorded real growth rate of 6.36% y/y in the fourth quarter of the previous year compared with the contraction of 1.62% in the fourth quarter of 2018. On the other hand, the sector recorded real growth rate of 4.59% for full year 2019 relative to 0.97% in 2018. The positive performance of the oil sector was driven by the improvement in production in the review period. The average daily production of 2.00 mbpd in the review quarter is higher by 4.71% relative to the 1.91 mbpd in the fourth quarter of 2018 (fig.4).

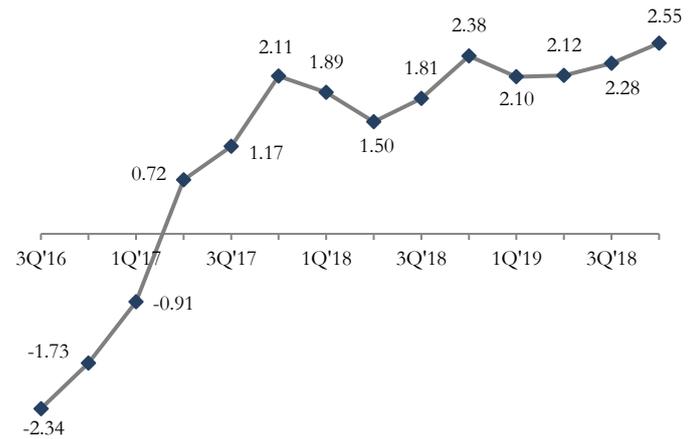
Table 1: Oil sector and non-oil sector – quarterly real GDP growth rates

	4Q'18	1Q'19	2Q'19	3Q'19	4Q'19
Oil sector	-1.62%	-1.46%	+7.17%	+6.49%	+6.36%
Non-oil sector	+2.70%	+2.47%	+1.64%	+1.85%	+2.26%

Source: NBS, PAC Research

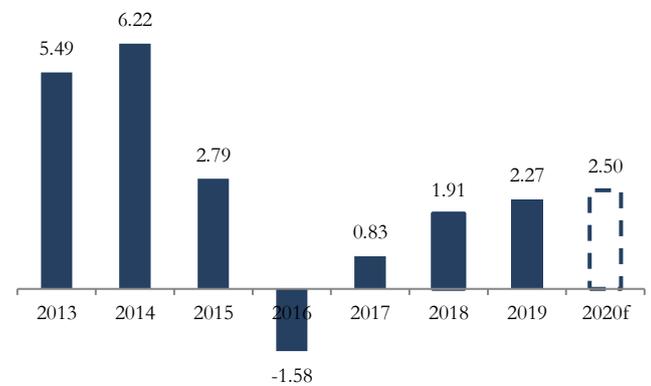
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Fig. 1: Quarterly real GDP growth rates (%)



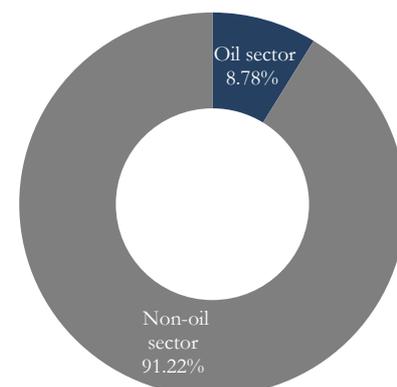
Source: NBS, PAC Research

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



Source: NBS, PAC Research

Fig. 3: Contribution to GDP in 4Q'19 – oil sector and non-oil sector



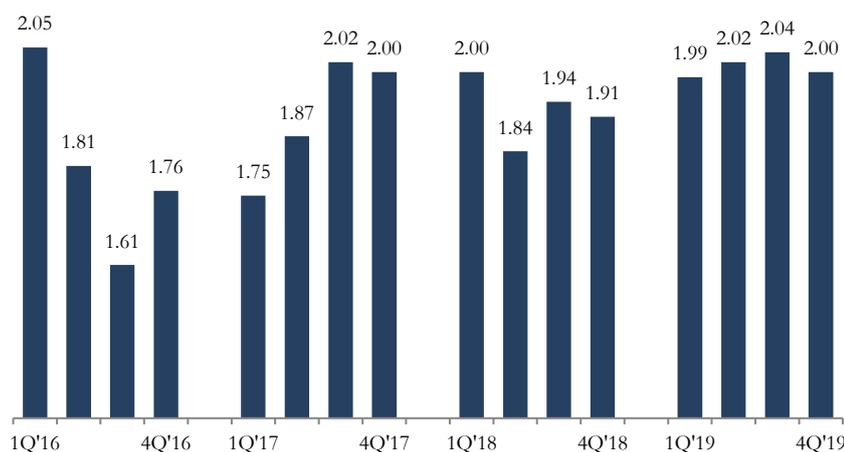
Source: NBS, PAC Research

Also, average production increased to 2.01 mbpd in the full year 2019, up slightly by 4.69% relative to average daily production of 1.92 million barrel in 2018. The slight improvement in production in the review period was due to the peaceful atmosphere in the oil producing region and the contribution of the Egina FPSO oil field project that came on stream in 2019 to the nation’s oil production.

On the contrary, Brent Crude Oil traded at an average price of US\$60.63 per barrel in the fourth quarter of 2019, down by 10.14% relative to the average price of US\$67.47 per barrel in the corresponding quarter of the previous year (fig. 5). Also, for the full year 2019, Brent Crude Oil traded at an average price of US\$62.10 per barrel, down by 6.60% against the average price of US\$66.49 per barrel in the previous year. It is worthy of note to state that prices of crude oil was not stable in 2019 and the factors that contributed to the instability are; the expectation of the impacts of sour relationship between the United States and Iran, the impact of trade and technology tension between the United States and China and the actions and the reactions of OPEC. In our view, Brent Crude Oil price is estimated to average US\$59 per barrel in 2020 due to consumption concerns that mostly bothers on the signal of weaknesses in the global economy. In addition, the outbreak of Coronavirus disease (COVID-19) is having a negative impact on the prices of crude oil in the international market, the incidence is the single important factor that will affect the prices of crude oil in the short term. The disease is expected to have negative impact on production in China and this will affect crude oil consumption, hence the downward movement in the prices of crude oil in the international market.

In our view, Brent Crude Oil price is estimated to average US\$59 per barrel in 2020 due to consumption concerns that mostly bothers on the signal of weaknesses in the global economy.

Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

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

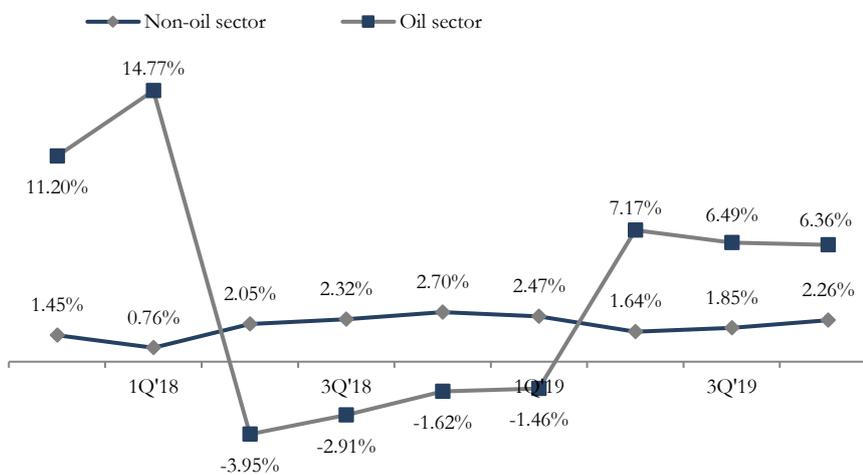


Source: Bloomberg, PAC Research

Non-oil sector performance was driven by information and communication sector. For the review quarter, the non-oil sector recorded real GDP growth rate of 2.26%, this translated to growth rate of 0.41% q/q compared with the 1.85% in the third quarter of the year. Also, the sector recorded real growth rate of 2.06% for the full year 2019, this performance is almost flat relative to the 2.00% recorded in the full year 2018. The performance of the non-oil sector was driven majorly by the performance of telecommunications & information service and financial institutions economic activities. The non-oil sector contributed 92.68% to the GDP in the quarter, marginally higher than the contribution of 90.23% in the preceding quarter but almost flat with the 92.94% in corresponding quarter of the previous year. In our view, the resilience of the non-oil sector in the medium to long term depends on the implementation of necessary reforms that will accelerate diversification of the economy.

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



Source: NBS, PAC Research

Industries sector emerges the best performing sector in the fourth quarter. In the review quarter, industries sector recorded real GDP growth rate of 2.75%, this translated to a decline of 0.55% q/q relative to the 3.21% in the third quarter. In addition, the sector posted real growth rate of 2.31% for the full year 2018, higher than the 1.87% in 2018 and the sector contributed 20.27% to the output in the review quarter (**fig. 7 & 8**). The major drivers of the growth of the sector are; mining & quarrying and manufacturing. Mining and quarrying recorded real growth rate of 6.07% in the review quarter, slightly lower than the 6.19% in the third quarter but higher than the contraction of 1.23% in the fourth quarter of 2018. The significant improvement in the sector in the review quarter was driven by crude petroleum and natural gas which recorded real growth rate of 6.36%, higher than the contraction of 1.62% in the corresponding period of 2018. The contribution of mining & quarrying stands at 7.48% in the review quarter slightly higher than the 7.23% in the corresponding quarter of the previous year. Manufacturing sector recorded real GDP growth rate of 1.24% in the quarter, higher than the 1.10% in the third quarter but lower than the 2.35% in the fourth quarter of 2018. Furthermore, the performance of manufacturing sector in the quarter was driven by the economic activities in food, beverages & tobacco with real growth rate of 2.69% in the quarter, slightly lower than the 2.98% in the preceding quarter but higher than the 2.22% in 4Q2018. Overall, manufacturing sector contributed 8.74% to the total real GDP in the quarter and 9.06% for the full year 2019 which is almost flat relative to the contribution in the previous year.

Services sector emerges stronger in 2019. The services sector recorded real growth rate of 2.60% in the review quarter, higher than the 1.87% in the preceding quarter but lower than the growth rate of 2.90% in the same quarter of the previous year. Also, the sector posted real growth rate of 2.22% for the full year 2019, lower than the 2.64% in 2018. The performance of the sector in the quarter was driven by the strong performance of information & communication sector and finance & insurance sector. Furthermore, information & communication sector recorded strong real growth rate of 10.16% in the review quarter, higher than the 9.88% in the third quarter but lower than the 13.20% recorded in the corresponding quarter of the previous year. In addition, the major driver of information and communication sector in the quarter was telecommunications and information service sector with real growth rate of 10.26%, almost flat with the 12.16% in the third quarter but lower than the 16.67% in the fourth quarter of 2018. It is worthy of note to state that information and communication sector recorded 11.08% growth rate for the full year 2019, and the sector contributed 13.27% to the total GDP in 2019, higher than the 12.44% in the previous year.

In addition, finance and insurance sector recorded strong growth rate of 20.18% in the fourth quarter of 2019, higher than both the 1.07% and the contraction of 1.76% in the third quarter and the fourth quarter of 2018 respectively. The main driver of the sector in the period was financial institutions with real growth rate of 22.33% in the quarter, higher than both the 0.61% in the third quarter and the contraction of the 1.76% in the corresponding quarter of the previous year.

The major drivers of the growth of the sector are; mining & quarrying and manufacturing.

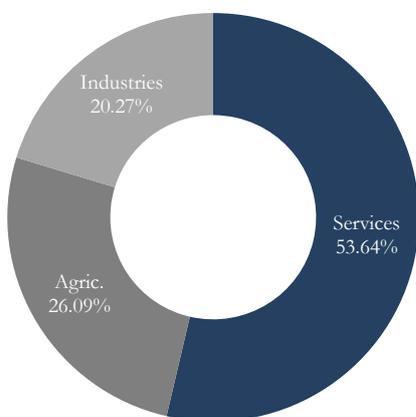
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The performance of financial institutions in the review quarter was due to the several policies rolled out by the Central Bank of Nigeria in the previous year especially the policy on the minimum loan-to-deposit ratio which placed the floor at 65%. Finance and insurance contributed 3.19% to the total output in the quarter higher than the 3.00% in the third quarter and the 2.72% in the fourth quarter of 2018.

Agriculture sector recorded modest performance. For the quarter, agriculture sector recorded real growth rate of 2.31%, almost flat with the 2.28% posted in the third quarter but lower than the 2.46% in the fourth quarter of 2018. The performance of the sector in the period was driven by crop production with real growth rate of 2.52%, slightly higher than both the 2.41% in the third quarter and the 2.48% in the same quarter of the preceding year. Crop production accounted for 90.26% of all the activities in the agriculture sector, hence the economic activity is the major determinant of the direction of the sector. The factors that affected the performance of crop production in the period are; the protracted conflict between herders and farmers and the insurgency in the northern region of the country. Agriculture contributed 26.09% in the review quarter, lower than the 29.25% in the third quarter but almost flat relative to the 26.15% in the fourth quarter of 2018. The sector contributed 25.16% to the overall output in the full year 2019, while livestock, forestry and fishing contributed 1.74%, 0.26% and 0.53% respectively in the period.

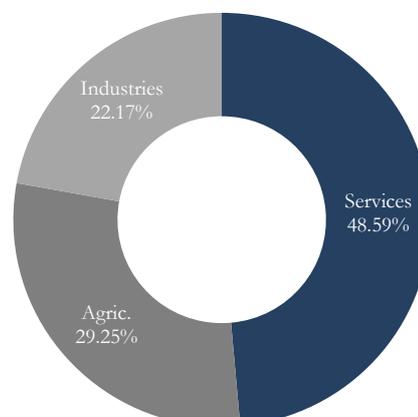
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Fig. 7: Sectoral contribution to real GDP in 4Q'19



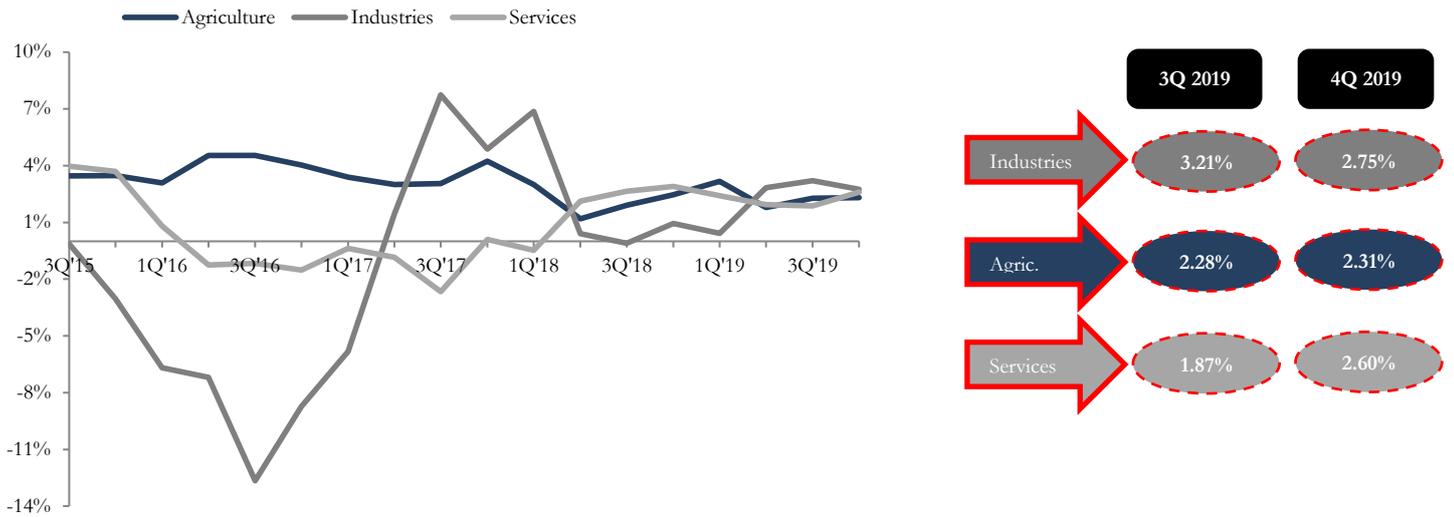
Source: NBS, PAC Research

Fig. 8: Sectoral contribution to real GDP in 3Q'19



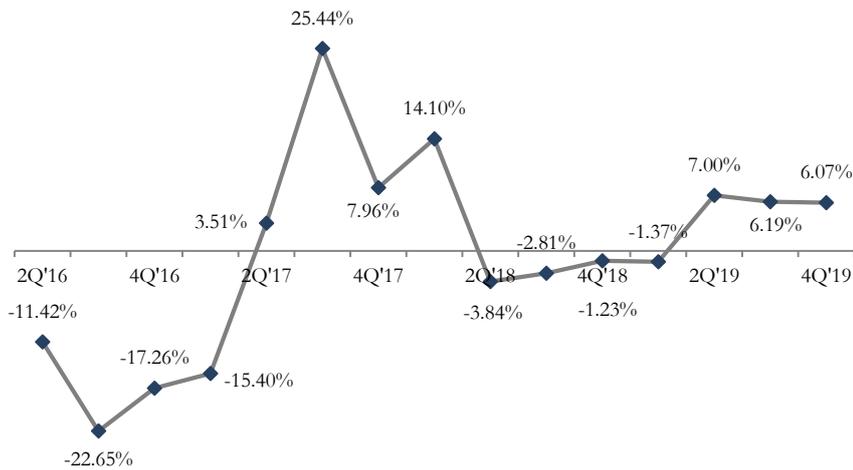
Source: NBS, PAC Research

Fig. 9: Quarterly sectoral real GDP growth rate



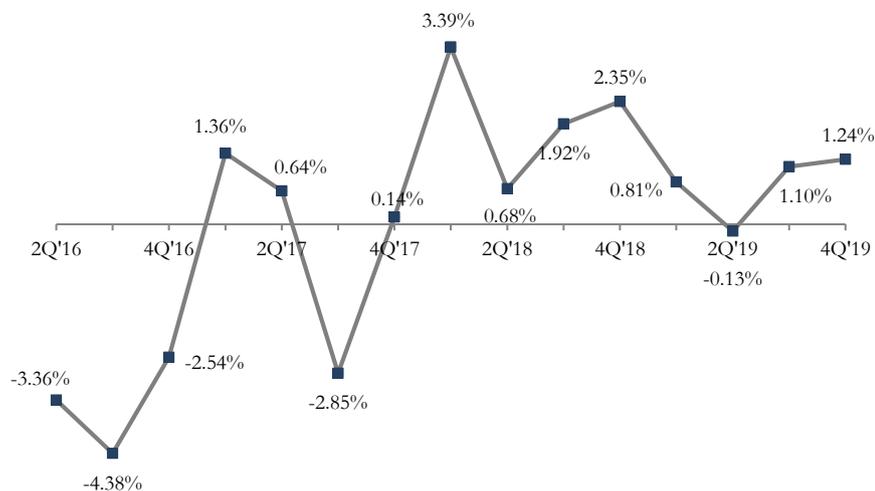
Source: NBS, PAC Research

Fig. 10: Mining & quarrying - quarterly real GDP growth rate



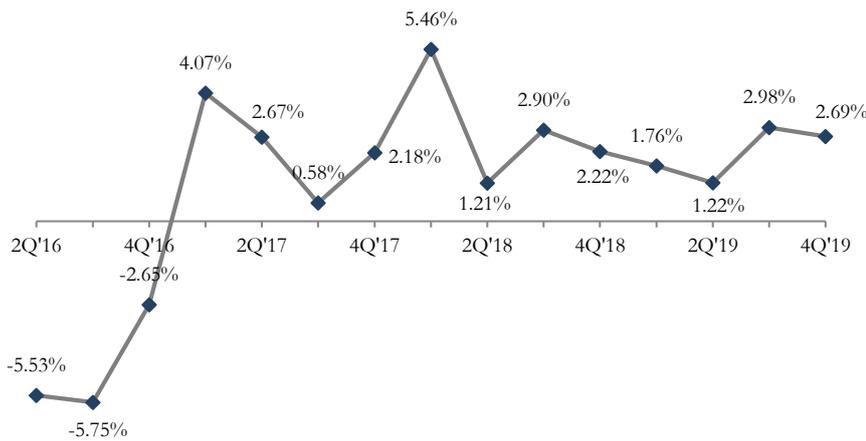
Source: NBS, PAC Research

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



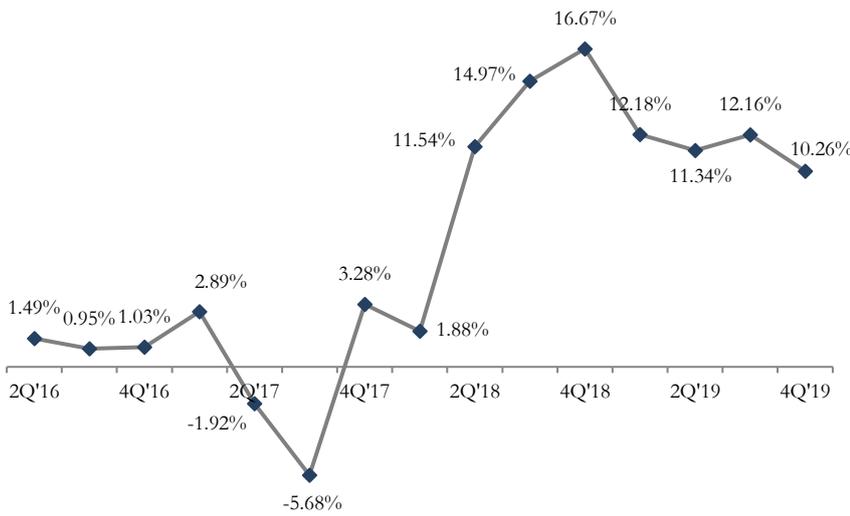
Source: NBS, PAC Research

Fig. 12: Food, beverages & tobacco - quarterly real GDP growth rate



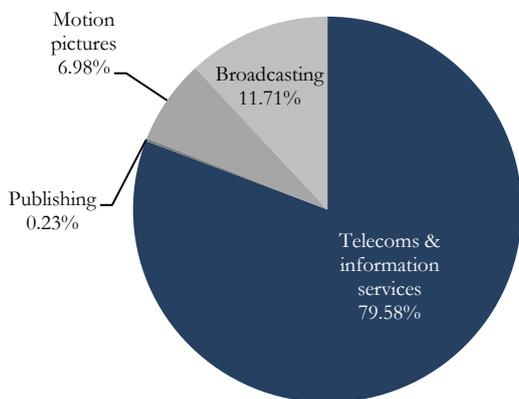
Source: NBS, PAC Research

Fig. 13: Telecommunications & information services - quarterly real GDP growth rates

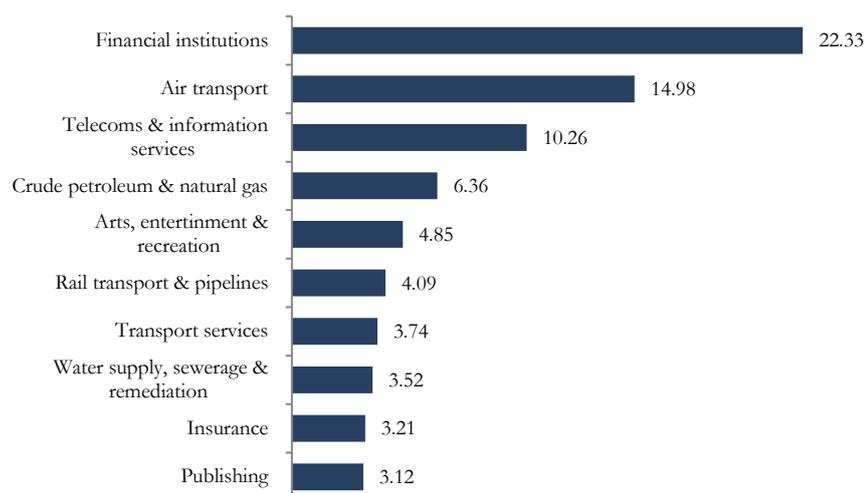


Source: NBS, PAC Research

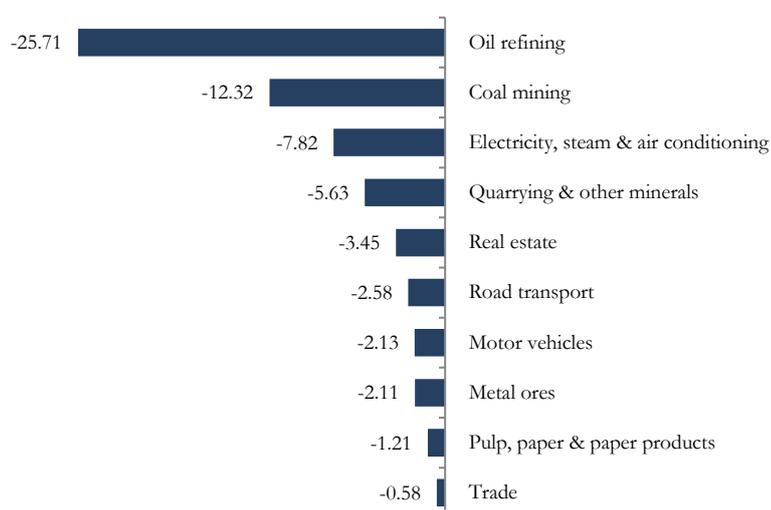
Fig. 14: Sectoral analysis – Telecommunication & information services (4Q'19)



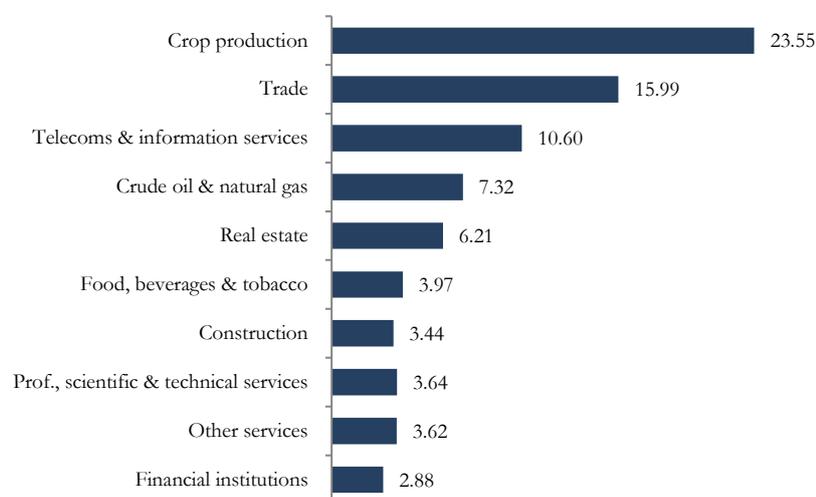
Source: NBS, PAC Research

Fig. 15: Economic activities: Top ten increase in real GDP growth rate in 4Q'19 (%)

Source: NBS, PAC Research

Fig. 16: Economic activities: Decline in real GDP growth rate in 4Q'19 (%)

Source: NBS, PAC Research

Fig. 17: Economic activities: Top ten contributors to real GDP in 4Q'19 (%)

Source: NBS, PAC Research

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