Economic Update

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Non-oil sector resilience: How sustainable is the recovery?

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Nigeria's real gross domestic product (GDP) improves by 1.92% year-on-year in 4Q'17 and 0.83% year-on-year for full year 2017. In the fourth quarter to December 2017, the output of Nigeria's economic activities as measured by real gross domestic products improved by 1.92% compared with 1.40% in the third quarter of the year and -1.73% in the fourth quarter of 2016. This is the third consecutive quarter that recorded positive growth since the emergence of the nation's economy from recession in the second quarter of 2017. In the review quarter, the aggregate nominal GDP stood at ₦31.21 trillion, higher by 6.99% compared with ₦29.17 trillion in the corresponding quarter of the previous year. Interestingly, thirty-six out of the forty-six economic activities in the nation's GDP basket recorded positive real growth rate, compared with twenty-five in the third quarter of the year.

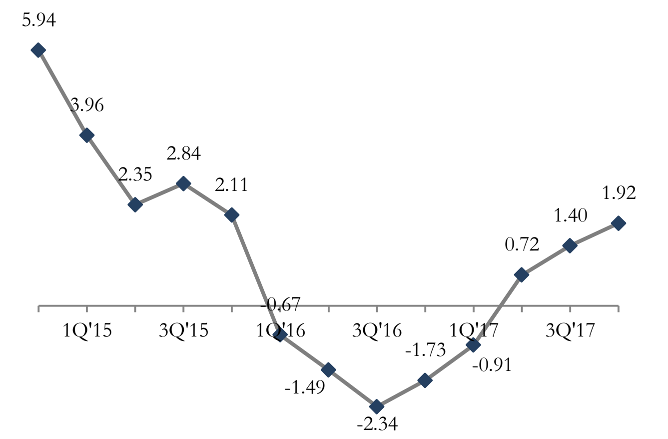
The improvement in the overall output of the economy as measured by real GDP growth rates in the review period can be attributed to growth in both oil sector and the non-oil sector. The oil sector recorded real GDP growth rate of 8.38% in the fourth quarter of 2017, higher than -17.70% in the corresponding quarter of the previous year but lower than 25.89% in the third quarter of 2017. Also, the oil sector recorded real GDP growth rate of 4.79% in 2017, significantly higher than -14.45% in the previous year. The performance of the sector was driven by increase in the prices of crude oil and decline in production in the period. For example, Brent Crude Oil traded at an average price of US$60.51 per barrel in the fourth quarter of 2017, higher by 8.92% compared with an average price of US$55.56 per barrel in the corresponding quarter of the previous year. Similarly, Brent Crude Oil traded at an average price of US$55.20 per barrel in 2017, higher by 6.7% against an average price of US$51.69 per barrel in 2016.

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

	4Q'16	1Q'17	2Q'17	3Q'17	4Q'17
Oil sector	-17.70%	-15.60%	+3.53%	+25.89%	+8.38%
Non-oil sector	-0.33%	+0.72%	+0.45%	-0.76%	+1.45%

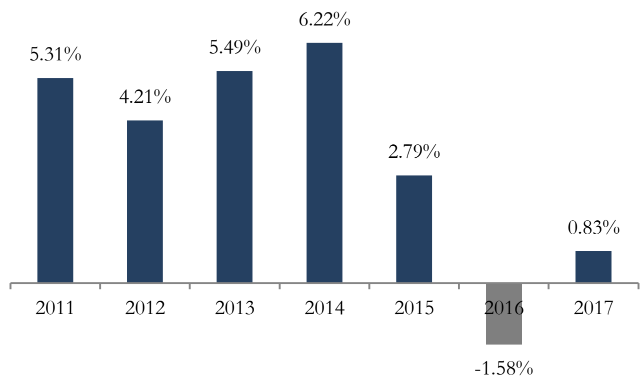
Source: NBS, PAC Research

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



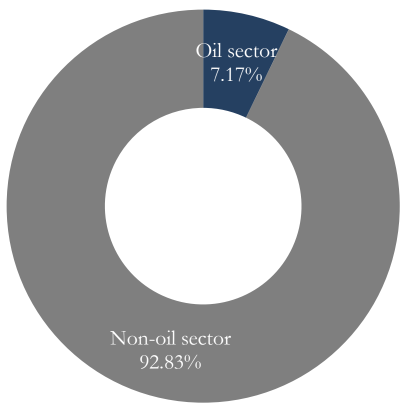
Source: NBS, PAC Research

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



Source: NBS, PAC Research

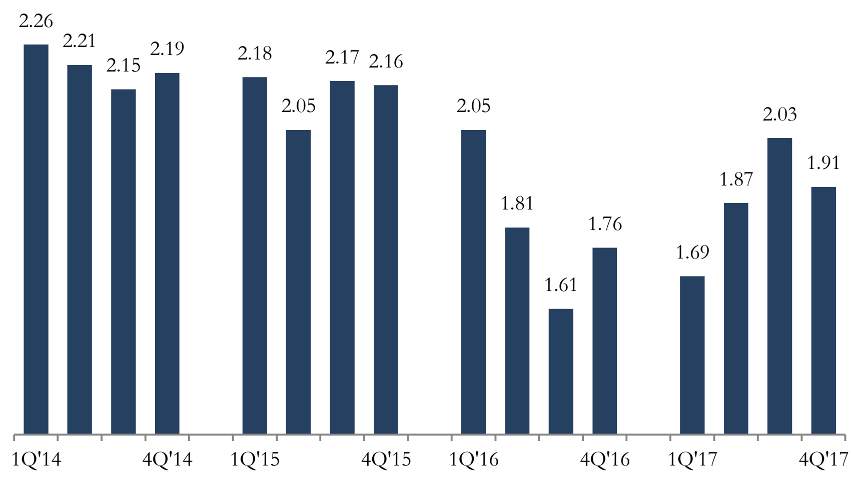
Fig. 3: Contribution to GDP in 4Q'17 – oil sector and non-oil sector



Source: NBS, PAC Research

Furthermore, crude oil production stood at an average of 1.91 million barrel per day (mbpd) in the fourth quarter of 2017, lower by 5.91% compared with an average production of 2.03 mbpd in the third quarter of the year, but higher by 8.52% against average production of 1.76 mbpd in the fourth quarter of 2016. In addition, the oil sector contributed 7.17% to the real GDP in the review quarter relative to 6.75% in the fourth quarter of 2016 and 10.04% in the third quarter of 2017. Also, the contribution of the sector in full year 2017 was 8.68% relative to 8.35% in 2016.

Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

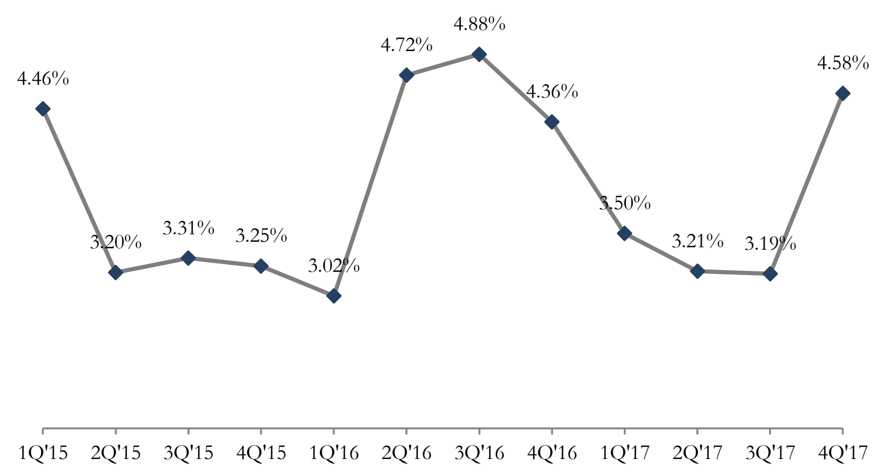
Fig. 5: Prices of Brent crude oil (US$/barrel)

Source: Bloomberg, PAC Research

Non-oil sector reverses with real growth rate of 1.45% driven by crop production and construction. In the review quarter, non-oil sector bounced back to positive trajectory with real growth rate of 1.45% against -0.76% in 3Q'17 and -0.33% in 4Q'16, also the sector recorded 0.47% real growth rate in 2017 relative to -0.22% in the previous year. The performance of the sector was driven majorly by growth in economic activities in crop production and construction sectors.

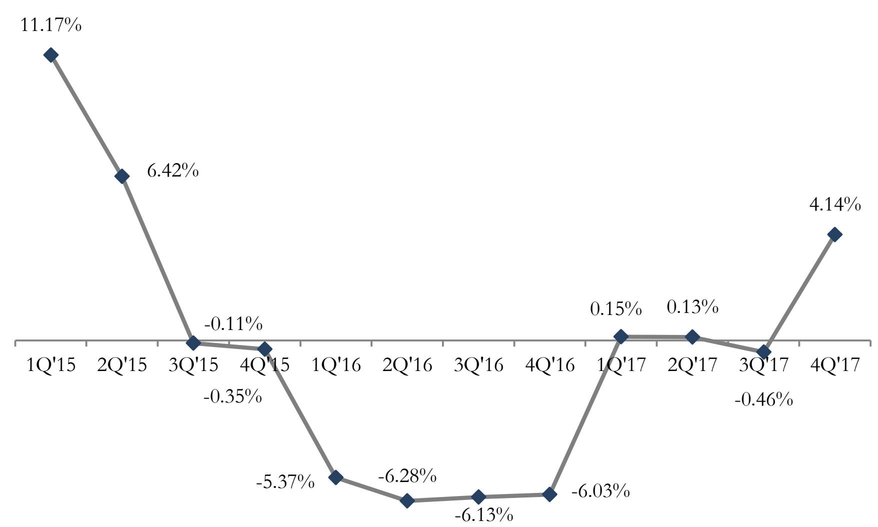
Crop production recorded real GDP growth rate of 4.58% in the review quarter, higher than 3.19% in the third quarter of the year and 4.36% in the fourth quarter of 2016. Also, crop production recorded real GDP growth rate of 3.64% in full year 2017, lower than 4.34% in the previous year. The performance of construction sector was strong in the review quarter with real GDP growth rate of 4.14% compared with -0.46% in the third quarter of the year and -6.03% in the fourth quarter of 2016. Furthermore, the sector posted real GDP growth rate of 1.00% in full year 2017, higher than -5.95% in 2016. On the other hand, the non-oil sector could have recorded stronger performance in the review quarter but for some economic activities in the sector that recorded weak performance, for example real estate and telecommunications sectors descended further into negative trajectory with real GDP growth rate of -5.92% and -3.28% respectively. Also, cement economic activities posted weak performance with real GDP growth rate of -1.92%, although this is an improvement relative to -4.56% recorded in the third quarter of the year and -5.32% in the fourth quarter of 2016.

Fig. 6: Crop production – quarterly real GDP growth rate



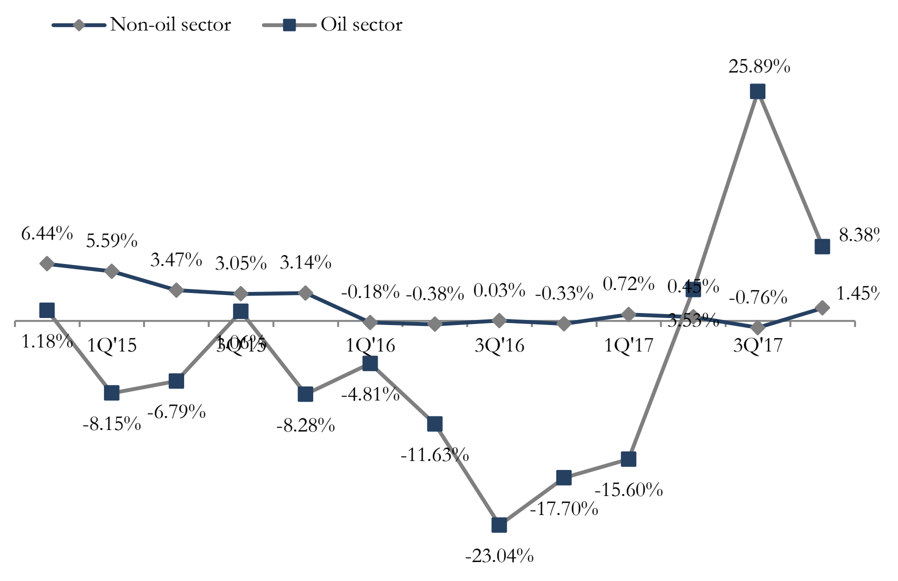
Source: NBS, PAC Research

Fig. 7: Construction – quarterly real GDP growth rate



Source: NBS, PAC Research

Fig. 8: Oil sector and non-oil sector – quarterly real GDP growth rates



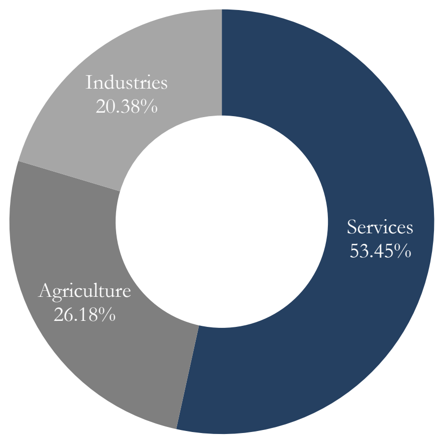
Source: NBS, PAC Research

Agriculture leads other major sectors with 4.23% real growth rate. Nigerian economy was broadly classified into three major sectors; agriculture, industries and services. In the review quarter, agriculture continued with its positive growth trends with real GDP growth rate of 4.23%, higher than 3.06% in the third quarter and 4.03% in the corresponding quarter of the previous year. In addition, the sector posted real growth rate of 3.45% in full year 2017 relative to 4.11% in 2016, it is worthy of note to state that the strong growth rate witnessed by the sector was driven by crop production which accounted for 90.07% of the economic activities in the sector and contributed 23.58% to the overall GDP in the quarter. Furthermore, the performance of industries weakened in the review quarter with real GDP growth rate of 3.92% compared with 8.83% in the third quarter, but higher than -8.73% recorded in the fourth quarter of 2016. The weak performance recorded by the industries sector was as a result of the decline in the performance of the oil sector in the period which was consequent to reduction in production. Similarly, industries recorded real growth rate of 2.19% in full year 2017, higher than -8.85% in full year 2016, the sector contributed 20.38% to the real GDP in the fourth quarter of 2017.

The weak performance recorded by the industries sector was as a result of the decline in the performance of the oil sector in the period which was consequent to reduction in production.

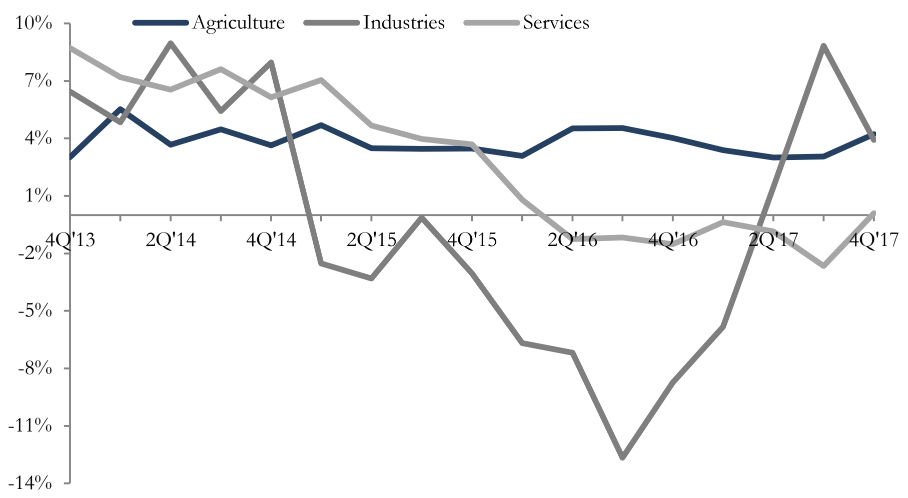
Furthermore, services sector posted positive performance with real GDP growth rate of 0.10% in the review quarter after six consecutive quarters of negative decline in growth rate. The sector recorded real growth rate of -2.66% in the third quarter and -1.52% in the fourth quarter of 2016, the continuous weakness in the sector was exacerbated by the weaknesses in the performance of telecommunications, education and healthcare among others. On the contrary, the performance of the sector decelerated by real GDP growth rate of -0.91% in full year 2017 slightly lower than the real GDP growth rate of -0.82% recorded in 2016. The contribution of the sector to the overall GDP increased to 53.45% in the review quarter relative to the contribution of 48.28% in the third quarter of the year; also the sector contributed 52.66% to GDP in full year 2017.

Fig. 9: Sectoral contribution to real GDP in 4Q'17



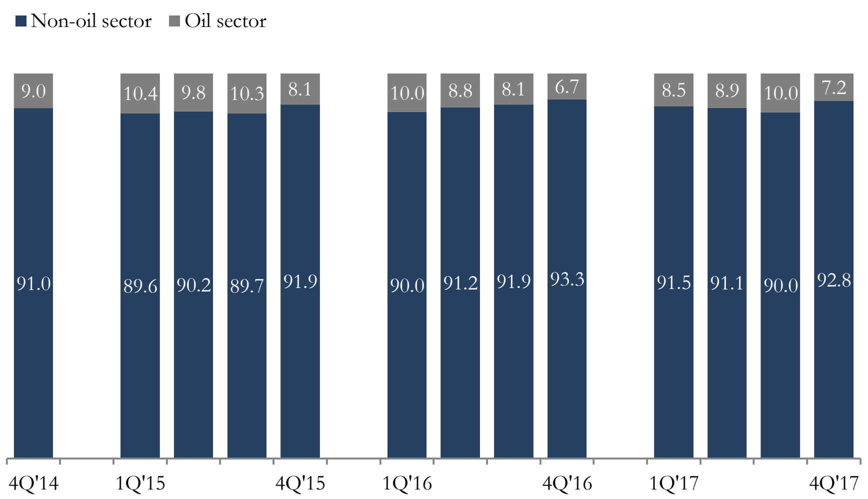
Source: NBS, PAC Research

Fig. 10: Quarterly sectoral real GDP growth rate (%)



Source: NBS, PAC Research

Fig. 11: Contribution to real GDP (%)

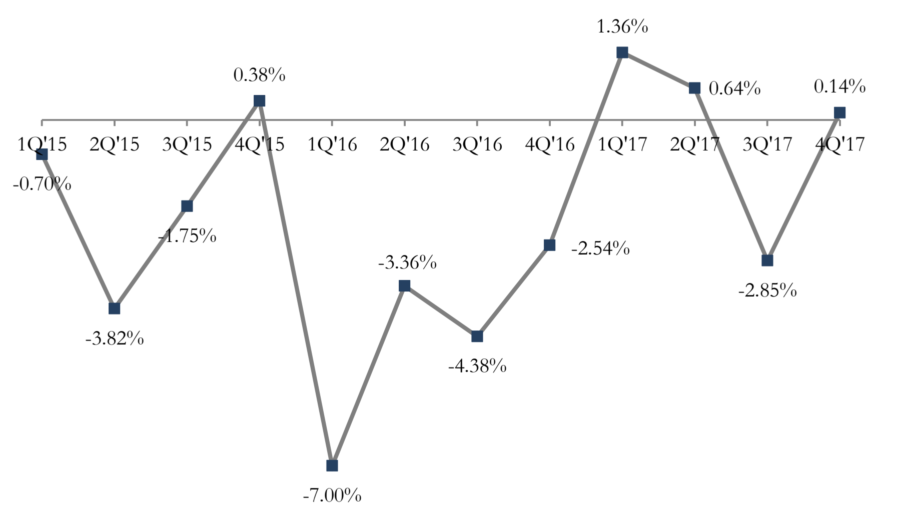


Source: NBS, PAC Research

Manufacturing sector recorded marginal real GDP growth rate of 0.14% y/y. In the review quarter, manufacturing sector reversed the decline it recorded in the preceding quarter with real GDP growth rate of 0.14% compared with -2.85% in 3Q'17 and -2.54% in the fourth quarter of the previous year. The slight improvement in the performance of the sector was driven by the performance of some economic activities in the sector, for example food, beverages and tobacco recorded improved performance with real growth rate of 2.18% y/y compared with 0.58% in the third quarter and -2.65% in the fourth quarter of 2016. Also, textile, apparel and footwear posted real GDP growth rate of 1.65% in the period relative to 0.19% in the preceding quarter of the year and 1.08% in the corresponding quarter of the previous year. Other economic activities that contributed positively to the performance of the sector are chemical and pharmaceutical products, non-metallic products and plastic and rubber products with real GDP growth rate of 4.80%, 3.25% and 3.41% respectively. However, the sector recorded real GDP growth rate of -0.21% in full year 2017, better than -4.32% in 2016.

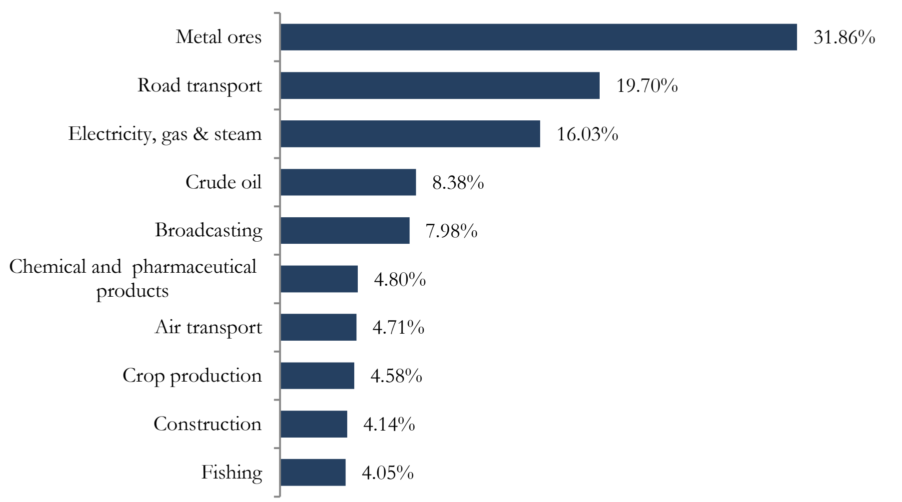
Other economic activities that contributed positively to the performance of the sector are chemical and pharmaceutical products, non-metallic products and plastic and rubber products...

Fig. 12: Manufacturing sector - quarterly real GDP growth rates



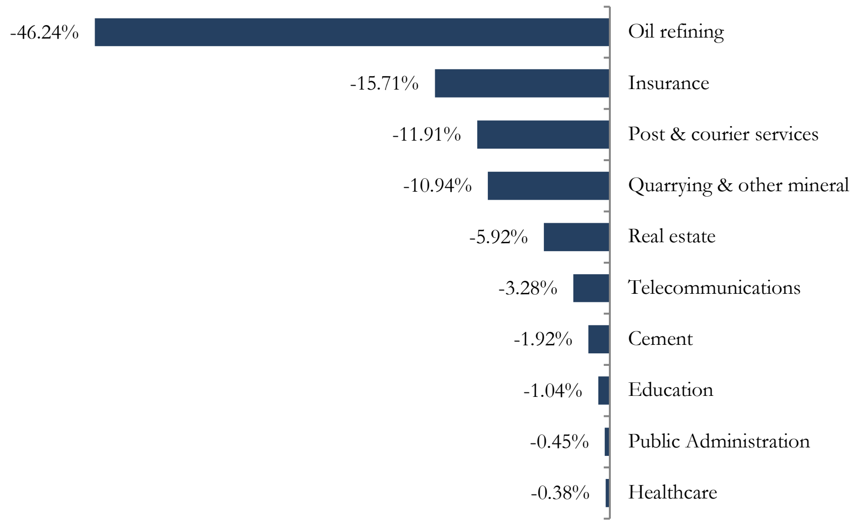
Source: NBS, PAC Research

Fig. 13: Economic activities: Top ten increase in real GDP growth rate in 4Q'17



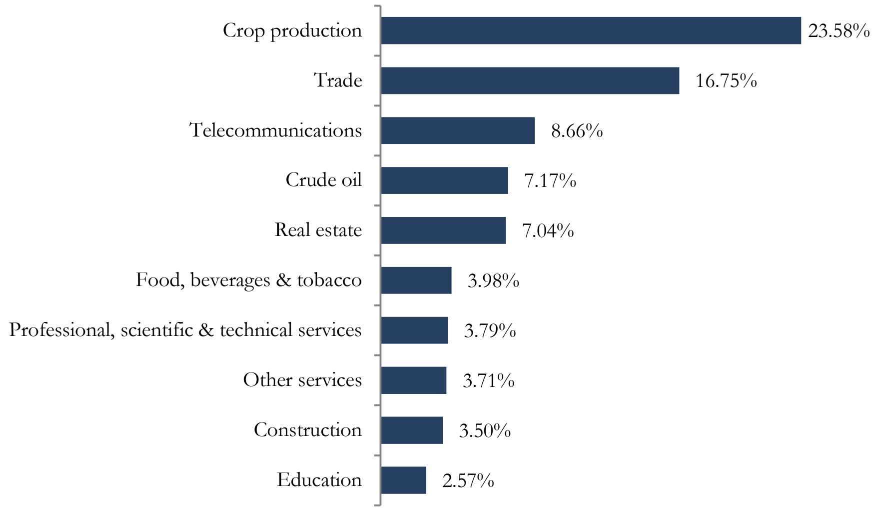
Source: NBS, PAC Research

Fig. 14: Economic activities: Top ten decline in real GDP growth rate in 4Q'17



Source: NBS, PAC Research

Fig. 15: Economic activities: Top ten contributors to real GDP in 4Q'17



Source: NBS, PAC Research

IMPORTANT DISCLOSURES

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