

Economic Update

Nigeria | Economy | 2Q 2021 GDP Report | August 31, 2021

PAC RESEARCH

Strengthened recovery: On the back of base effect

The Nigerian economic recovery continues strongly with output growth rate of 5.01% year-on-year in 2Q'21. In the second quarter to June 2021, the Nigerian economy recorded an encouraging performance with real gross domestic product (GDP) growth rate of 5.01% y/y. The growth rate in the review quarter is significantly higher than the contraction of 6.01% in the corresponding quarter of the previous year and the growth rate of 0.51% in the first quarter of 2021 (fig. 1). The recovery in the quarter was stronger than expected considering the anticipated impact of the spill-over effects of the measures that were taken against the spread of the pandemic in the previous quarters. Although, the strong performance recorded in the review quarter was partly as a result of the base effect. That is, the low level of economic activities in the corresponding quarter of the previous year, compared with the level of activities in the review quarter when the measures that were taken against the spread of the virus have been eased substantially. Notwithstanding, the performance is encouraging, however this level of economic performance is not expected to persist in the medium term.

Furthermore, aggregate nominal GDP in the reviewed quarter stood at ₦39.12 trillion, higher by 14.99% compared with the ₦34.02 trillion in the corresponding quarter of 2020. Moreover, in the review period, forty-two out of the forty-six economic activities in the nation's GDP basket recorded various degree of growth compared with the twenty-three in the first quarter. While the remaining four economic activities recorded various levels of decline. In our view, to achieve a sustainable economic growth, there is a need for the policymakers to tackle the insecurity challenge around the country, to address the unfavourable foreign exchange regime and embark on reforms that will lead to improvements in the ease of doing business. These will lead to inflow of foreign direct investments into the various sectors of the economy.

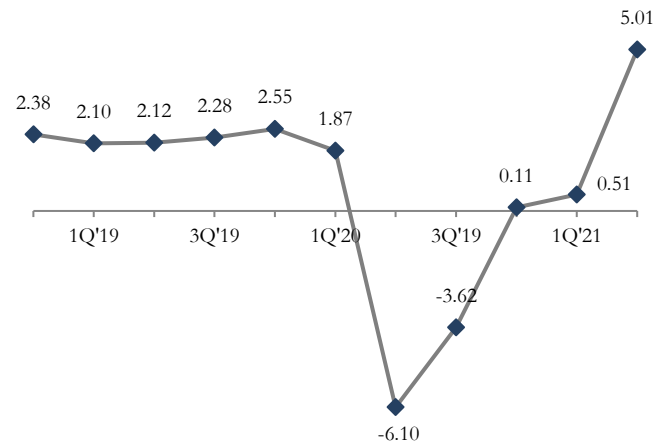
Table 1: Oil sector and non-oil sector – quarterly real GDP growth rates

	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21
Oil sector	-6.63%	-13.89%	-19.76%	-2.21%	-12.65%
Non-oil sector	-6.05%	-2.51%	+1.69%	+0.79%	+6.74%

Source: NBS, PAC Research

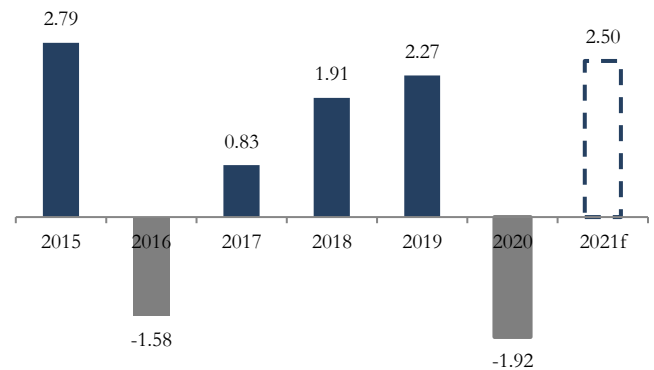
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Fig. 1: Quarterly real GDP growth rates (%)



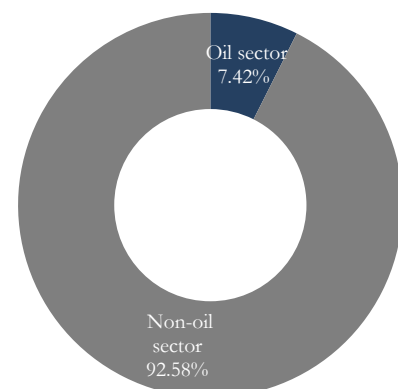
Source: NBS, PAC Research

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



Source: NBS, PAC Research

Fig. 3: Contribution to GDP in 2Q'21 – oil sector and non-oil sector



Source: NBS, PAC Research

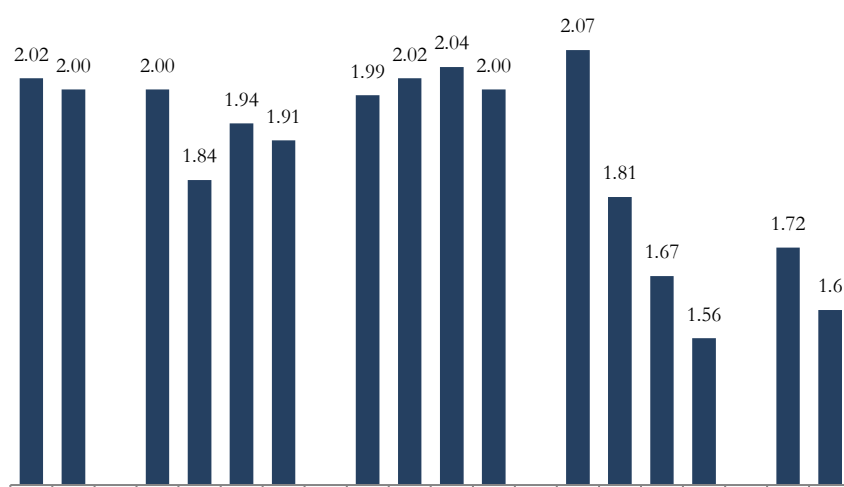
The strong performance of the economic output in the review quarter was driven mainly by the non-oil sector which recorded real growth rate of 6.74% y/y relative to a contraction of 6.05% y/y in the previous year. On the flip side, the oil sector recorded a contraction of 12.65% in the quarter relative to the contraction of 6.63% in the second quarter of 2020. It is worthy of note to state that the contraction in the oil sector in the period was driven by lower production (**fig. 4**). In the review quarter, Brent Crude Oil traded at an average price of US\$67.77 per barrel, higher by 14.98% and 65.39% relative to the average price of US\$58.90 and US\$40.95 per barrel in the preceding quarter and the second quarter of 2020. In addition, Brent crude Oil has recorded average price of US\$65.53 year-to-date. On the other hand, average crude oil production of 1.61 million barrel per day (mbpd) was recorded in the quarter, lower by 11.05% relative to the average daily production of 1.81 million barrel in the second quarter of the previous year. Also, this is lower by 6.40% relative to the average daily production of 1.72 million barrel in the preceding quarter.

Besides the effects of the pandemic, internal tension among the Organisation of Petroleum Exporting Countries (OPEC) and its allies has led to volatility in the prices of crude oil in the recent past. However, with the agreement reached by the cartel in July 2021 on the volume of production, we expect the current stability in the price to continue in the short-term with occasional variations as the views of member countries diverge on the ideal level of crude oil price and production. For the year 2021, the Economic Intelligent Unit (EIU) projected Brent Crude Oil to trade at an average price of US\$68.50, higher than the actual average price of US\$46.52 in the year 2020. The projection was based on the recovery in consumption among the major economies especially China, and the lower-than-anticipated economic impact of the Delta variant of COVID-9 virus. The oil sector contributed 7.42% to the overall output while the non-oil sector accounted for 92.58% in the period.

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Fig. 4: Crude oil production (mbpd)



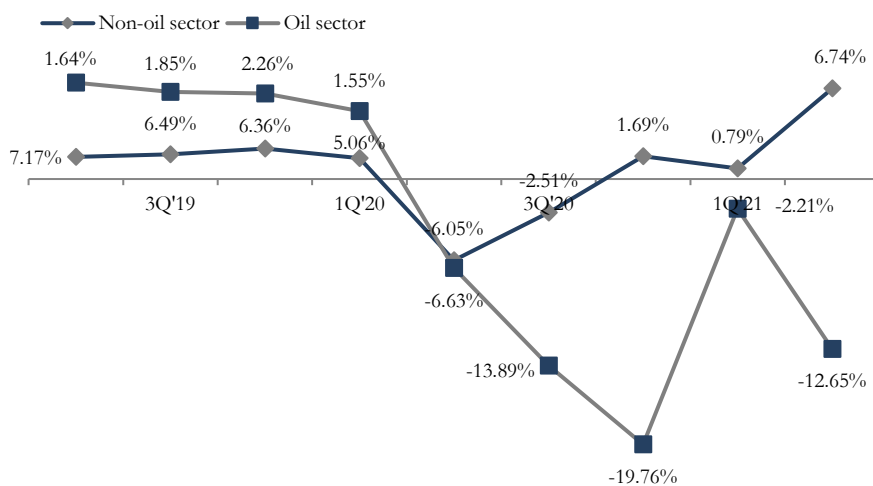
Source: NBS, PAC Research

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



Source: Bloomberg, PAC Research

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



Source: NBS, PAC Research

Agriculture sector recorded muted performance in the quarter. For the second quarter of 2021, agriculture sector recorded real GDP growth rate of 1.30%, lower than both the growth rate of 1.58% and 2.28% in the second quarter of 2020 and the preceding quarter respectively. The performance of the sector was driven by the economic activities of crop production with real growth rate of 1.38%, compared with the growth rate of 1.44% in the second quarter 2020 and the 2.31% in the first quarter of 2021. Moreover, livestock, forestry and fishery recorded real growth rate of 0.13%, 1.06% and 2.27% accordingly in the period. Crop production contributed 89.19% to the economic activities in the agriculture sector while livestock, fishery and forestry contributed 7.32%, 1.26% and 9.55% in that order. The performance of the sector will improve if policymakers can tackle various challenges confronting the sector such as farmers-herders crisis, low yield and seasonality in planting due to inconsistent rainfall. Agriculture sector contributed 23.78% to the total output in the period, lower than the 24.65% in 2Q2020.

The performance of the sector will improve if policymakers can tackle various challenges confronting the sector...

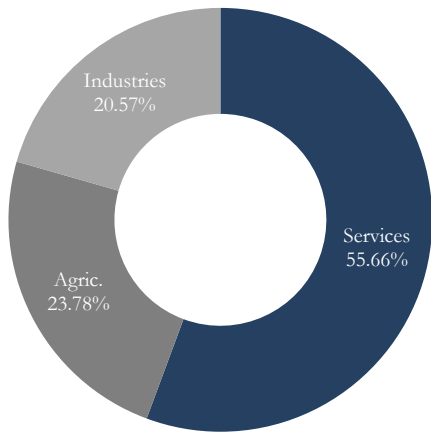
The industries sector reverses to negative trajectory. For the second quarter to June 2021, the industries sector recorded a contraction of 1.23% relative to the contraction of 12.05% in the second quarter of 2020 and the marginal growth rate of 0.94% in the preceding quarter. The review quarter's performance is an indication that the activities of the oil-industry sub-sector weighed heavily on the performance of the sector in the period. Nevertheless, the positive performance of the non-oil industry sub-sector (manufacturing and construction) mitigated the decline. Manufacturing sector recorded real growth rate of 3.49% in the period, relative to the contraction of 8.78% in the second quarter of the previous year and almost flat with the growth rate of 3.40% in the first quarter of 2021. The economic activities that drove the performance of the sector are cement, food, beverage and tobacco and chemical and pharmaceutical products with growth rate of 3.89%, 4.87% and 9.24% respectively. Also, construction sector recorded real growth rate of 3.70%, compared with the contraction of 31.77% in the corresponding quarter of the previous year and the growth rate of 1.42% in the preceding quarter. Manufacturing sector contributed 8.69% while construction sector accounted for 3.19% of the total output. Overall, industries sector contributed 20.57% to the overall output in the quarter, lower than the 21.87% in the second quarter of 2020 and the 23.75% in the preceding quarter.

Services sector emerges the best performing sector. For the period, services sector recorded a strong real GDP growth rate of 9.27% relative to the contraction of 6.78% and 0.39% in the second quarter of 2020 and in the preceding quarter respectively. The major economic activities that supported the performance of the sector are trade, information and communication and real estate. Trade sector recorded the strong performance of 22.49% in the review period after eight consecutive quarters of contraction. The performance was higher than the contraction of 16.59% and 2.43% in the second quarter of 2020 and the first quarter of 2021 respectively. The performance of the sector was boosted by the easing of the measures that were taken against the spread of the pandemic, this impacted on both the domestic and the cross-border trade activities in the period. The contribution of trade sector to the overall output increased to 16.66% relative to the contribution of 14.28% in the second quarter of 2020 and the 15.61% in the preceding quarter. Furthermore, information and communication sector comprise telecommunication and information services, publishing, motion pictures, sound recording and music production and broadcasting. The sector posted real GDP growth rate of 5.55%, lower than both the growth rate of 15.09% and the 6.47% in the corresponding period of the previous year and the preceding quarter respectively. The sector contributed 17.92% to the total output in the period. The recovery in the real estate sector firmed-up in the period with growth rate of 3.85% relative to the contraction of 21.99% in 2Q 2020 and a marginal growth rate of 1.77% in the prior quarter. The sector contributed 5.28% to the total GDP in the period. Other economic activities that contributed to the performance of the service sector are transportation and storage with growth rate of 76.81% relative to the contraction of 49.23% in 2019 and 21.89% in the preceding period. Overall, the contribution of the services sector to the output in the period improved to 55.66% relative to the contribution of 53.49% and 53.90% in the second quarter of 2020 and the first quarter of 2021 accordingly.

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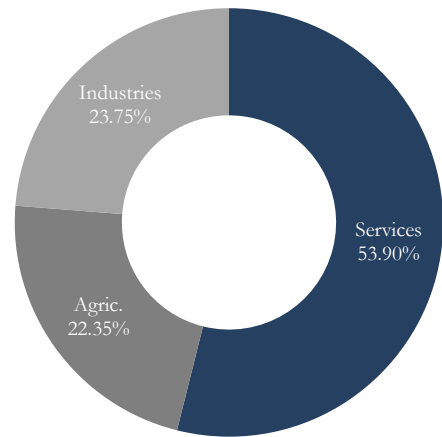
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Fig. 7: Sectoral contribution to real GDP in 2Q'21



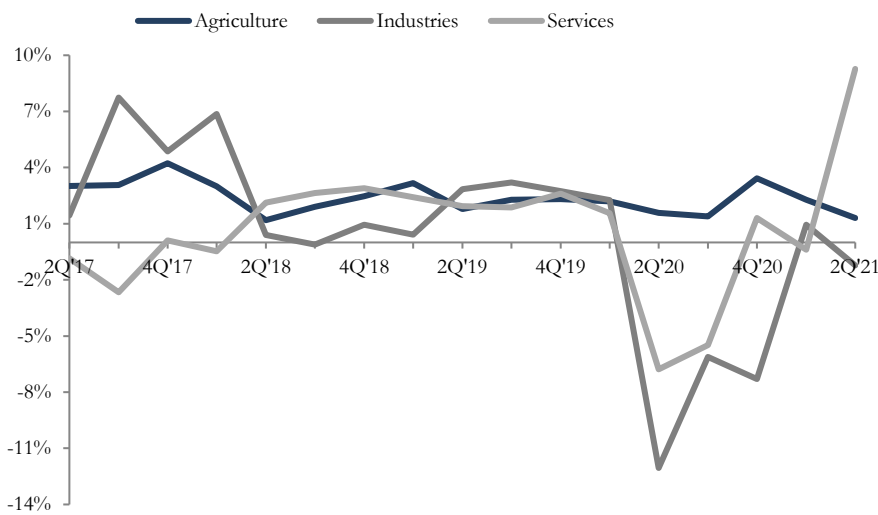
Source: NBS, PAC Research

Fig. 8: Sectoral contribution to real GDP in 1Q'21



Source: NBS, PAC Research

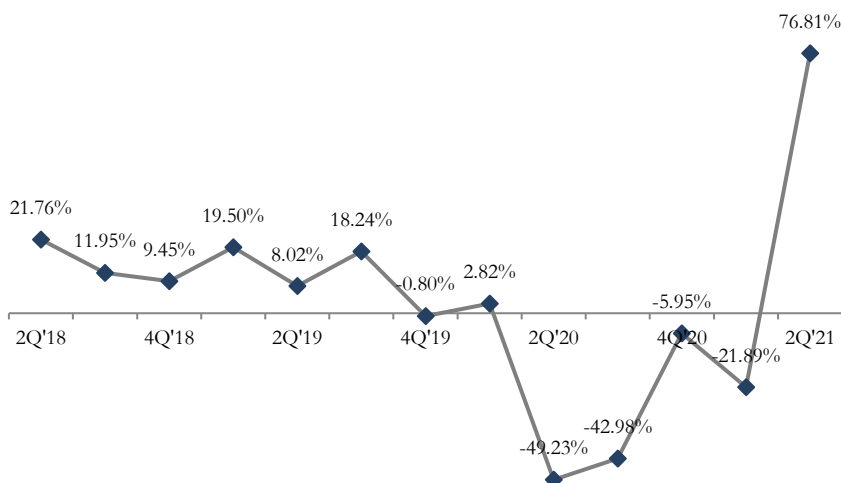
Fig. 9: Quarterly sectoral real GDP growth rate



	2Q 2021	1Q 2021
Industries	-1.23%	0.94%
Agric.	1.30%	2.28%
Services	9.27%	-0.39%

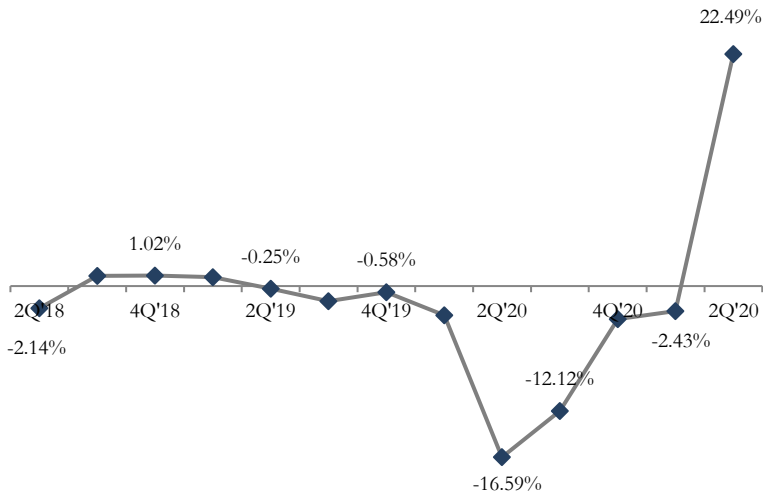
Source: NBS, PAC Research

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



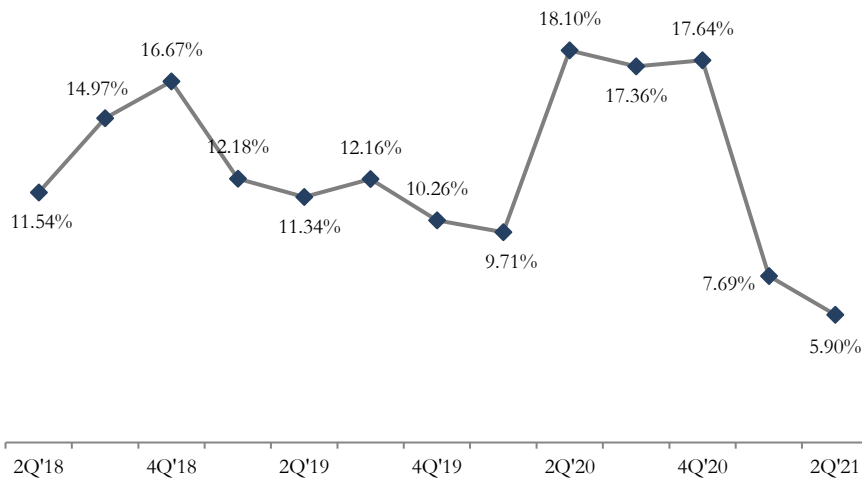
Source: NBS, PAC Research

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



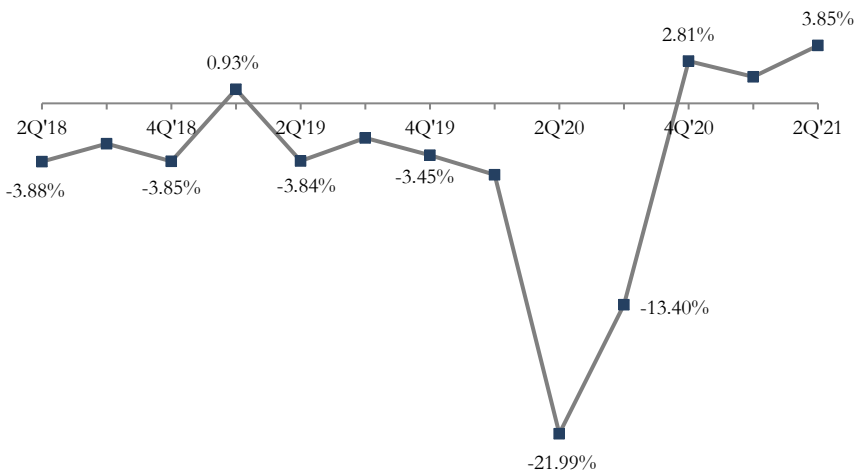
Source: NBS, PAC Research

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

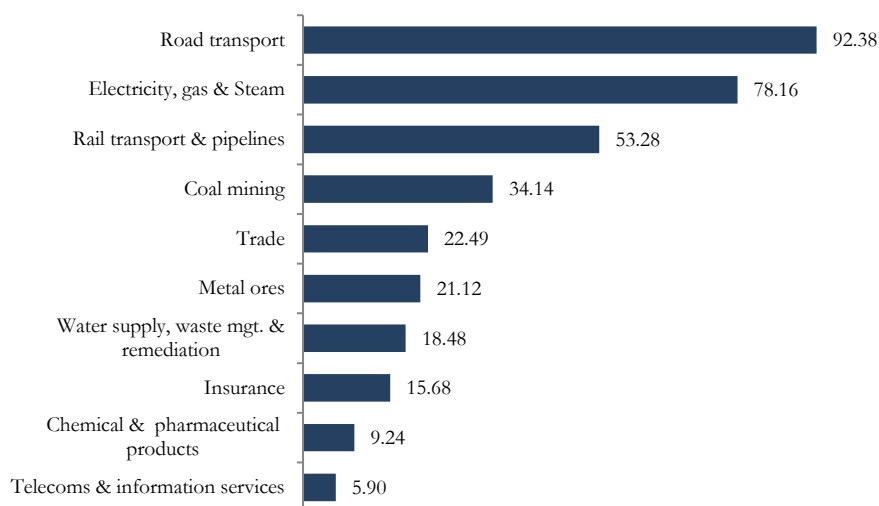


Source: NBS, PAC Research

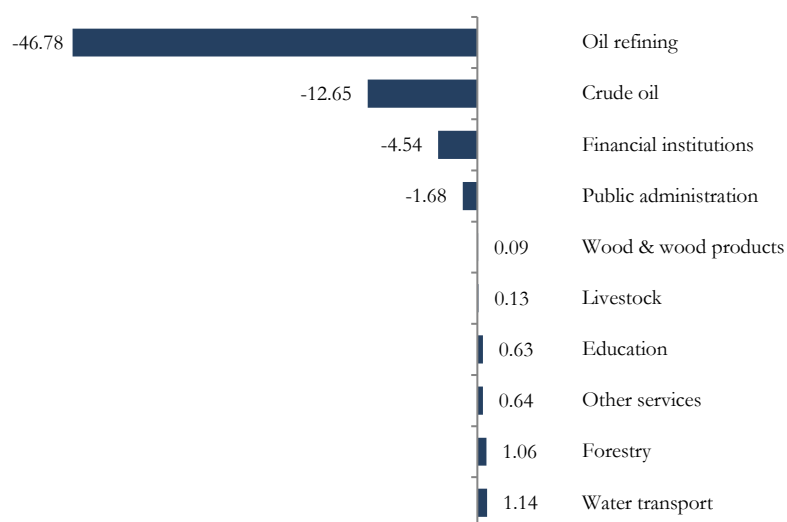
Fig. 13: Real estate



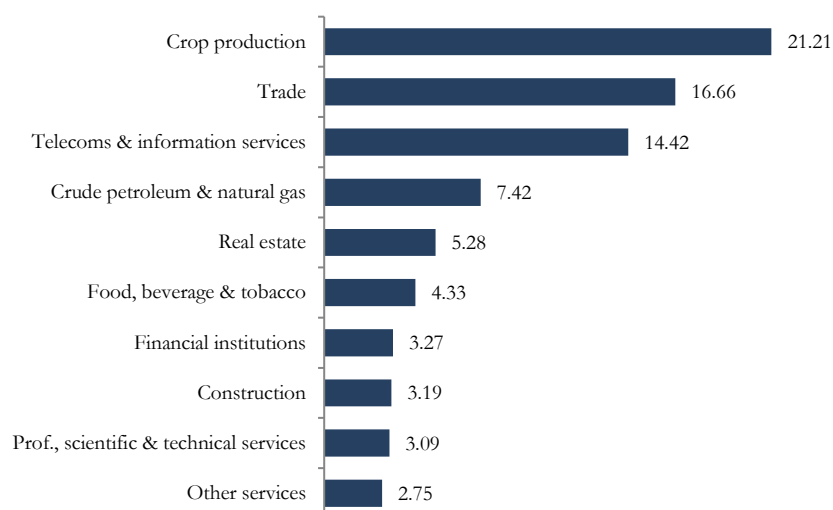
Source: NBS, PAC Research

Fig. 14: Economic activities: Top ten increase in real GDP growth rate in 2Q'21 (%)

Source: NBS, PAC Research

Fig. 15: Economic activities: Least 10 in real GDP growth rate in 2Q'21 (%)

Source: NBS, PAC Research

Fig. 16: Economic activities: Top ten contributors to real GDP in 2Q'21 (%)

Source: NBS, PAC Research

IMPORTANT DISCLOSURES

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