Economic Update

PanAfrican Capital (Investment Holdings & Advisory Group)

Weak growth reflects structural economic imbalances

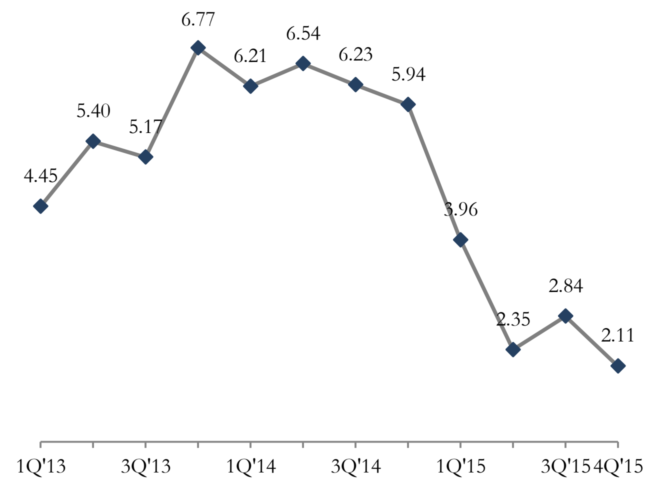
Moses Ojo
moses.ojo@panafricancapitalplc.com

Nigeria's real gross domestic products (GDP) grew by 2.11% in 4Q2015 and 2.79% in 2015. In the fourth quarter to December 2015, Nigeria recorded GDP growth rate of 2.11% in real term, down by 73 basis points (bps) and 383bps against 2.84% and 5.94% respectively in 3Q2015 and 4Q2014 **(fig. 1).** Similarly, the nation recorded GDP real growth rate of 2.79% in the year 2015, down by 343bps compared with 6.22% in 2014 **(fig. 2)**. Also, nominal GDP recorded in the review quarter stood at ₦25.93 trillion, up by 6.66% and 7.10% against ₦24.31 trillion and ₦24.21 trillion accordingly in 3Q2015 and 4Q2014. It is worthy of note to state that the non-oil sector was the major driver of growth in the period, with real growth rate of 3.14% compared with 3.05% in the previous quarter. On the other hand, the oil sector recorded a decline of 8.28% y/y in 4Q2015 relative to a decline of 1.06% y/y in the third quarter, on a quarter-to-quarter basis, the sector's real growth rate slowed down by 19.0%.

Services sector was the leading contributor to GDP in 2015. Nigeria's economy was broadly classified into three sectors: Services, Agriculture and Industries, and Services has been the dominant sectoral contributor to GDP with contribution of 54.30% in real terms in 4Q2015. It was followed by Agriculture and Industry with 24.18% and 21.52% respectively, however we observed an improvement in the contribution of Services sector in the review period relative to 49.70% in 3Q2015 and 53.48% in 4Q2014. Whereas, the contribution of Agriculture and Industries declined by 261bps and 199bps accordingly relative to 26.79% and 23.51% in 3Q2015. Similarly, the Services sector accounted for 53.18% of real GDP in the year 2015 which was the highest sectoral contribution in the period **(fig. 3)**, compared with 52.16% in 2014. Also, there was improvement in the contribution of Agriculture compared with 22.90% in the previous year, whereas the performance of Industries declined when compared against 24.93% in 2014 **(fig. 4)**.

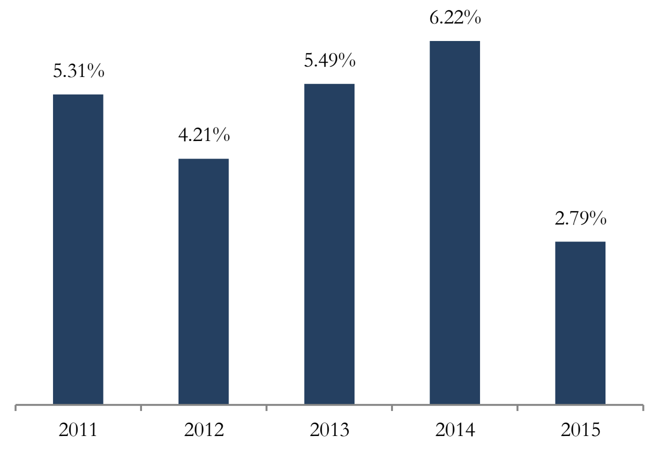
We are of the opinion that the structural economic imbalances remain a significant risk to growth, yet the continuous deceleration in GDP growth rates reaching an all-time low poses a concern.

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



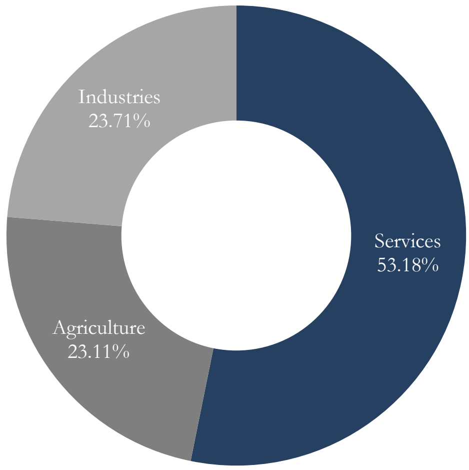
Source: NBS, PAC Research

Fig. 2: Yearly GDP real growth rates



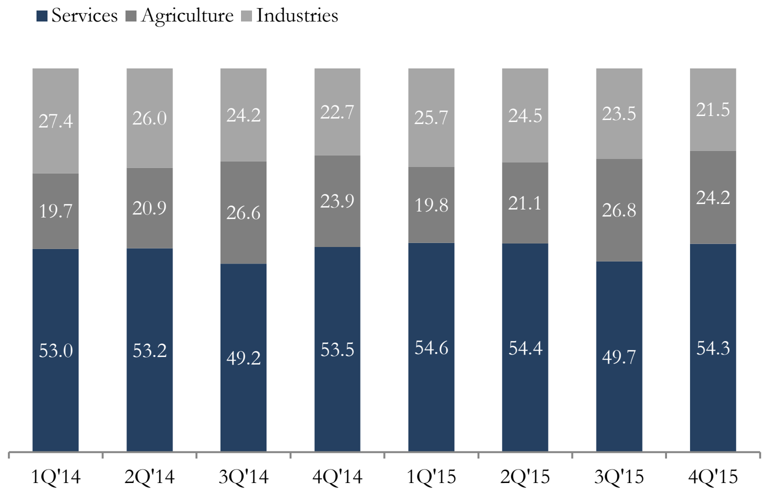
Source: NBS, PAC Research

Fig. 3: Sectoral contribution to GDP in 2015



Source: NBS, PAC Research

Fig. 4: Quarterly sectoral contribution to GDP (%)

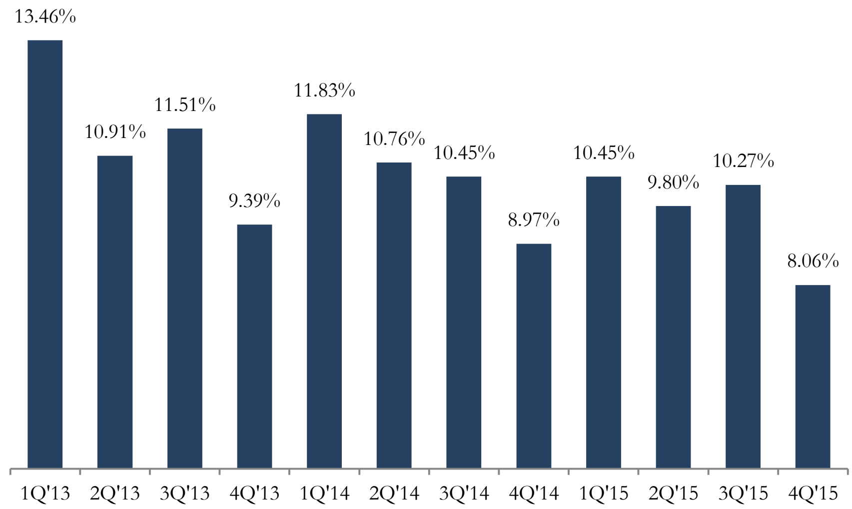


Source: NBS, PAC Research

The growth in the oil sector remains in negative trajectory, its contribution to GDP is also declining. The contribution of the oil sector to real GDP in 4Q2015 stood at 8.06% compared with 10.27% in the preceding quarter and 8.97% in the corresponding quarter of the previous year **(fig. 5)**. In terms of real growth, the oil sector recorded a decline of 9.33% relative to the third quarter of 2015 and a decline of 8.28% y/y**.** The poor performance of the sector can be attributed to the persistent low oil prices in the global market in the period and the slightly lower oil production which stood at an average of 2.16 million barrels per day (mbpd) compared with an average of 2.17 mbpd in 3Q2015 and 2.18 mbpd in the fourth quarter of the previous year. The declining contribution of the sector to GDP also underscored the fact that the nation's reliance on oil sector is reducing and there is an urgent need to restructure the economy in this respect. We expect the performance of the sector to improve in the next quarter due to the current improvements in the prices of crude provided it can be sustained.

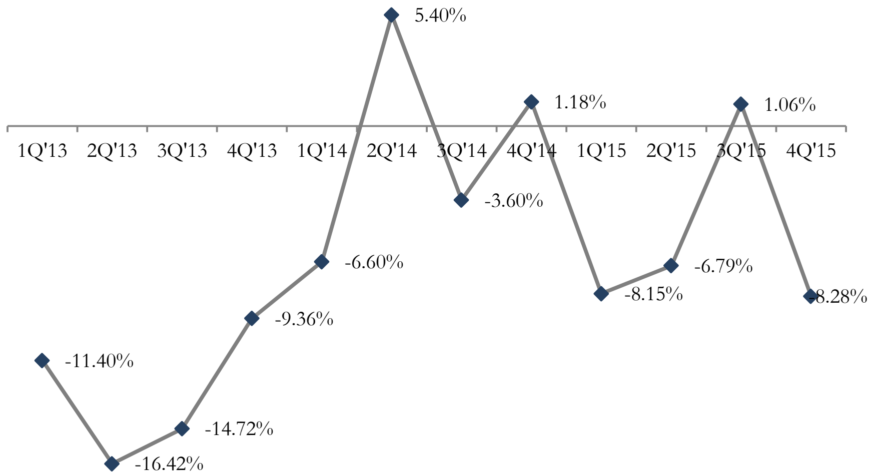
"The contribution of the oil sector to real GDP in 4Q2015 stood at 8.06% compared with 10.27% in the preceding quarter..."

Fig. 5: Oil sector: Quarterly contribution to GDP



Source: NBS, PAC Research

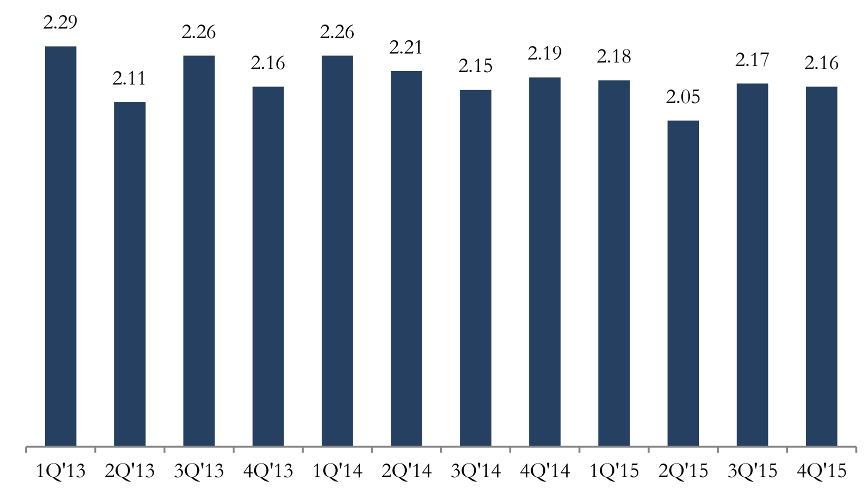
Fig. 6: Oil sector: Quarterly real growth rates



Source: NBS, PAC Research

Weak outlook for growth in the oil sector on the back of volatility in the prices of crude oil. We expressed weak optimism on the growth prospect of the oil sector as a result of several factors that are impacting on supply and demand of crude oil and its effects on pricing in the international market. Such factors among others are the weakness in economic activities among major economies in the world, geopolitical issues among major producers of crude oil and the development of shale oil technology in advanced economies. In addition, the deceleration in the real growth rates of the sector reinforced the vulnerability of the country's earning to oil price shocks; for instance the nominal GDP of the oil sector in 2015 stood at ₦5.99 trillion, down by 37.73% compared with ₦9.62 trillion in the preceding year. The highlighted issues that are affecting the sector strengthen our opinion that policymakers have to be more proactive in their resolution to diversify the economy, and to widen the sources of government revenue in the medium to long term.

Fig. 7: Quarterly average crude oil production (mbpd)

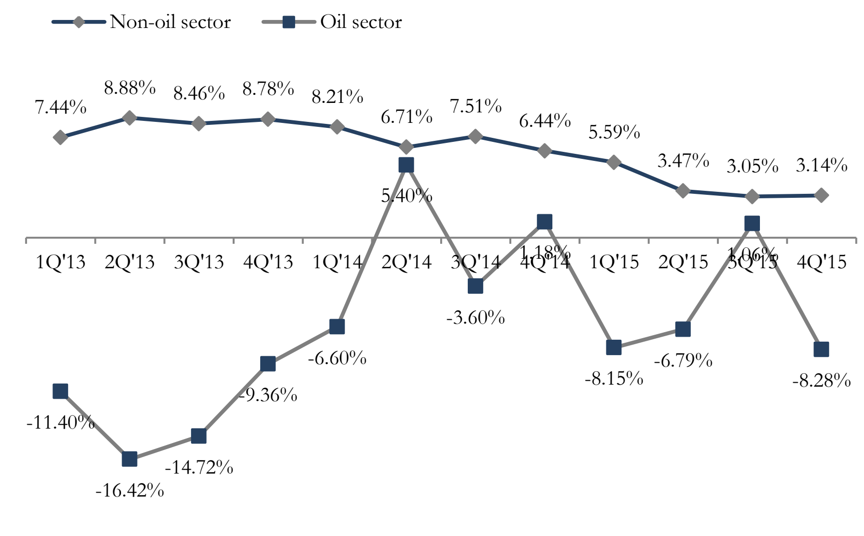


Source: NBS, PAC Research

Non-oil sector – the engine of economic growth. The non-oil sector grew by 3.14% in the fourth quarter of 2015, higher than the real growth rate of 3.05% in 3Q2015 but lower than 3.46% in the corresponding quarter of 2014 **(fig. 8)**. The growth recorded in the review quarter was driven by the activities in trade, crop production, information and communication and "other services." In real terms, the non-oil sector contributed 91.94% to the nation's GDP in the period higher than the 89.75% in 3Q2015 and the 90.20% in 4Q2014 **(fig. 9)**. We are keen to highlight that the slow-down in the real growth rate of GDP in the fourth quarter relative to the third quarter of 2015 was a result of the weakness in the non-oil sector, especially the industries sectoral group which decline by 3.04% in real term relative to a decline of 0.13% in 3Q2015. In spite of the weakness in the non-oil sector, we are of the opinion that the sector will continue to remain the engine of economic growth since its resilience has been tested in the recent past with the dismal performance of the oil sector.

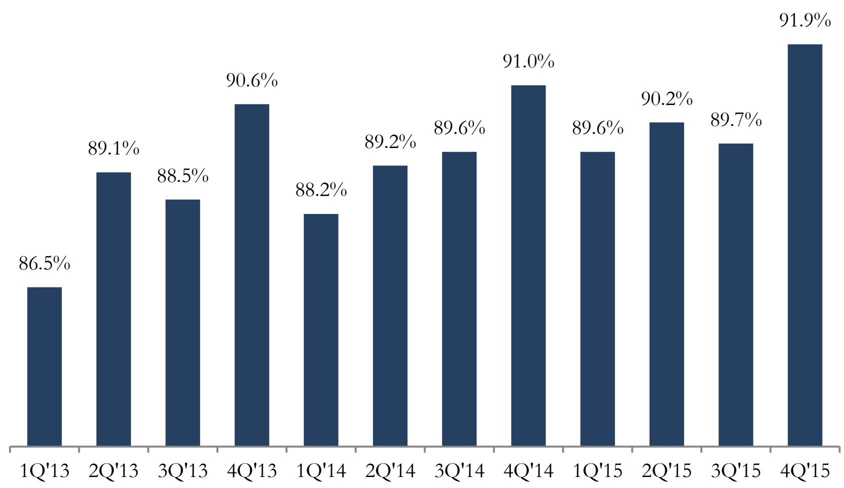
"In spite of the weakness in the non-oil sector, we are of the opinion that the sector will continue to remain the engine of economic growth..."

Fig. 8: Oil sector & non-oil sector: Quarterly real growth rates



Source: NBS, PAC Research

Fig. 9: Non-oil sector: Quarterly contribution to GDP



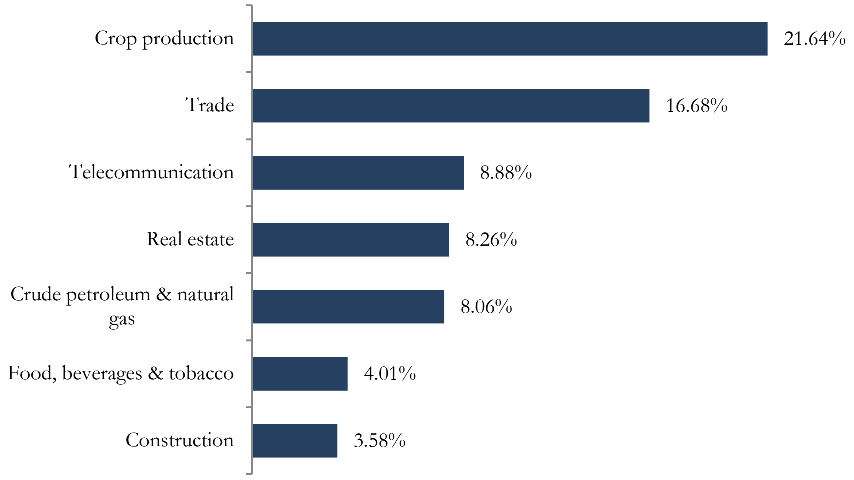
Source: NBS, PAC Research

Crop production remains the dominant contributor to GDP in the review period. Agriculture as a sector was sub-divided into four economic activities, i.e. crop production, livestock, forestry and fishery. The sector recorded real growth rate of 3.48% in 4Q2015, slightly higher than 3.46% recorded in the third quarter but lower than 3.64% in the corresponding quarter of the previous year **(fig. 11)**. The lower real growth rate can be attributed to lower crop output which in turn was a result of security challenges in the northern part of the country during the quarter. While agricultural sector accounted for 24.18% of real GDP, crop production among other economic activities remains the main driver of GDP with contribution of 21.64% in real term, down by 297bps relative to 24.61% in the third quarter but higher than 21.40% in 4Q2014. Moreover, we are inclined to highlight that crop production activities accounted for 87.01% of the growth in the agricultural sector in the review period. It was followed by trade and telecommunications with contribution of 16.68% and 8.88% respectively, it is worthy of note to state that the first highest seven economic activities accounted for 71.11% of the total GDP in 4Q2015 **(fig. 10)**.

"While agricultural sector accounted for 24.18% of real GDP, crop production…remains the main driver of GDP with contribution of 21.64% in real term..."

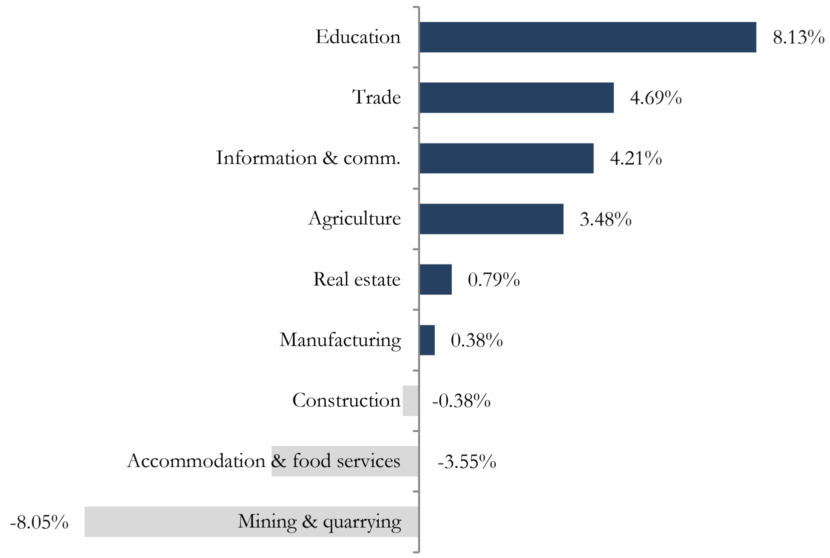
Other economic activities recorded weak performance. Furthermore, in the review period, manufacturing sector recorded real growth rate of 0.38%, although the growth was an improvement compared to its performance in the third quarter but a significant decline from 13.47% in 4Q2014 with oil refining and motor vehicle assembly weighing on the sector. Also, construction activity recorded negative growth rate of 0.35% y/y in real term but impressive growth rate of 14.51% q/q, the activity contributed 3.58% to the real GDP in the review quarter higher than 3.22% in the third quarter but lower than 3.67% in 4Q2014. Information and communication sector composed of four activities, i.e. telecommunications and information services, publishing, motion picture and sound recording & broadcasting. The sector recorded real growth rate of 4.21% y/y, lower by 100 bps and 105 bps relative to 5.21% in 4Q2014 and 5.26% in 3Q2015 **(fig. 11)**. Telecommunication and information services was the main driver of growth in the sector followed by broadcasting in the review quarter.

Fig. 10: Economic activities: Top seven contributors to real GDP – 4Q2015



Source: NBS, PAC Research

Fig. 11: Selected economic activities: Real growth rates in 4Q2015



Source: NBS, PAC Research

IMPORTANT DISCLOSURES

This research report has been prepared by the analyst(s), whose name(s) appear on the front page of this document, to provide background information about the issues which are the subject matter of this report. It is given for information purposes only.

Each analyst hereby certifies that with respect to the issues discussed herein, all the views expressed in this document are his or her own and reflect his or her personal views about any and all of such matters. These views are not necessarily held or shared by PanAfrican Capital or any of its affiliate companies. The analyst(s) views herein are expressed in good faith and every effort has been made to base our opinion on reliable comprehensive information but no representation is made as to its accuracy or completeness. The opinions and information contained in this report are subject to change and neither the analysts nor PanAfrican Capital is under any obligation to notify you or make public any announcement with respect to such change.

This report is produced independently of PanAfrican Capital and the recommendations (if any), forecasts, opinions, estimates, expectations and views contained herein are entirely those of the analysts. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the recommendations, forecasts, opinions, estimates, expectations and views contained herein are fair and reasonable, none of the analysts, PanAfrican Capital nor any of its directors, officers or employees has verified the contents hereof and accordingly, none of the analysts, PanAfrican Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof.

With the exception of information regarding PanAfrican Capital, reports prepared by PanAfrican Capital analysts are based on public information. Facts and views presented in this report have not been reviewed and may not reflect information known to professionals on other PanAfrican Capital business areas including investment banking. This report does not provide individually tailored investment advice. Reports are prepared without regard to individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. It is recommended that investors independently evaluate particular investments and strategies. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances or objectives. Neither the analyst(s), PanAfrican Capital, any of its respective directors, officers nor employees accepts any liability whatsoever for any loss so ever arising from any use of this report or its contents or otherwise arising in connection therewith. Each analyst and/or any person connected with any analyst may have acted upon or used the information herein contained, or the research or analysis on which it is based prior to its publication date. This document may not be relied upon by any of its recipients or any other person in making investment decisions.

Each research analyst certifies that no part of his or her compensation was, or will be directly or indirectly related to the specific recommendations (if any), opinions, forecasts, estimates or views in this report. Analysts" compensation is based upon activities and services intended to benefit clients of PanAfrican Capital. As with other employees of PanAfrican Capital, analysts' compensation is impacted by the overall profitability of PanAfrican Capital, which includes revenues from all business areas of PanAfrican Capital.

PanAfrican Capital Plc
8A, Elsie Femi Pearse Street
Victoria Island
Lagos, Nigeria
Tel: +234 (1) 2716899, 2718630
www.panafricancapitalplc.com