Economic growth resilience: Sustainability is key

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Nigeria's real gross domestic product (GDP) contracted by 0.52% year-on-year in 1Q'17. In the first quarter to March 2017, Nigeria's economic output as measured by gross domestic products declined by 0.52% year-on-year in real term. This is the fifth consecutive decline since the first quarter of the previous year; however the latest quarter's performance represents an improvement compared with a decline of 1.73% in the fourth quarter of 2016. During the quarter, the aggregate GDP stood at ₦26.03 trillion in nominal terms, i.e. a nominal growth rate of 17.06% compared with ₦22.23 trillion in 1Q'16. Moreover, out of the forty-six economic activities that are within the coverage of the Nigerian Bureau of Statistics, thirty-two recorded positive real growth rate while fourteen recorded a decline. It is worthy of note to state that we observed that the level of weakness among the economic activities that recorded decline are decreasing compared with their performance in the preceding quarters.

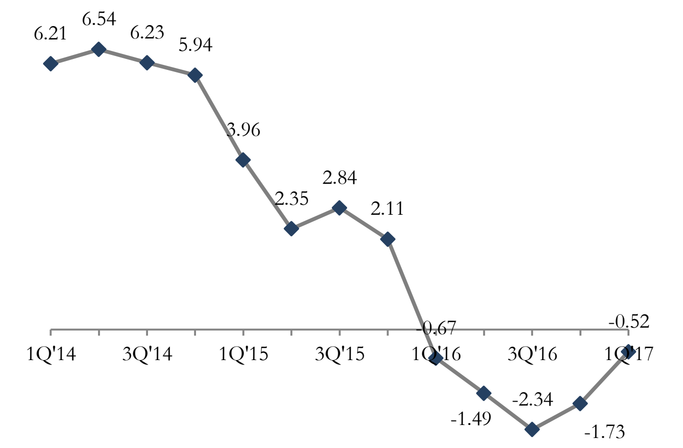
Furthermore, the improvement recorded in the performance of the real GDP in the review quarter was due to the positive performance of the oil sector and the resilience displayed by the non-oil sector in the period. The oil sector recorded real growth rate of -11.64% in the quarter compared with -17.70% in the fourth quarter of 2016; the improvement was on the back of increase in the prices of crude oil in the period. The prices of Brent Crude Oil traded at an average of US$55.54 per barrel in the review period, i.e. an increase of 28.6% compared with an average price of US$43.18 per barrel in the first quarter of 2016. In addition, crude oil production increased by 3.98% to an average of 1.83 million barrel per day in the quarter relative to an average of 1.76 million barrel per day in the fourth quarter of the previous year which was as a result of peaceful atmosphere in the oil producing region and sustained OPEC output cut agreement.

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

	1Q'16	2Q'16	3Q'16	4Q'16	1Q'17
Oil sector	-4.81%	-11.63%	-23.04%	-17.70%	-11.64%
Non-oil sector	-0.18%	-0.0.38%	+0.03%	-0.33%	+0.72%

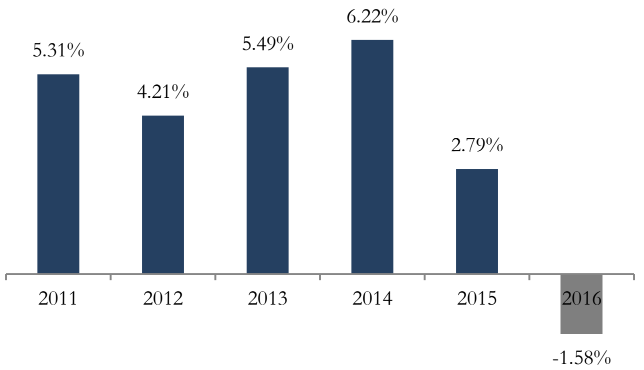
Source: NBS, PAC Research

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



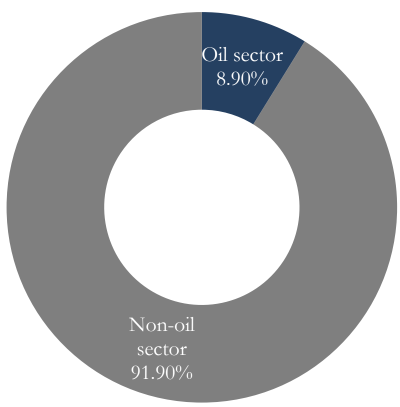
Source: NBS, PAC Research

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



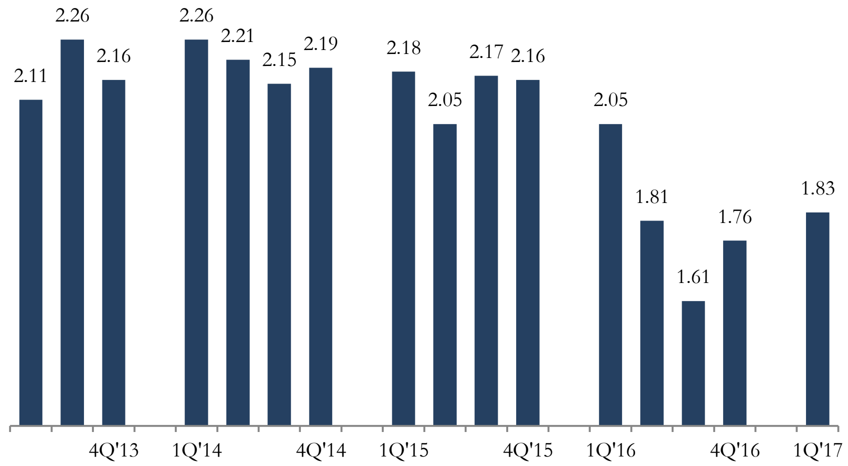
Source: NBS, PAC Research

Fig. 3: Contribution to GDP in 1Q'17 – oil sector and non-oil sector



Source: NBS, PAC Research

Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

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

Source: NBS, PAC Research

Services sector still maintains its dominance on the economy. Nigerian economy is broadly classified into three major sectors; agriculture, industries and services. While the contribution of agriculture to real GDP increased to 21.35% in 1Q'17 compared with 20.54% in the corresponding period of the preceding year, it declined relative to 25.60% recorded in the fourth quarter of 2016 which is a signal to the end of harvest period. On the other hand, the contribution of industries to the real GDP weakened to 23.21% against 24.09% in the first quarter of the previous year but it increased compared with the contribution of 19.98% in 4Q'16. Whereas, services sector's contribution of 55.45% in 1Q'17 is relatively flat compared with 55.37% in 1Q'16 but a marginal increase against 54.42% in the fourth quarter of 2016. Furthermore, while agriculture recorded real growth rate of 3.39% in the review quarter, although a relatively weak performance compared with 4.03% in 4Q'16, industries and services recorded real growth rate of -4.19% and -0.37% accordingly.

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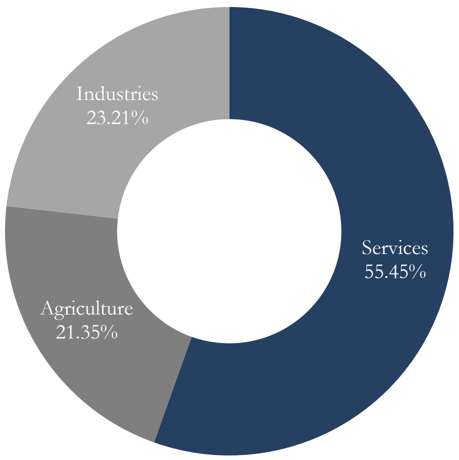
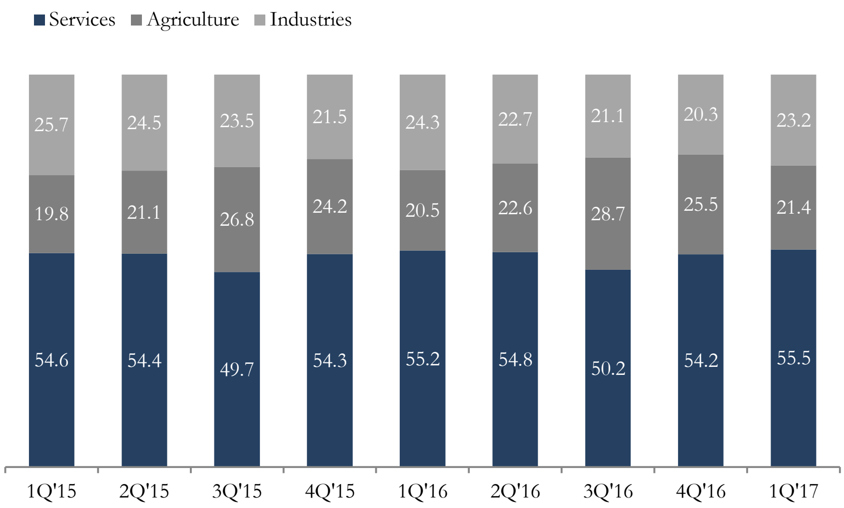
Despite the negative real growth rate recorded by industries and services in the period, the performance improved compared with real growth rate of -8.73% and -1.52% in the fourth quarter of 2016.

Fig. 6: Sectoral contribution to real GDP in 1Q'17



Source: NBS, PAC Research

Fig. 7: Quarterly sectoral contribution to real GDP (%)

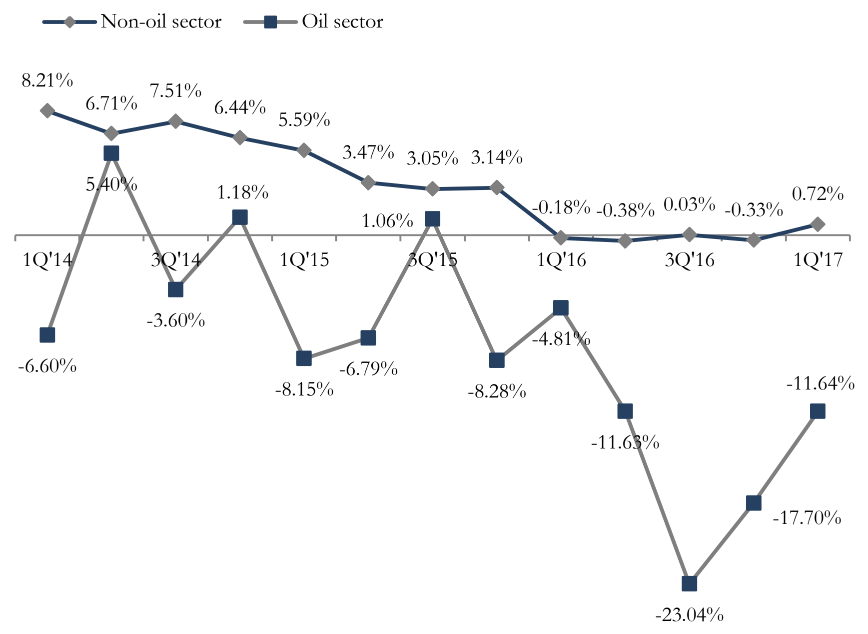


Source: NBS, PAC Research

The non-oil sector recorded marginal positive real growth rate driven by crop production, telecommunications and construction. In the review period, the resilience of the non-oil sector yielded results as its performance moved back to positive growth trajectory with real growth rate of 0.72% relative to -0.33% in 4Q'16 and -0.18% in the first quarter of 2016. The performance was driven by economic activities such as crop production, telecommunications and construction among others. The growth recorded by agriculture (+3.39%) generally impacted positively on the non-oil sector, however crop production with growth rate of 3.50% strengthened the performance of the non-oil sector considering the fact that crop production contributes 18.56% to the overall real GDP in the period.

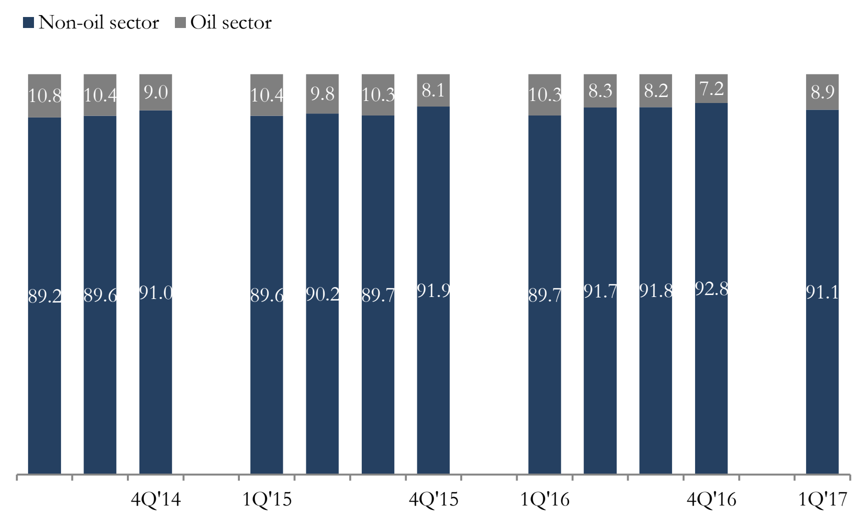
Also, livestock with contribution of 1.88% recorded real growth rate of 1.72%, while fishery and forestry with contribution of 0.66% and 0.25% respectively recorded real growth rate of 5.59% and 2.59% accordingly. Furthermore, telecommunications and information services sector recorded real growth rate of 2.89% in 1Q'17 which is an improvement compared with 1.03% it recorded in the fourth quarter of 2016 but less than 5.00% in 1Q'16. However, the sector contributed 9.16% to the real GDP compared with the contribution of 9.13% in 4Q'16.

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



Source: NBS, PAC Research

Fig. 9: Contribution to real GDP (%)



Source: NBS, PAC Research

Real estate sector recorded 6.17% real growth rate quarter-on-quarter in 1Q'17. The continuous sliding in the real growth rate of real estate sector reversed in the period with real growth rate of -3.10% y/y after four consecutive quarters of increasing decline. The sector recorded real growth rate of 6.17% q/q compared with -1.90% q/q in the fourth quarter of 2016 and -5.48% q/q in the first quarter of the previous year. The improvement in the performance indicates that there are increasing economic activities in the sector after several quarters of low operation. The sector accounts for 6.32% of real GDP in the review period, in our opinion the continuous positive performance of the sector along with other sectors is expected to pull the economy out of recession in the quarters ahead considering its contribution to the overall GDP and its relationship with other sectors such as construction which are considered to be positively correlated.

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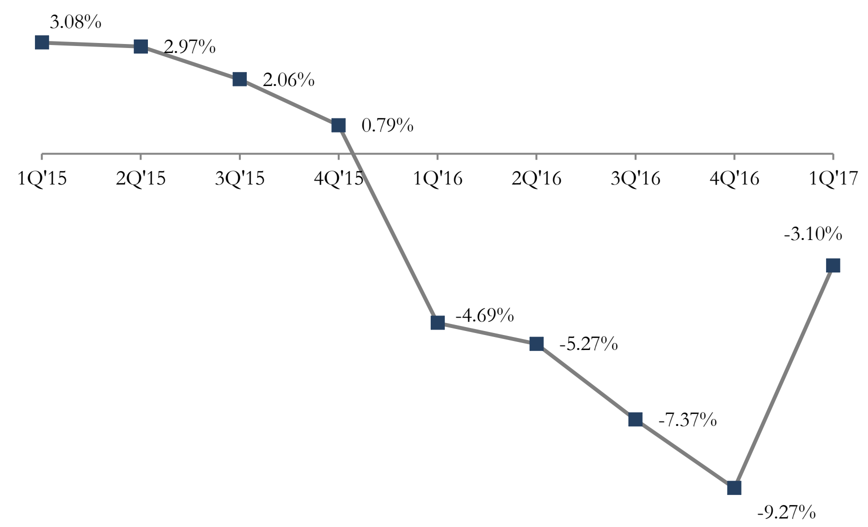
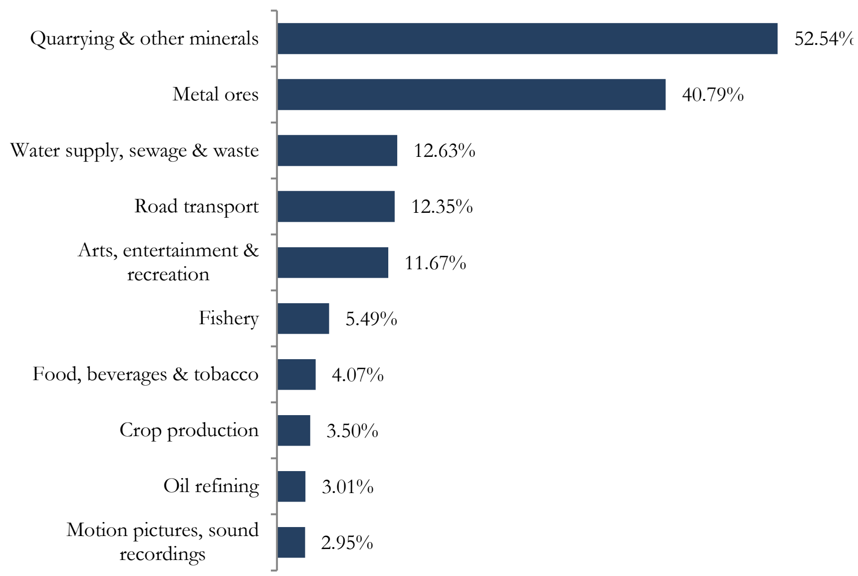
Fig. 10: Real estate - quarterly growth rates



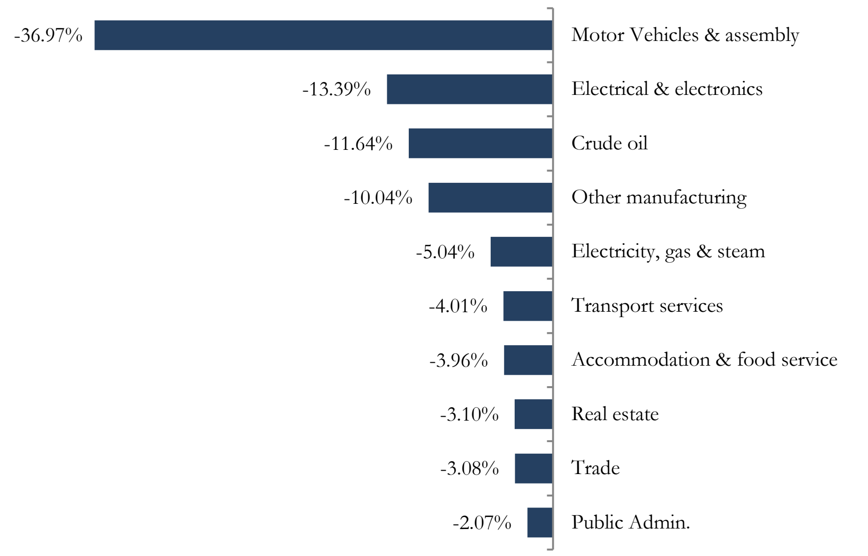
Source: NBS, PAC Research

Fig. 11: Economic activities: Top ten increase in real GDP growth rate in 1Q'17



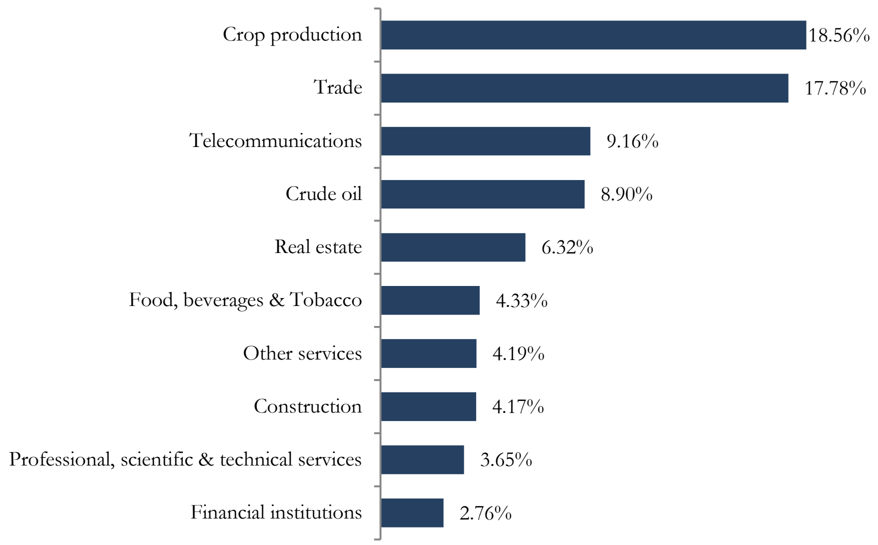
Source: NBS, PAC Research

Fig. 12: Economic activities: Top ten decline in real GDP growth rate in 1Q'17



Source: NBS, PAC Research

Fig. 13: Economic activities: Top ten contributors to GDP in 1Q'17



Source: NBS, PAC Research

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