Economic Update

Recession to recovery: External & internal shocks still remain a threat

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Nigeria's real gross domestic product (GDP) improved by 0.55% year-on-year in 2Q'17. In the second quarter to June 2017, Nigeria's economy officially exited recession with real GDP growth rate of +0.55% y/y compared with -1.49% in the second quarter of 2016 and -0.91% in the first quarter of the year after five consecutive quarters of contraction. We are keen to highlight that the recovery is fragile and it is susceptible to both external and internal shocks. Moreover, in order to avoid a double-dip recession due to the fragility of the recovery, policymakers are expected to ensure that both monetary policy and fiscal policy measures are being used together to achieve sustainability in economic growth. In addition, the nation's revenue sources have to be diversified in order to reduce the vulnerability of the nation's fiscal revenue as a result of volatility in the prices of crude oil in the international market.

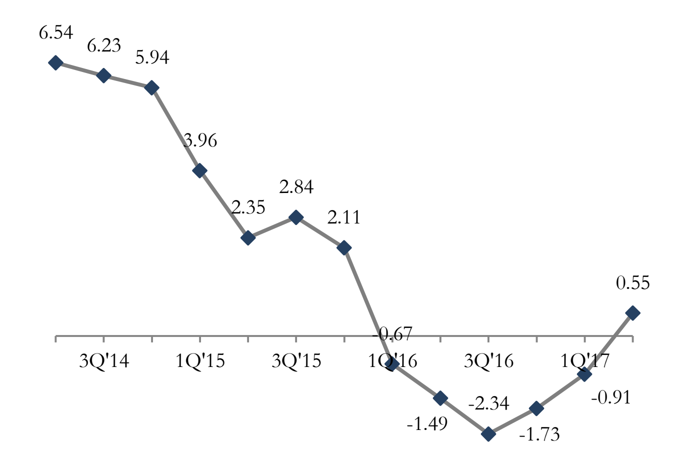
Furthermore, out of the forty-six economic activities in the nation's GDP basket, twenty-five recorded improvements in real growth rate while twenty-one recorded a decline. However, we observed that there was a reduction in the level of weakness among the economic activities that recorded a decline in the period. In the review quarter, aggregate nominal GDP increased by 14.60% to ₦26.99 trillion compared with ₦23.55 trillion in the second quarter of the previous year. The improvement in the GDP growth rate was due more to the contribution of the oil sector to the output in the period. The oil sector recorded real growth rate of 1.64% y/y and 17.24% q/q against -11.63% y/y in 2Q 2016 and -15.60% y/y in the preceding quarter. The significant improvement in the sector was due to the marginal increase in both the prices of crude oil in the international market and production. In addition, oil prices traded at an average of US$51.71 per barrel in the review quarter, i.e. a marginal increase of 1.47% compared with an average of US$50.96 per barrel in 2Q 2016.

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

	2Q'16	3Q'16	4Q'16	1Q'17	2Q'17
Oil sector	-11.63%	-23.04%	-17.70%	-11.64%	+1.64%
Non-oil sector	-0.0.38%	+0.03%	-0.33%	+0.72%	+0.45%

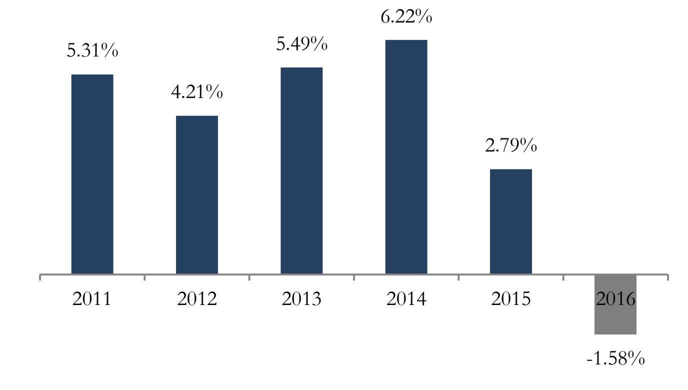
Source: NBS, PAC Research

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



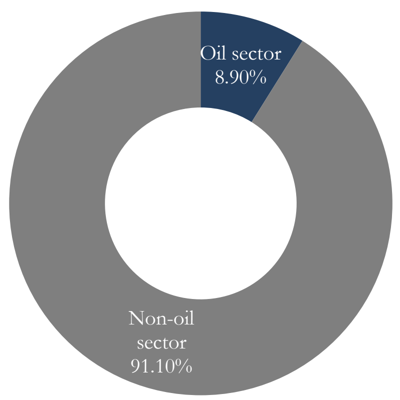
Source: NBS, PAC Research

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



Source: NBS, PAC Research

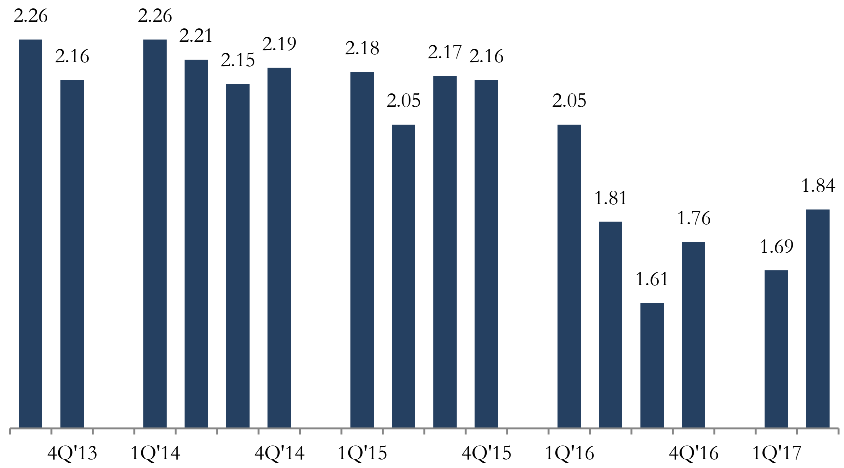
Fig. 3: Contribution to GDP in 1Q'17 – oil sector and non-oil sector



Source: NBS, PAC Research

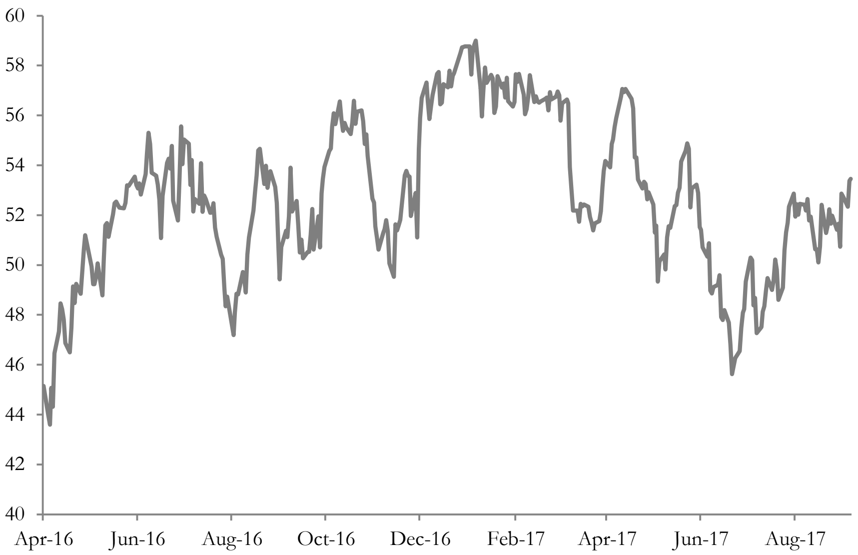
Also, output increased marginally by 1.66% to 1.84 million barrel per day (mbpd) against 1.82 mbpd in the second quarter of 2016 and an increase of 8.88% compared with output of 1.69 mbpd in the first quarter of the year. It is worthy of note to state that the oil sector contributed 8.90% to the real GDP in the period which is relatively the same with the contribution in the previous quarter. As long as the current relative stability in the prices of crude oil is maintained along with stability in other internal monetary policy and fiscal policy measures, the economic recovery is expected to be sustained in the short to medium term.

Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

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

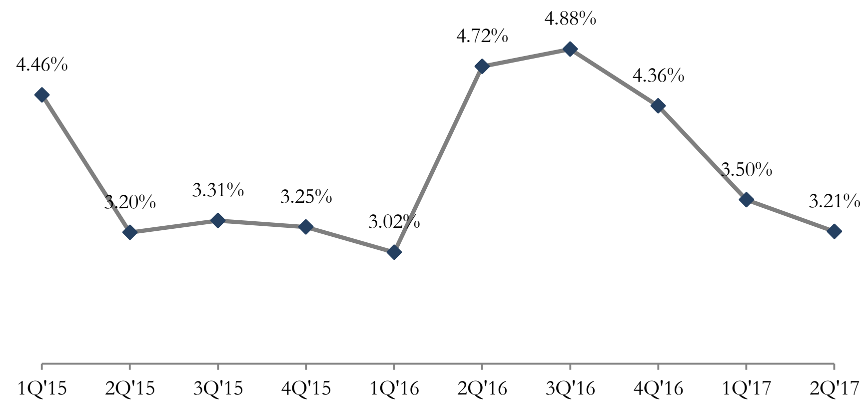


Source: NBS, PAC Research

Non-oil sector weakened with real growth rate of +0.45%. In the review quarter, the non-oil sector recorded real GDP growth rate of 0.45% higher than -0.38% in the second quarter of 2016 but lower than 0.72% in the first quarter of the year, i.e. -0.27% quarter-on-quarter.

The growth rate recorded by the sector was driven by improvements in various economic activities such as crop production, financial services, electricity, gas and steam and "other services." Agriculture as one of the broad categories of the economy recorded real growth rate of 3.01% y/y, lower than 4.53% and 3.39% in the second quarter of the previous year and the first quarter of 2017 respectively. The sector accounted for 22.97% of aggregate output relative to 22.45% in 2Q 2016 and 21.43% in 1Q 2017 with crop production which is the main driver of the sector accounting for 88.41% of the nominal GDP of the sector. Furthermore, crop production accounted for 20.41% of the total real GDP in the review quarter, livestock accounted for 1.77% whereas forestry and fishery contributed 0.28% and 0.50% to the total real GDP accordingly. Crop production recorded real growth rate of 3.21% in the period, down from 4.72% in the corresponding quarter of the previous year and 3.50% in the preceding quarter of the year.

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



Source: NBS, PAC Research

Moreover, industries as a sector with contribution of 23.31% recorded real growth rate of 1.45%, an improvement relative to -5.83% in the first quarter of the year and -7.19% in the second quarter of the previous year. The improvement in the performance of the sector was aided by positive performance of economic activities such as oil refining, food, beverage and tobacco and non-metallic products. On the contrary, services sector which accounted for the largest share of the aggregate output with contribution of 53.73% contracted by 0.85%, an improvement compared with -1.25% in the same quarter of 2016 but lower than -0.37% in the immediate past quarter. The weakness of the sector was aided by contraction in economic activities such as trade and telecommunication and information system, the decline would have been worse but for positive performance of financial services sector with real growth rate of 11.78%.

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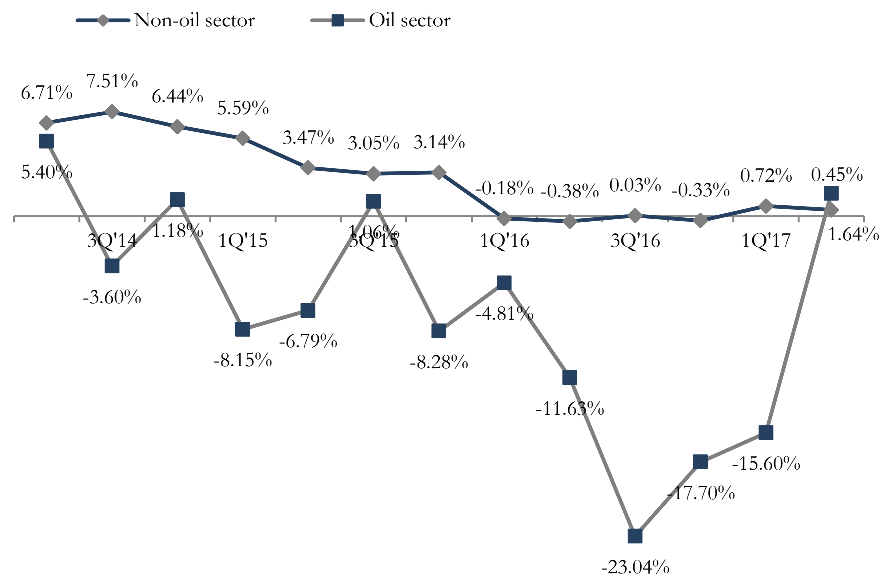
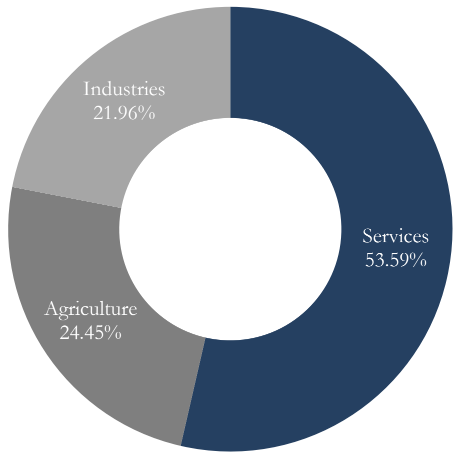
Fig. 7: Oil sector and non-oil sector – quarterly real GDP growth rates



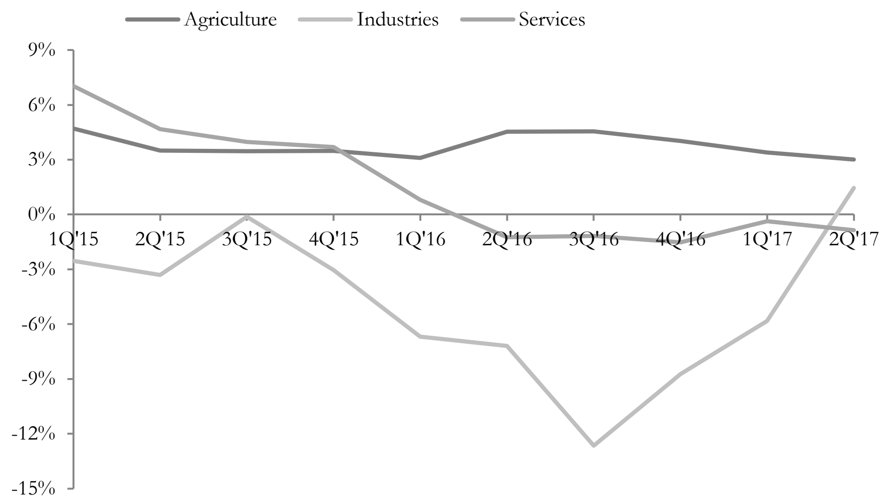
Source: NBS, PAC Research

Fig. 8: Sectoral contribution to real GDP in 2Q'17



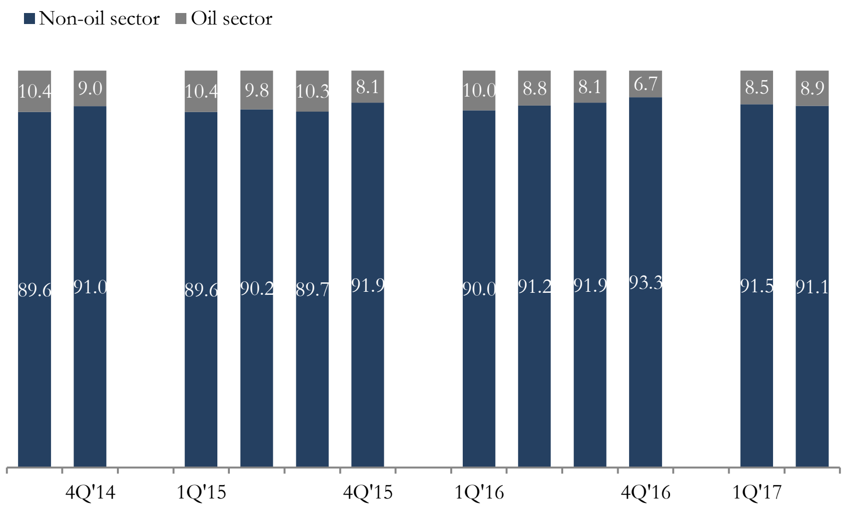
Source: NBS, PAC Research

Fig. 9: Quarterly sectoral real GDP growth rate (%)



Source: NBS, PAC Research

Fig. 10: Contribution to real GDP (%)



Source: NBS, PAC Research

Manufacturing sector weakened by real GDP growth rate of -0.72% quarter-on-quarter. In the period, economic activities in the manufacturing sector weakened with real growth rate of 0.64% y/y relative to 1.36% y/y in 1Q'16 but it improved relative to -3.36% y/y in the second quarter of 2016. The significant improvement that was recorded in the first quarter could not be sustained due to weaknesses in some economic activities in the sector such as cement which recorded a decline of 4.16% in real GDP growth rate compared with an increase of 1.83% in the first quarter. Although, oil refining improved significantly with real GDP growth rate of 11.28% relative to 3.01% in the preceding quarter but lower than 49.19% in the corresponding quarter of the previous year. It is important to highlight that sustenance of positive growth in manufacturing sector is pertinent to the expected improvement in the overall economy.

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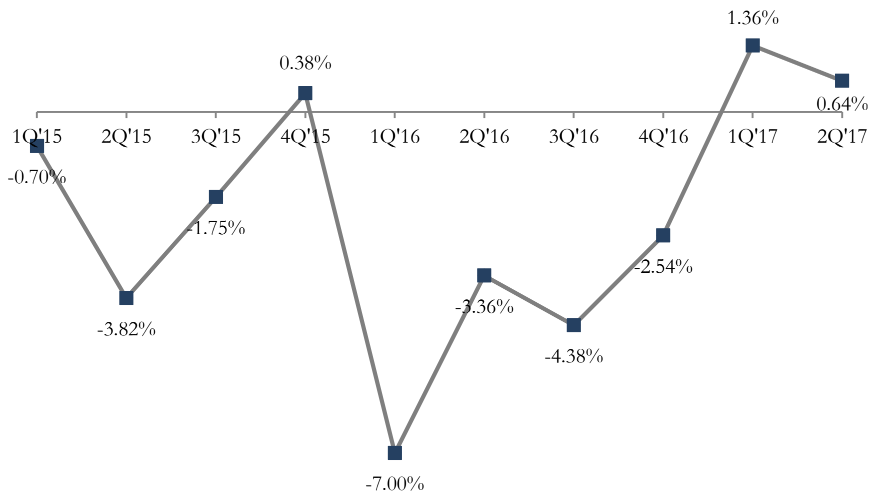
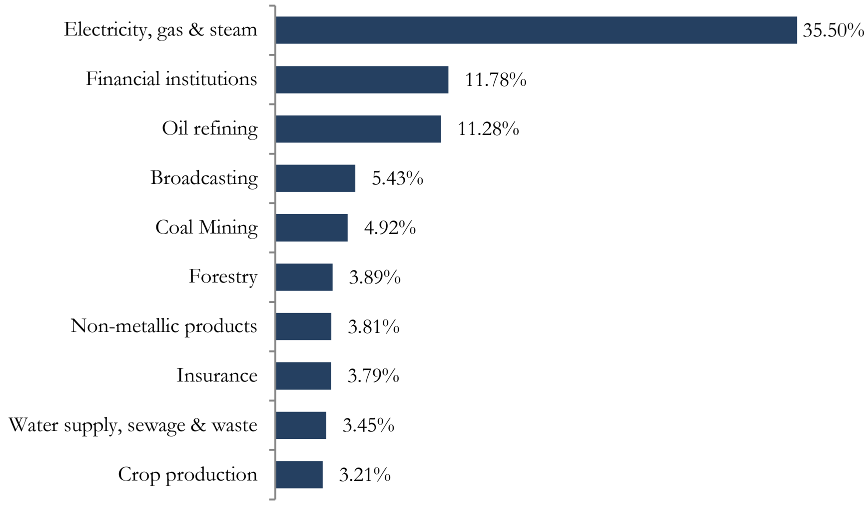
Fig. 11: Manufacturing sector - quarterly real GDP growth rates



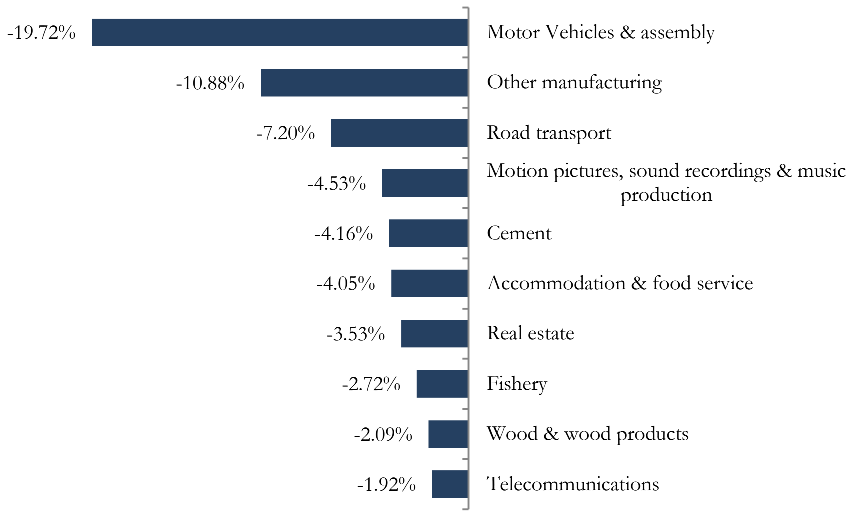
Source: NBS, PAC Research

Fig. 12: Economic activities: Top ten increase in real GDP growth rate in 2Q'17



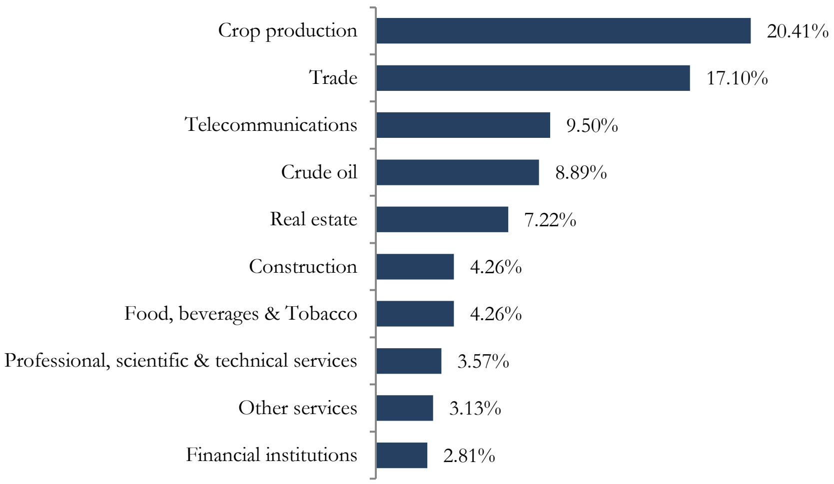
Source: NBS, PAC Research

Fig. 13: Economic activities: Top ten decline in real GDP growth rate in 2Q'17



Source: NBS, PAC Research

Fig. 14: Economic activities: Top ten contributors to real GDP in 2Q'17



Source: NBS, PAC Research

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