

Economic Update

Nigeria | Economy | GDP Report | September 01, 2016

PAC RESEARCH

2Q'16 GDP growth rate: From a decline to a historical recession

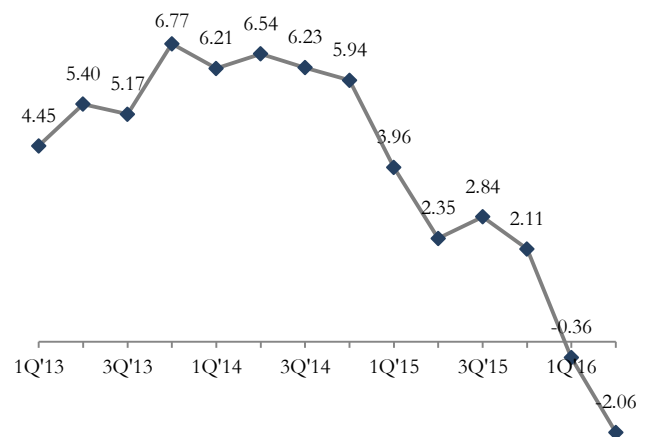
Nigeria's real gross domestic product (GDP) contracted by 2.06% year-on-year in 2Q'16. In the second quarter to June 2016, Nigeria recorded real GDP growth rate of -2.06% relative to -0.36% in the first quarter of the year and +2.35% in the second quarter of the previous year. The negative growth rate in the review period reflected the weakness in economic activities against the back of low prices of crude oil in the international market, production shock due to persistent unrest in the oil producing region, the scarcity of foreign exchange with negative effects on importation of goods and low level of capital spending by policymakers in the period. The weakness in the real growth rate is in line with our earlier forecast; however we expect to see an improvement in the economic indicator in the third quarter of the year which is expected to be on the back of increased capital spending by the Federal Government. Although, challenges such as weakness in consumer spending, scarcity of foreign exchange, oil prices and production shocks and harsh business operating environment poses a concern.

In the review period, the oil sector recorded weak activities which resulted into a real growth rate of -17.48% relative to -1.89% in 1Q'16 and -6.79% in 2Q'15. The weakness was a result of low prices of crude oil in the international market and to a high extent the hostility in the oil producing region which has led to destruction of oil and gas infrastructures in the region. Crude oil production in the quarter stood at an average of 1.69 million barrel per day (mbpd), lower by 19.9% and 17.6% compared with an average of 2.11 mbpd and 2.05 mbpd respectively in the first quarter of 2016 and the corresponding quarter of the previous year. Also, the review quarter's oil production is lower by 19.1% compared with 8-quarter average of 2.09 mbpd.

On the other hand, Brent crude oil traded at average prices of US\$48.38 per barrel in the review quarter, down by 30.6% against average prices of US\$69.69 per barrel in the corresponding period of the previous year. Consequently, the decline affected the revenue accrued to the government from crude oil in the period.

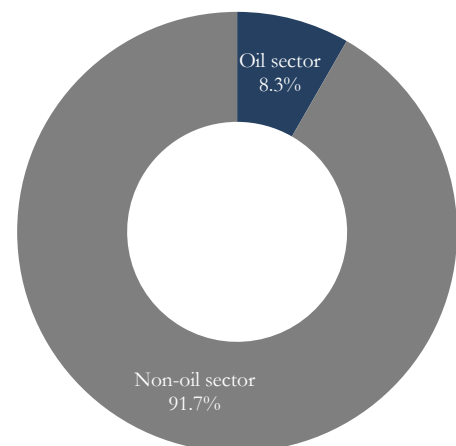
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Fig. 1: Quarterly GDP real growth rates (%)



Source: NBS, PAC Research

Fig. 2: Contribution to GDP in 2Q'16 – oil sector and non-oil sector



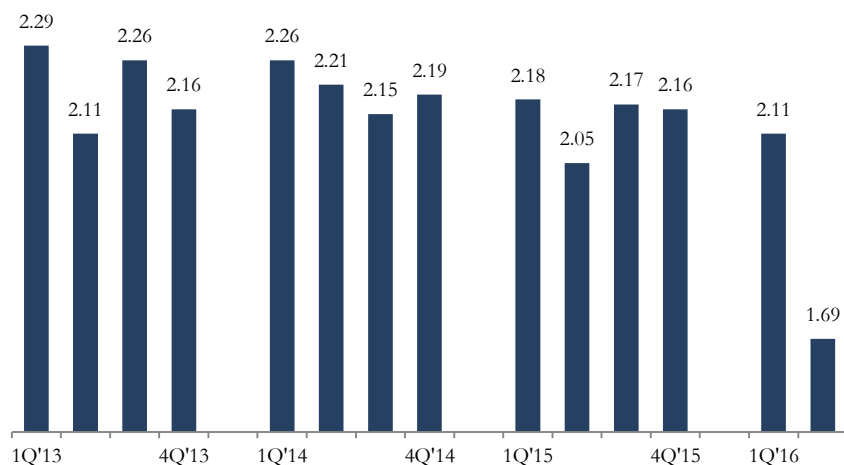
Source: NBS, PAC Research

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

	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16
Oil sector	-6.79%	+1.06%	-8.28%	-1.89%	-17.48%
Non-oil sector	+3.46%	+3.05%	+3.14%	-0.18%	-0.38%

Source: NBS, PAC Research

Fig. 3: Crude oil production (mbpd)



Source: NBS, PAC Research

Fig. 4: Prices of Brent crude oil (US\$/barrel)



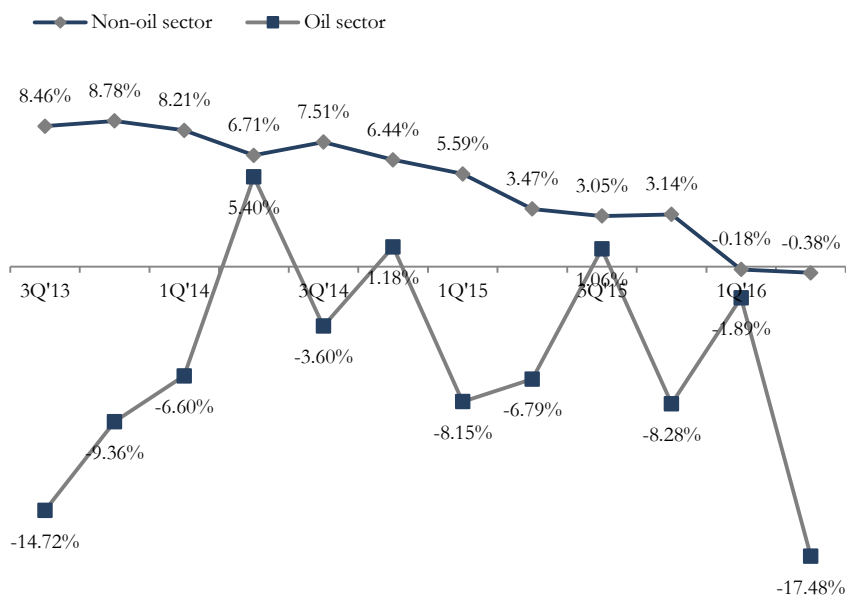
Source: NBS, PAC Research

Contraction in the non-oil sector was mitigated by growth in Agriculture and Information and Communication sector. In the review period, the non-oil sector of the economy recorded a real growth rate of -0.38%, lower than the -0.18% in 1Q'16 and +3.46% in the second quarter of the previous year. The decline was a result of weakness in the operations of some economic activities in the sector such as manufacturing, construction and real estate. Manufacturing sector recorded real growth rate of -3.36%, which is an improvement relative to -7.00% in the first quarter of the year and -3.82% in 2Q'15. The improvement was recorded on the back of the significant positive real growth rate of 49.19% in oil refining activities in the period. In addition, the activities in construction sector was negatively impacted, it posted a real growth rate of -6.28% in 2Q'16 relative to -5.37% in the preceding quarter and +6.42% in the corresponding quarter of the previous year. Similarly, real estate sector had a real growth rate of -5.27% in the period compared with -4.69% in 1Q'16 and +2.97% in 2Q'15.

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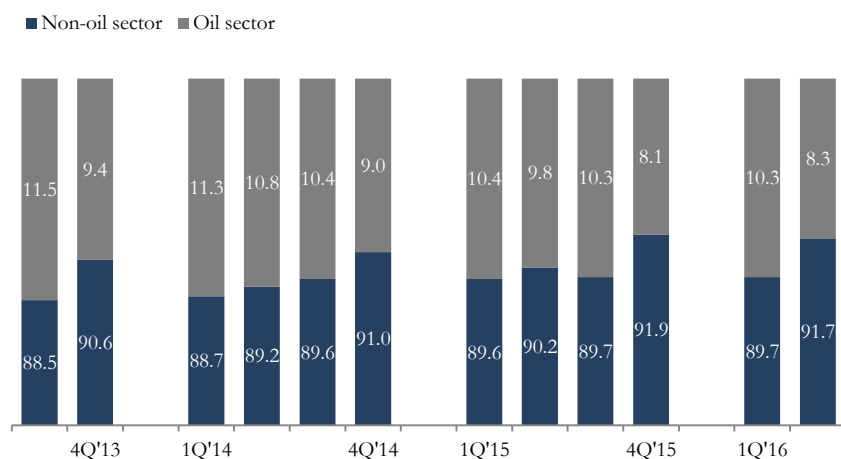
On the other hand, the decline in the non-oil sector was mitigated by positive real growth rate in the agriculture sector, information and communication sector and “other services” sector. Agriculture sector recorded a strong growth rate of +4.53% in the period relative to +3.09% and +3.49% in the prior quarter and the corresponding quarter of 2015 accordingly. The significant improvement in agriculture was driven by growth in crop production on the back of the commencement of harvest season and the present focus of policymakers on the sector. Also, information and communication sector grew by +1.35% in real term, a lower growth rate relative to +4.07% in 1Q'16 and +6.26% in 2Q'15. The growth was driven by positive growth rate in telecommunications, publishing and broadcasting. Similarly, “other services” sector recorded a significant growth rate of +4.32% in the period, although it is lower than +8.04% and +16.35% in the first quarter of 2016 and the second quarter of the previous year.

Fig. 5: Oil sector and non-oil sector – quarterly real growth rates



Source: NBS, PAC Research

Fig. 6: Oil sector and non-oil sector contribution to GDP (%)

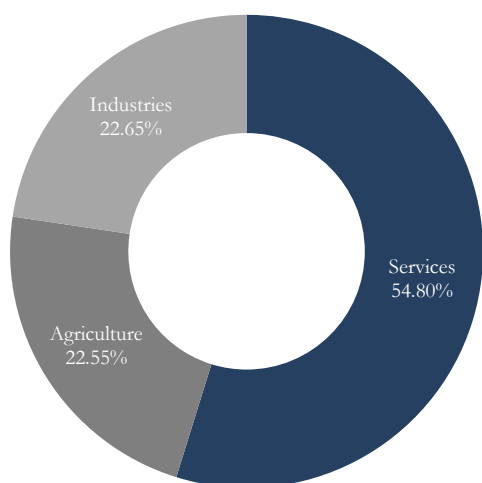


Source: NBS, PAC Research

Services sector maintains its leading role in contribution to GDP in 2Q'16. In broad term, Nigeria's economy was classified into agriculture sector, industry sector and services sector. We are keen to highlight that services has been the dominant sector in the economy, it accounted for 54.80% in 2Q'16 while agriculture sector and industry sector represents 22.55% and 22.65% respectively. However, the proportion of agriculture increased in the period relative to 20.48% in the prior quarter and 21.12% in 2Q'15, therefore the proportion of services and industry declined accordingly. The expansion in the proportion of agriculture reflected the increased inflow of investments into crop production sub-sector, on the back of the new policy direction of the government towards diversification of the economy and the aspiration to attain self-sufficiency in food production. However, attention of policymakers seem to be concentrated on crop production as other segments of agriculture – livestock, forestry and fishery – accounted for insignificant proportion of the GDP. For example, crop production represents 20.00% of GDP, whereas livestock and forestry accounts for 1.75% and 0.28% of output respectively while fishery accounts for 0.52%.

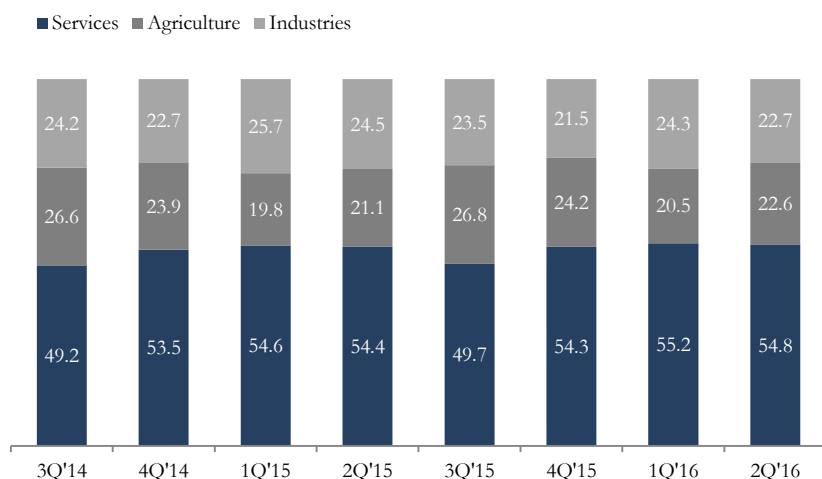
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Fig. 7: Sectoral contribution to GDP in 2Q'16



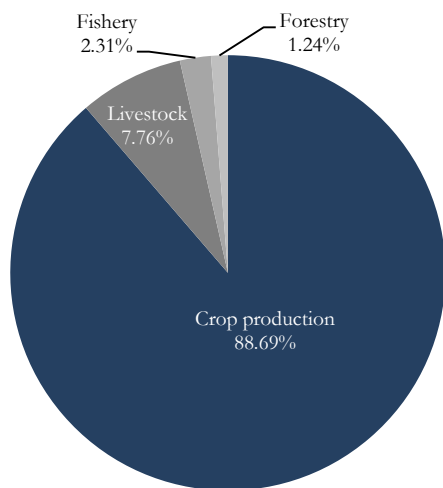
Source: NBS, PAC Research

Fig. 8: Quarterly sectoral contribution to GDP (%)



Source: NBS, PAC Research

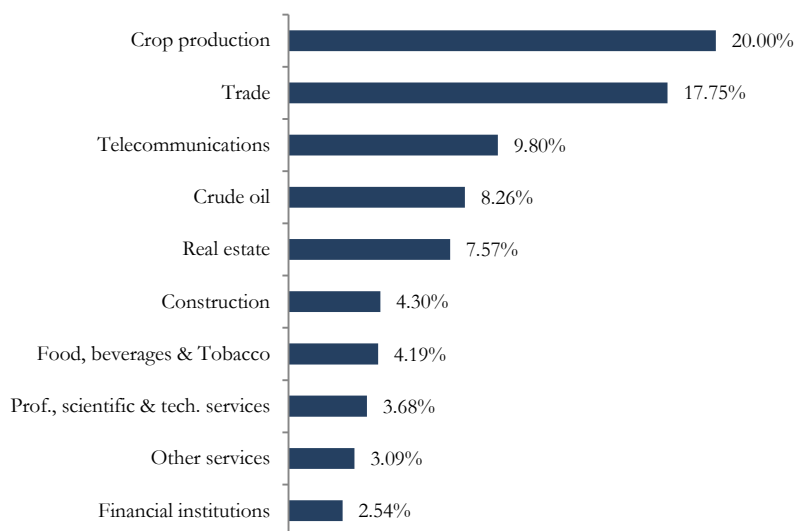
Fig. 9: Components of agriculture sector in 2Q'16



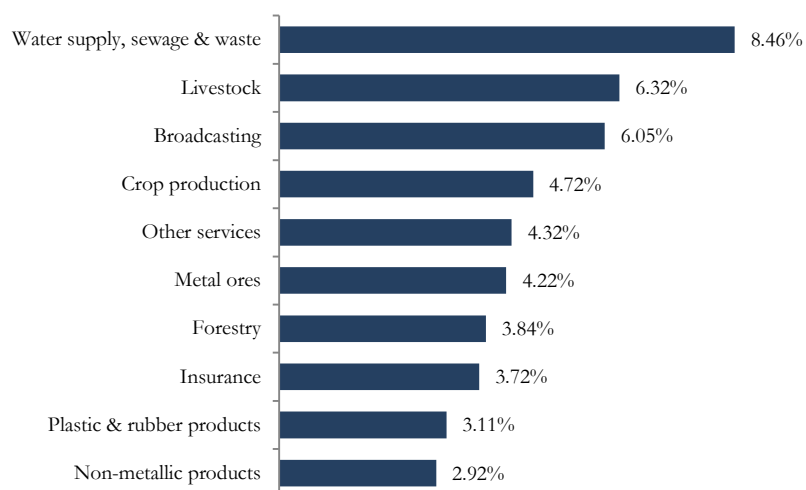
Source: NBS, PAC Research

The top ten economic activities accounts for 81.8% of the total GDP. In 2Q'16, crop production, trade and telecommunications are among the top ten contributors to output and their combined contribution accounts for 81.8% of the total GDP. They accounted for the significant share of activities in the economy, therefore their performance normally decide the direction of growth in the economy. Furthermore, oil refining recorded the highest real growth rate in the period, i.e. real growth rate of +49.19% relative to -22.59% in 1Q'16 and -64.54% in 2Q'15. This was a result of the improvement in the operations of local refineries in the first quarter of the year; however we considered the review quarter's growth rate an outlier. This was followed by water supply, sewage and waste management economic activities and livestock with real growth rate of +8.46% and +6.32% in that order. On the other hand, post and courier services led the list of economic activities that recorded a decline in real growth rate in the period with growth rate of -67.88%, followed by motor vehicle and assembly and crude oil with real growth rate of -29.35% and -17.48% respectively.

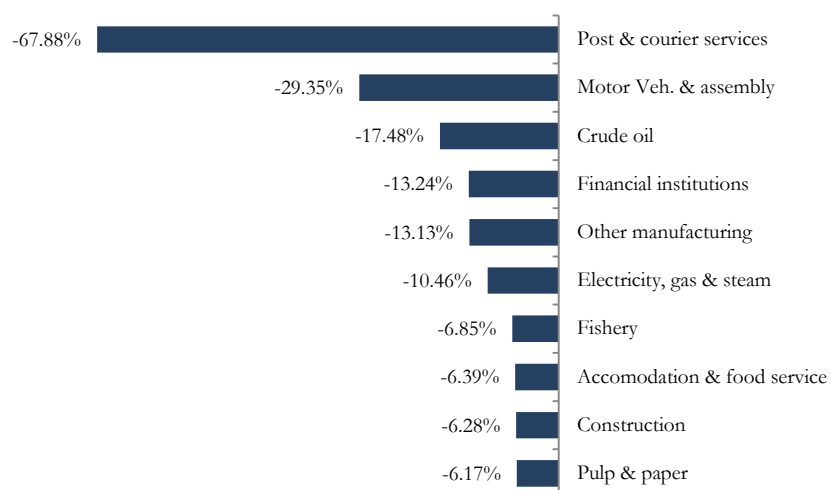
Fig. 10: Economic activities: Top ten contributors to GDP in 2Q'16



Source: NBS, PAC Research

Fig. 11: Economic activities: Top ten real GDP growth rates in 2Q'16

Source: NBS, PAC Research

Fig. 12: Economic activities: Top ten decline in real GDP growth rates in 2Q'16

Source: NBS, PAC Research

IMPORTANT DISCLOSURES

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