

# Economic Update

Nigeria | Economy | GDP Report | November 22, 2016

PAC RESEARCH

## Economic recession worsens: 3Q'16 real GDP growth rate shrinks by 2.24% y/y

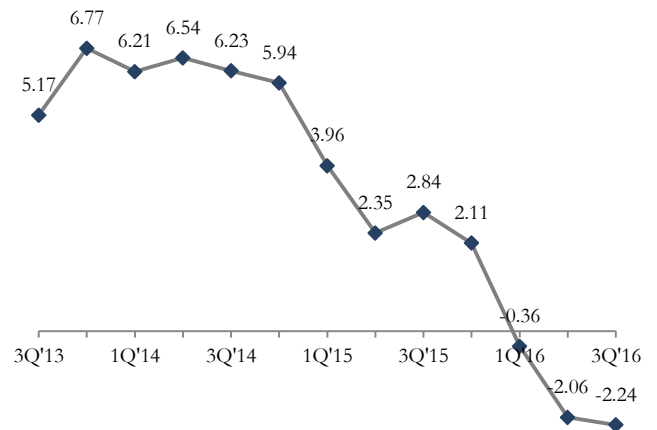
Nigeria's real gross domestic product (GDP) contracted by 2.24% year-on-year in 3Q'16. In the third quarter to September 2016, Nigeria recorded real GDP growth rate of -2.24% compared with -2.06% in the second quarter of the year and +2.84% in the third quarter of the previous year. The weakness in the review quarter's real GDP growth rate indicates that the efforts of the policymakers to reflate the economy into growth trajectory have not yielded much positive results. On the other hand, nominal GDP grew by 9.23% y/y to ₦26.56 trillion compared with the aggregate nominal GDP of ₦24.31 trillion in the third quarter of 2015. Overall, twenty three economic activities recorded positive real growth rate out of the total of forty six economic activities within the coverage of the National Bureau of Statistics. It is worthy of note to state that some of the economic activities that recorded positive real growth rate in the review period decelerated compared with the real growth rate recorded in the preceding quarter.

In our view, the weakness in the overall economic activities as indicated by the negative real GDP growth rate in the quarter was a result of persistent economic headwinds such as scarcity of foreign exchange, low prices of crude oil in the international market, production shocks as a result of destruction of oil and gas infrastructures in the oil producing region and weakness in consumer spending among others.

For the review quarter, the real GDP growth rate of the oil sector weakened further by -22.01% in real terms relative to -17.48% and +1.06% in 2Q'16 and 3Q'15 respectively and compared with 8-quarter average of -8.62%. Furthermore, Brent crude oil traded at an average price of US\$48.39 per barrel in the review quarter, i.e. a decline of 18.15% compared with an average price of US\$59.11 per barrel in the third quarter of the previous year. Also, according to the NNPC, crude oil production stands at an average of 1.63 million barrel per day in the period, i.e. a decline of 24.88% compared with an average production of 2.17 million barrel per day in the corresponding quarter of the previous year.

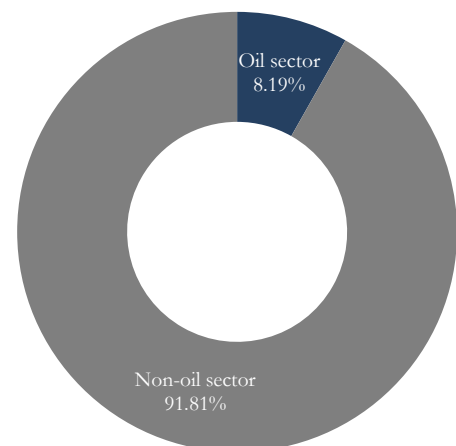
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Fig. 1: Quarterly GDP real growth rates (%)



Source: NBS, PAC Research

Fig. 2: Contribution to GDP in 3Q'16 – oil sector and non-oil sector



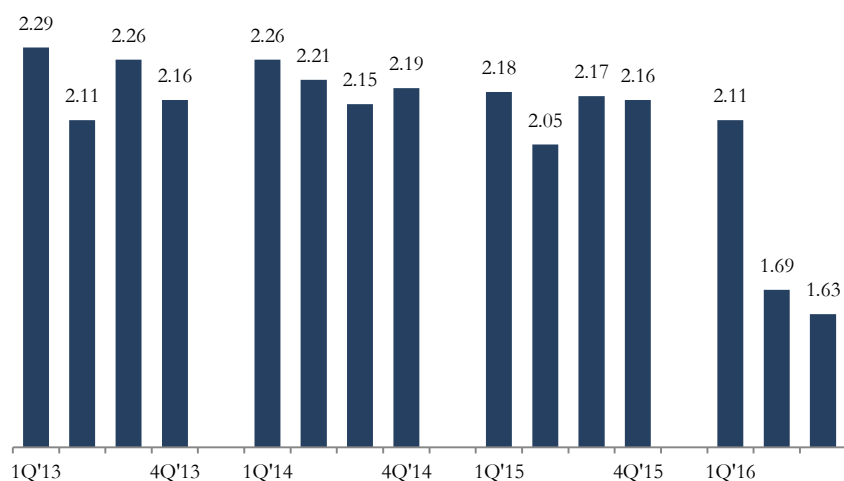
Source: NBS, PAC Research

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

	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16
Oil sector	+1.06%	-8.28%	-1.89%	-17.48%	-22.01%
Non-oil sector	+3.05%	+3.14%	-0.18%	-0.38%	+0.03%

Source: NBS, PAC Research

Fig. 3: Crude oil production (mbpd)



Source: NBS, PAC Research

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

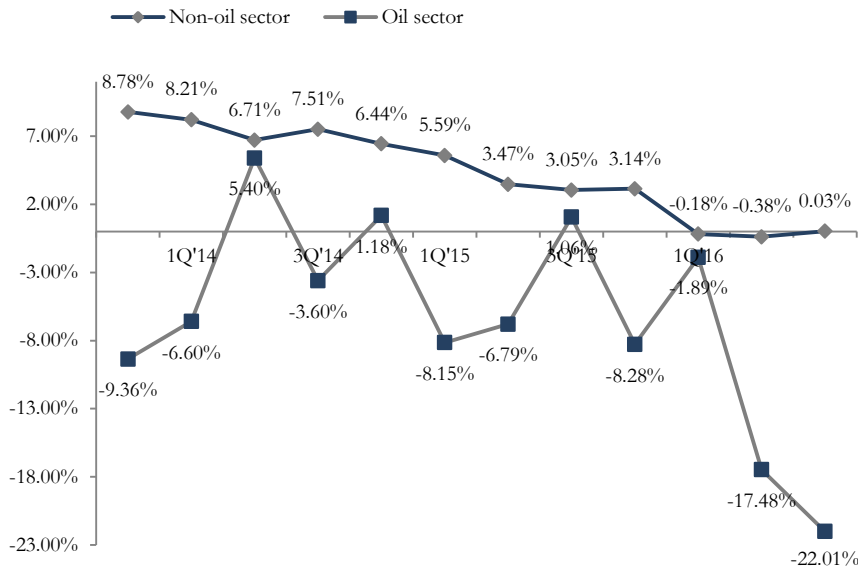


Source: NBS, PAC Research

**The weakness in the overall economic activities was mitigated by positive reversal in the non-oil sector.** In the review period, the non-oil sector recorded marginal real growth rate of +0.03% relative to -0.38% in 2Q'16, +3.05% in 3Q'15 and 8-quarter average of +2.31%. The growth rate was driven by improvement in activities of crop production, information and communication and “other services.” Moreover, Nigerian economy was broadly classified into agriculture, industries and services; while agriculture recorded strong real growth rate of +4.54%, industries and services declined by 12.21% and 1.17% accordingly. In addition, the contribution of agriculture to the nation’s output increased to 28.65% in the review quarter compared with 22.55% in the preceding quarter and 26.79% in the third quarter of the previous year. On the other hand, the contribution of industries and services declined to 21.11% and 50.24% respectively relative to the contribution of 22.65% and 54.80% in the second quarter of the year.

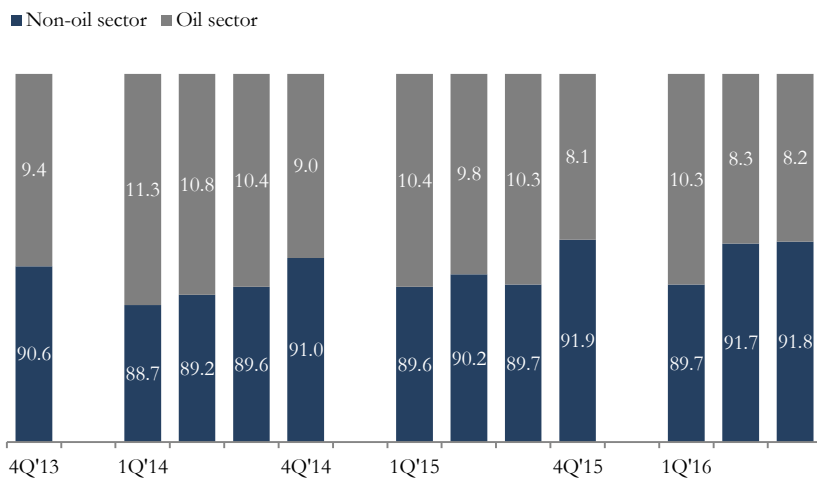
*...while agriculture recorded strong real growth rate of +4.54%, industries and services declined by 12.21% and 1.17% accordingly.*

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



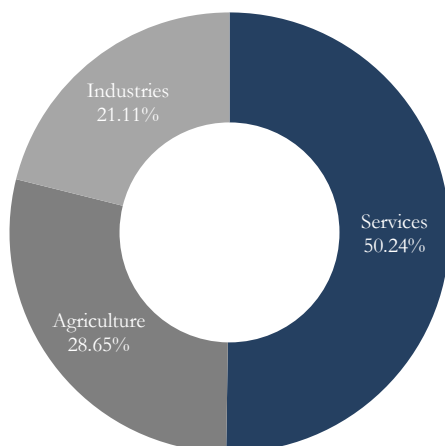
Source: NBS, PAC Research

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



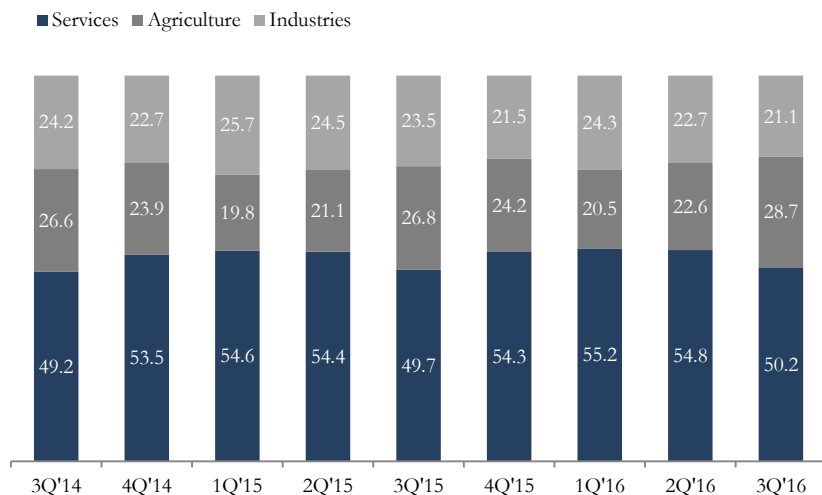
Source: NBS, PAC Research

Fig. 7: Sectoral contribution to real GDP in 3Q'16



Source: NBS, PAC Research

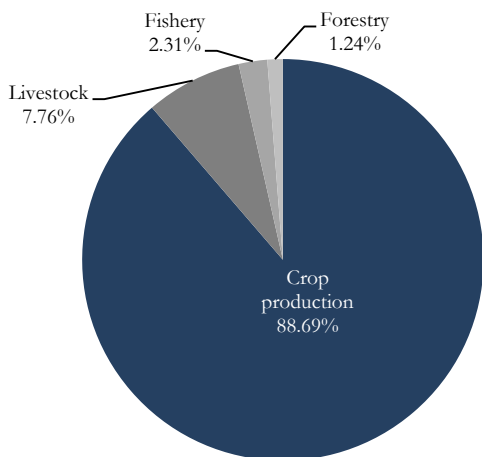
Fig. 8: Quarterly sectoral contribution to real GDP (%)



Source: NBS, PAC Research

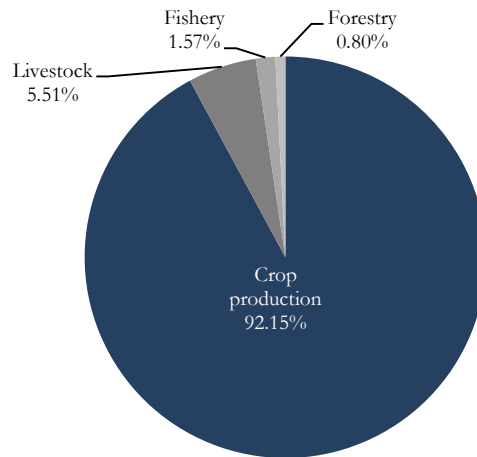
The +4.54% y/y real growth rate in agriculture was dampened by a decline of 4.38% y/y in manufacturing sector. In the review period, the activities in the agriculture sector were boosted, apparently by the renewed interest of policymakers in the sector in an attempt towards diversification of the economy and sustainability in food production. Agriculture is made up of four sub-activities, i.e. crop production, livestock, forestry and fishery. While the sector recorded +4.54% real growth rate, crop production and livestock recorded real growth rate of +4.88% and +0.76% respectively. Also, forestry improved by +2.08% but fishery declined by 0.34%. In addition, crop production accounted for 92.15% of activities in the sector while livestock, fishery and forestry accounted for 5.51%, 1.57% and 0.80% in that order. We are keen to highlight that the improvement in the proportion of crop production from 88.69% in 2Q'16 led to a decline in the proportion of livestock, fishery and forestry from 7.76%, 2.13% and 1.24% respectively.

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



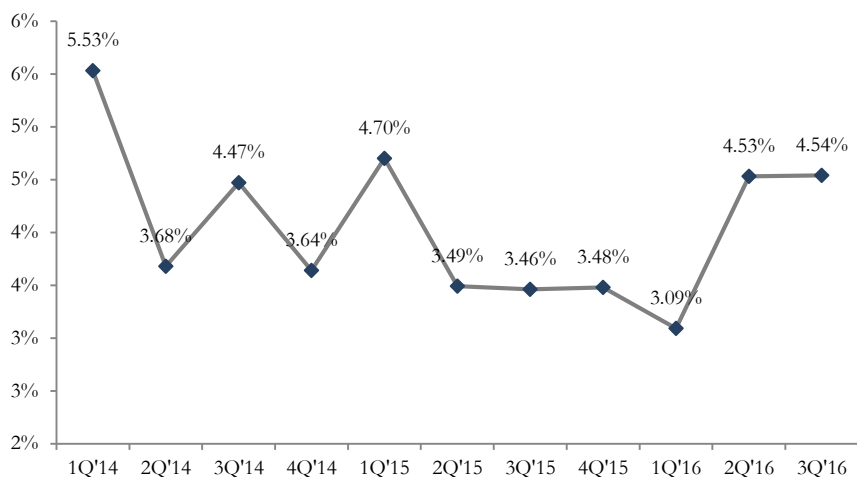
Source: NBS, PAC Research

Fig. 10: Components of agriculture sector in 3Q'16



Source: NBS, PAC Research

Fig. 11: Agriculture sector- quarterly growth rates

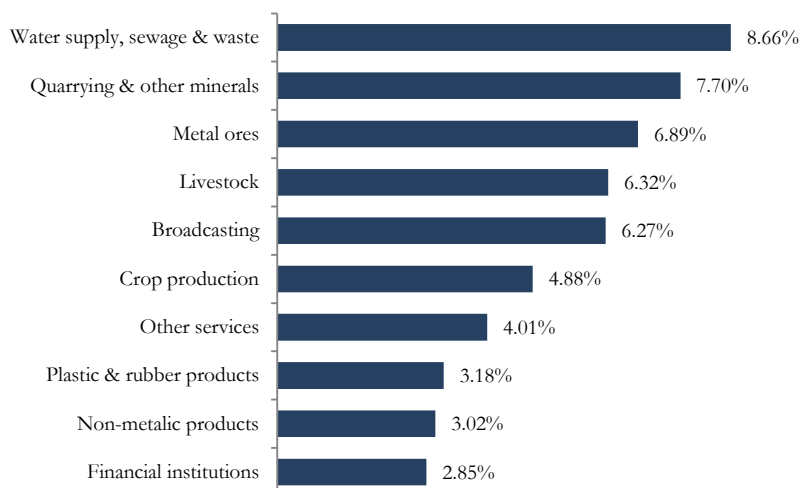


Source: NBS, PAC Research

Furthermore, in the third quarter of 2016, manufacturing sector continued its persistent decline with real growth rate of -4.38% relative to -3.36% in 2Q'16 and -1.75% in 3Q'15 driven by cement (-6.26%), food, beverage & tobacco (-5.75%), wood & wood products (-6.30%), electrical electronics (-4.08%) and motor vehicle & assembly (-33.31%). Although, some activities recorded positive real growth rates in the sector such as non-metallic products (+3.02%) and plastic & rubber products (+3.18%), but these are not sufficient to lift the sector from the persistent decline. Furthermore, the activities in the construction sector declined strongly in the period with real growth rate of -6.13% relative to -6.28% in 2Q'16 and -0.11% in the corresponding period of the previous year. In the same way, real estate recorded a decline of 7.37% in the period against 5.27% and +2.06% in the second quarter of 2016 and the third quarter of the previous year. On the other hand, there was improved activities in solid mineral with real growth rate of +7.07% in quarrying & other minerals compared with +2.52% in the second quarter and +6.96% in the third quarter of 2015. Also, metal ores recorded real growth rate of +6.89% relative to +4.22% q/q and +6.85% y/y.

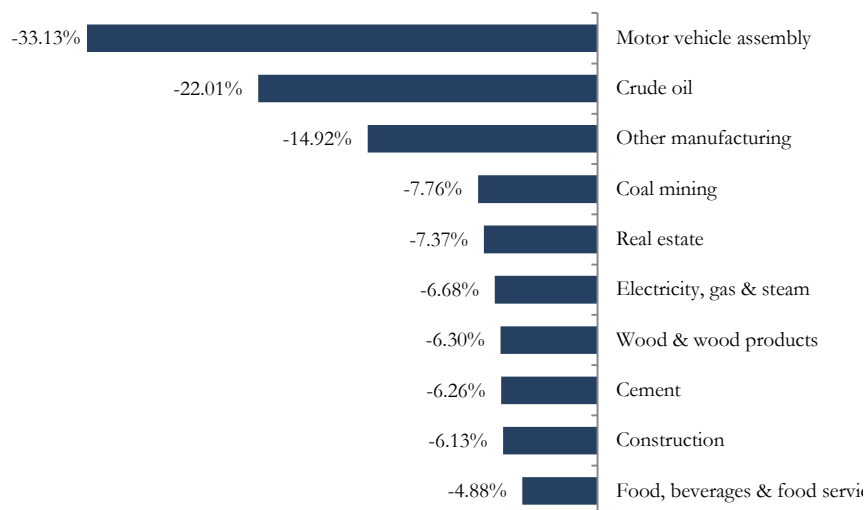
*Furthermore, in the third quarter of 2016, manufacturing sector continued its persistent decline with real growth rate of -4.38% relative to -3.36% in 2Q'16 and -1.75% in 3Q'15...*

Fig. 12: Economic activities: Top ten increase in real GDP growth rates in 3Q'16



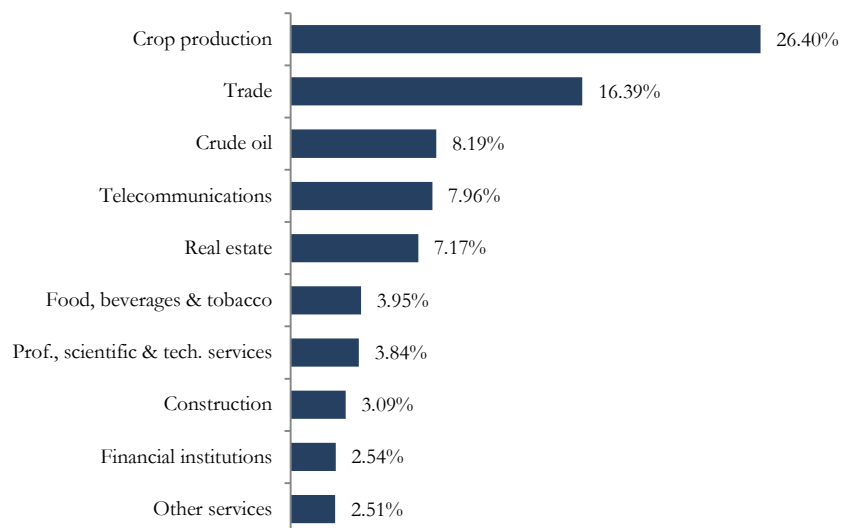
Source: NBS, PAC Research

**Fig. 13: Economic activities: Top ten decline in real GDP growth rates in 3Q'16**



Source: NBS, PAC Research

**Fig. 14: Economic activities: Top ten contributors to GDP in 3Q'16**



Source: NBS, PAC Research

## IMPORTANT DISCLOSURES

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