Q2 2019 GDP Report—Crawling Growth

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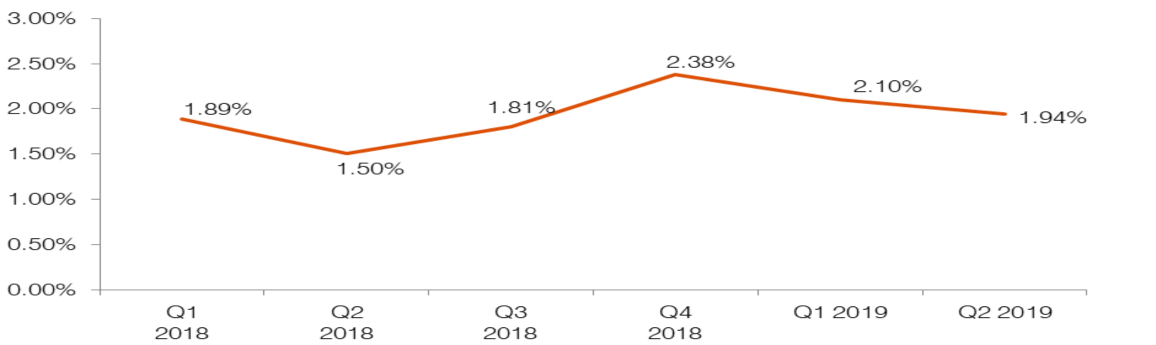
NIGERIA | MACRO | GDP

Recently, the National Bureau of Statistics released the Q2 2019 GDP report which showed that the economy grew by 1.94% (y/y) in real terms compared to a growth of 2.10% y/y in Q1 2019 and a growth of 1.50% y/y in Q2 2018. In contrast to growth in the last four quarters, GDP growth in Q2 2019 was inclusive from the broad perspective as both Oil and Non-oil sector grew by 5.15%y/y (8.82% of GDP) and 1.64%y/y (91.18% in GDP) respectively in the quarter. While oil sector recorded first quarterly growth since Q1 2018, non-oil recorded the slowest growth in the last five quarters.

Figure I: GDP Growth



Source: NBS, Investment One Financial Services Research.

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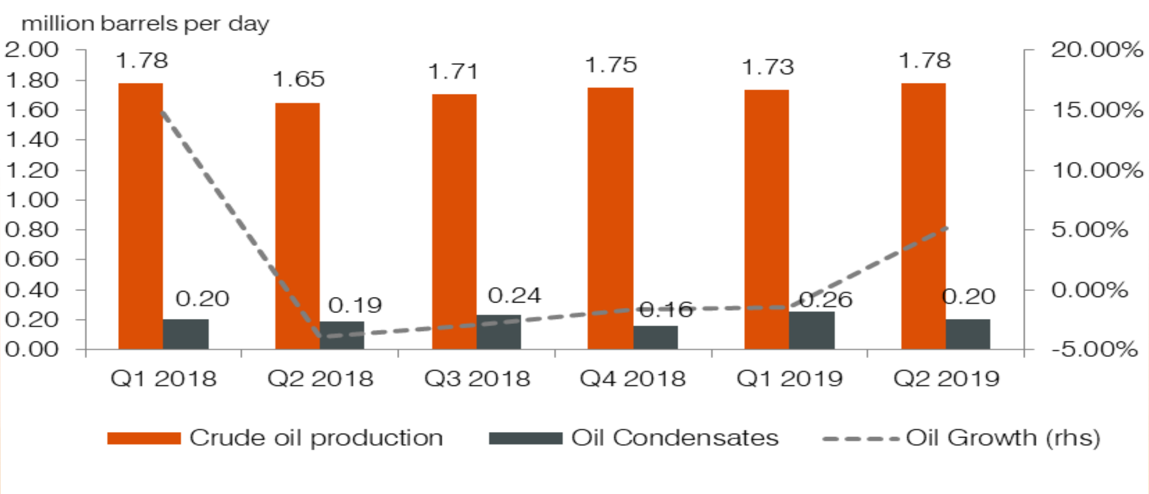
Oil Output Still Below Benchmark Despite New Egina

Although, oil output bounced back (+5.15%y/y in Q2 2019), after falling on a year on year basis in the previous four quarters, due to the new Egina plant that was opened late last year. We highlight that the Q2 2019 oil production level of 1.98million barrels per day (mbpd) was still below benchmark of 2.3mbpd set for 2019 budget. We believe challenges of oil theft and vandalism could have weighed in on oil production with the Nigerian National Petroleum Corporation (NNPC), reporting a loss of over 22 million barrels of crude in the first six months of this year, as the rate of vandalism rose to about 77% in June.

While Brent oil prices were lower by 24% y/y, averaging US$68.47per barrel in Q2 2019, we point out that real GDP is based on constant prices and does not take into consideration changes in price levels.

Furthermore, with Q2 oil output below the 2019 budget benchmark, we believe the increase in oil output may be partly attributed to low base effect as the oil output of 1.84mbpd recorded in Q2 2018 was the lowest in the last twelve quarters.

Figure II: Oil production and Oil GDP Growth

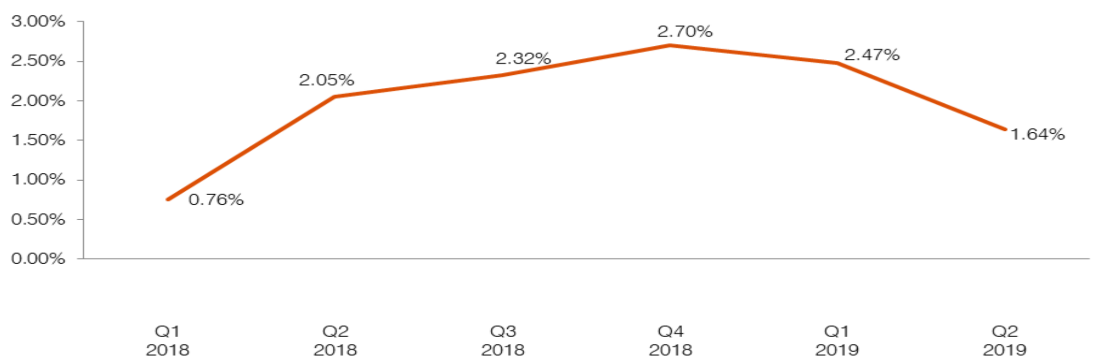


Source: NBS, OPEC, Investment One Financial Services Research.

Non-Oil Output Slows Down

Despite the expansion shown by PMI readings so far this year, non-oil slowed to its lowest since Q2 2018. Of course, the reasons are not far fetched as the country still faces challenges of weak consumer demand, delay and low implementation of budget, poor infrastructures and insecurity.

Figure III: Non Oil Sector Growth



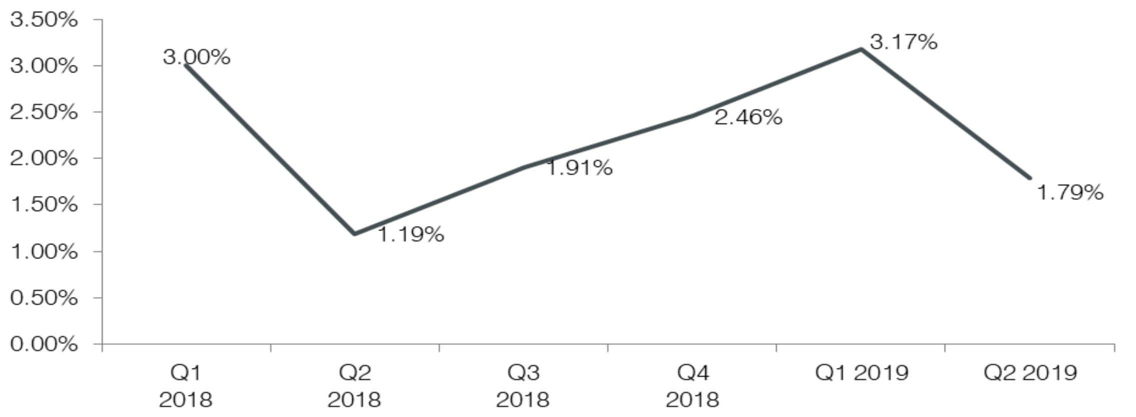
Sources: NBS, Investment One Financial Services Research.

Weaker Growth in Agriculture

A further breakdown of the non-oil sector showed that growth in Agricultural output slowed to 1.79%y/y in Q2 2019 as the effect of insecurity in the North outweighed any impact the recent monetary and fiscal policies on the sector may have had on food production. We highlight that this was the lowest growth rate in the last four quarters. Despite the level of special interventions by the CBN through its Anchor Borrowers scheme and its continuous ban on more food items, growth in Agricultural sector has been uninspiring due to the insecurity in the North East region. We opine that crisis in Benue state and other attacks by herdsmen could have negatively affected food production.

Going forward, while we think CBN's intervention in the sector should continue, we believe more fiscal policies should be put in place to support agricultural output. In the same vein, adequate security should be provided especially in the rural areas where insecurity has been plaguing agricultural output. Similarly, efforts should be made towards improving rural road network and agricultural extension services. With the current population growth of 2.6%, we think food production has to grow at a faster rate in order to save the citizens from hunger in the near term.

Figure IV: Growth in Agricultural Output

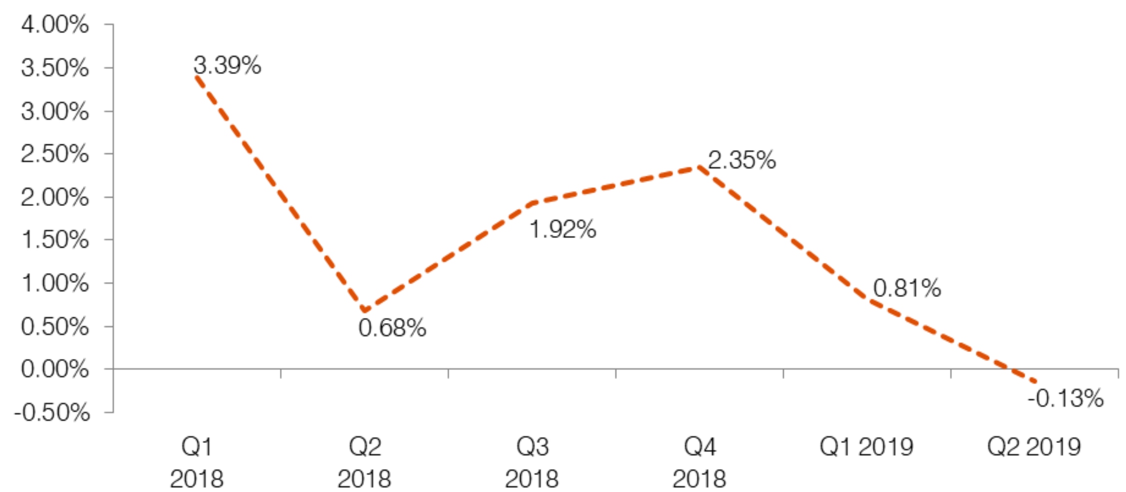


Sources: NBS, Investment One Financial Services Research.

Weak Infrastructures Continue to Slow Manufacturing Output

Growth in the Manufacturing sector continued to weaken as it recorded a negative growth of 0.13%y/y in Q2 2019 compared to growth rates of 0.81%y/y in Q1 2019 and 0.68%y/y in Q2 2018. We believe weak infrastructures and lack of clear policy that will support FDI into manufacturing sector could have caused the continuous poor performance of the sector.

Figure V: Growth in Manufacturing sector

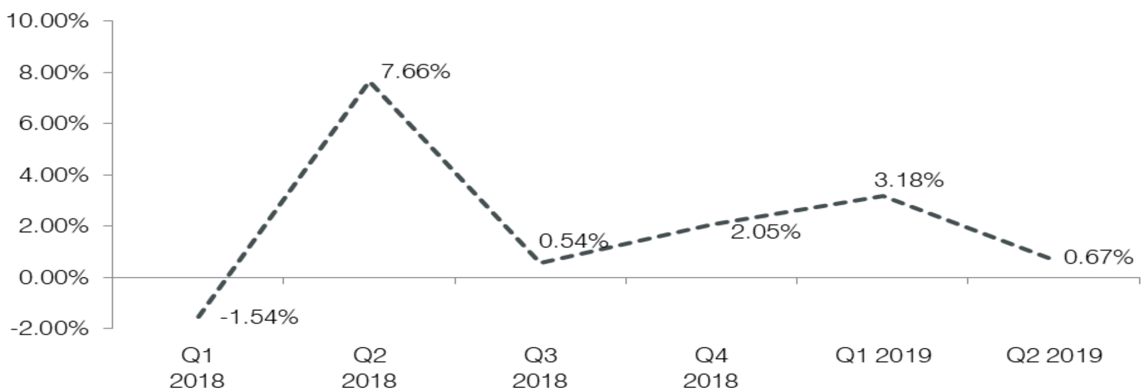


Sources: NBS, Investment One Financial Services Research.

Poor Budget Implementation Slows Construction

Construction output was also weak with a meagre growth of 0.67% y/y in Q2 2019 lower than 3.18%y/y in Q1 2019 and 7.66%y/y in Q2 2018. We believe the slow growth in Construction may be due to weak implementation of Capital projects by the Federal Government on the back of delay in budget passage and appointment of ministers. The late passage of the 2019 Appropriation Bill, the shortfall in expected revenue as well as the increasing non-discretionary expenditures of government affected the implementation of capital projects in the 2018 Budget. As such, a total of N1.86trillion out of N2.87trillion in the budget was released and cash backed to Ministries Departments and Agencies for their 2018 capital projects and programmes.

Figure VI: Construction Growth Rates



Sources: CBN, Investment One Financial Services Research.

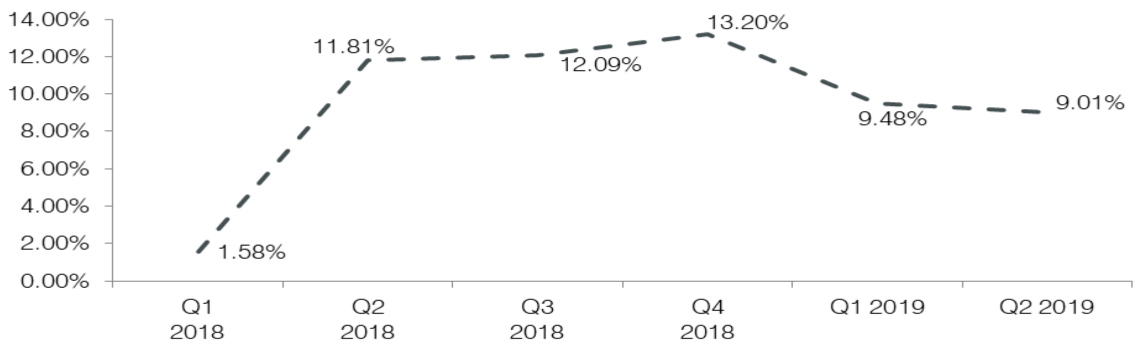
Weak Consumer Demand Drives Trade Lower

Trade subsector recorded a negative growth of 0.25% better a negative growth of 2.14% in Q2 2018 but weaker than the growth of 0.85% in Q1 2019. We believe weaker growth in this sector may not be unconnected to the weak consumer demand. We highlight that this may improve going forward once the newly approved minimum wage is implemented.

Telecommunication Output Continues to Expand

Telecommunication continued to support growth at 9.01%y/y in Q2 2019 but weaker than growth rates of 9.48%y/y and 11.81%y/y in Q1 2019 and Q2 2018 respectively. Growth in this subsector has been supported by increase in mobile penetration rate (based on our estimate of 87% as at June 2019 vs 84% as at June 2018) which has been driven by fast increase in population (2.6%) and innovation in the country. We expect this to continue to drive growth in this sector in the near term.

Figure VII: Information and Communication Sector

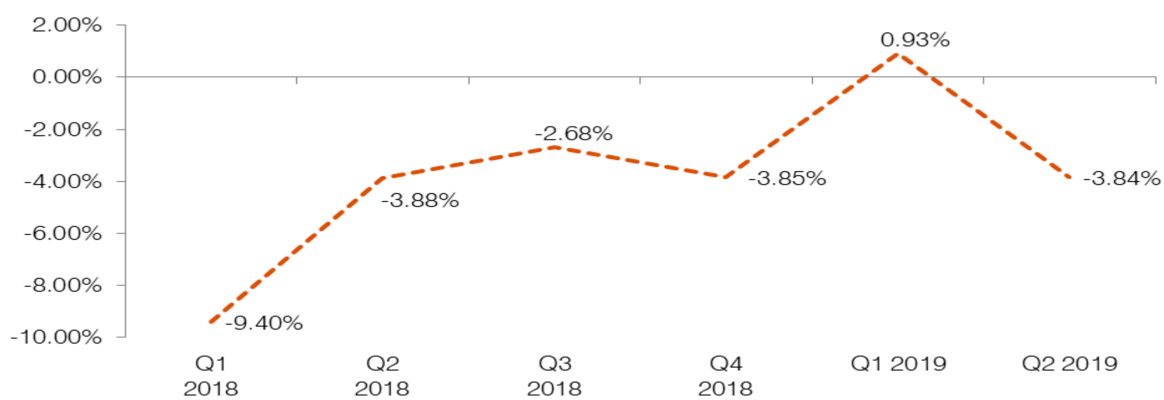


Sources: NBS, Investment One Financial Services Research.

Real Estate Growth Returns Negative

Having fallen in twelve straight quarters, Real Estate sector recorded a growth of 0.93%y/y in Q1 2019 but returned to a negative growth of 3.84%y/y in Q2 2019 . We believe the major challenge to this sector remains a lack of credit facilities. We highlight that only 4% of the Deposit Money Bank credit was allocated to the sector in Q1 2019. We believe the Federal Government through its Mortgage Bank should boost credit to the sector especially at the retail end of the sector where there is a huge housing deficit. This should boost growth of the sector and its contribution to the overall GDP.

Figure VIII: Real Estate Sub-Sector



Sources: NBS, Investment One Financial Services Research.

Outlook

While the payment of the minimum wage may be positive for consumer spending and GDP growth, the late passage of the 2019 budget may reduce the impact of the wage increase. We expect the improvement in business sentiment, as reflected in the PMI, to support to GDP growth in the near term.

We believe issues such as uninspiring levels of CAPEX implementation, herdsmen attack, insecurity in the North, infrastructural deficit and contagion effect of a potential slowdown in global growth may continue to limit Nigeria's GDP growth in 2019. It is pertinent to know that growth rate as at H1 2019 stood at 2.02% which still below population growth rate of 2.6%. This accentuates the rising rate of poverty in the country as per capita income continues to fall. This further highlights the need to put in policies that will spur growth in the near term in order to save the country from another recessionary threat and boost per capita income.

Overall, we may not see the economy growing at 3.01% as targeted by the Federal Government. We only expect the economy to grow by 2.20% lower than our estimate of 2.30% at the beginning of the year. Our lower estimate was based on less inspiring output from non-oil sector on the back of weak budget implementation and lack of clear policy direction for growth. We highlight that our latest projection is lower than International Monetary Fund's (IMF) estimate of 2.3% but higher than the World Bank's projection of 2.10% in 2019.

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