FDC Economic Bulletin

February 28, 2017

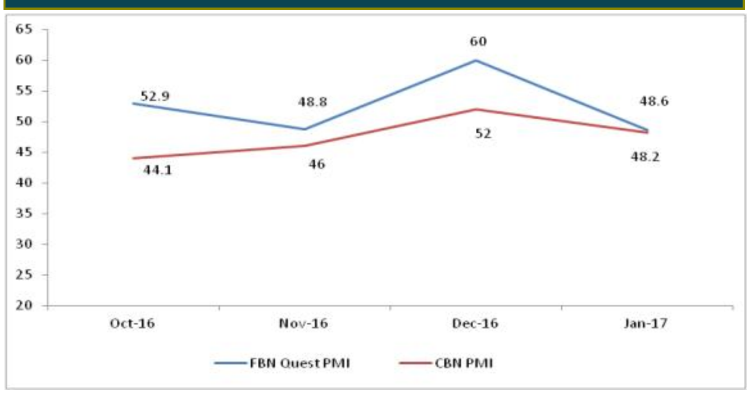
GDP growth rate indicates a point of inflection

The Q4'16 GDP growth numbers came in higher than expected at -1.3%, an improvement from the decline of -2.24% in Q3'16. This puts Nigeria's GDP growth rate in 2016 at -1.51%, placing Nigeria as one of the slowest growing economies in SSA. The contraction in growth, its first in 25 years, was due to a cocktail of factors particularly lower oil output, foreign exchange strictures and a delay in approving 2016 budget.

The favourable GDP numbers in Q4'16 compared to Q3'16 could be attributed to the increase in oil production estimated at 1.9 million bpd, an increase of 0.27 million bpd. The oil sector effectively expanded by 10% because the contraction slowed from 22% to 12%. However, quarter-on-quarter (QoQ), oil sector grew by 8.07%. The oil sector's share of the country's total GDP declined to 8.42% in 2016 from 9.61% in 2015. The objective of economic diversification is being achieved while revenue diversification sees no change. The non-oil sector declined by -0.33%, performing worse than it did in Q3'16 when it grew by 0.03%. The contribution of the non-oil sector to GDP increased to 92.85% from 91.94% in Q4'15. Segments of the non-oil sector that declined include agriculture, real estate, manufacturing, construction and trade.

The growth numbers though historical, help to put the recession and recovery path in context. However, what is more important are projected numbers. In January 2017, we saw the PMI decline below 50. This was probably the result of forex shortage and perceived contracting demand. The PMI in Q4'16 also averaged 53.9 (FBN Quest) and 47.37 (CBN).

Chart 1: Purchasing Managers' Index (PMI)



Source : CBN, FBN Quest

Q1'17 Outlook

In the first two months of 2017, there have been key policy announcements and events which we expect to have a positive impact on GDP shortly. These include forex market reform, power output increase, targeted government spend and social intervention, and the increase in oil prices.

An improved growth outlook, alongside a likely decline in inflation due to base year effects, could influence the CBN's decision making process at the next MPC meeting. The apex bank is likely to pursue a more accommodative stance in order to strengthen the growth trajectory. Though a slight increase may signal a return to growth in the next few months, appropriate and timely policies will be needed to sustain the growth path. We do not expect a quick turnaround and therefore it is too soon to say uhuru.