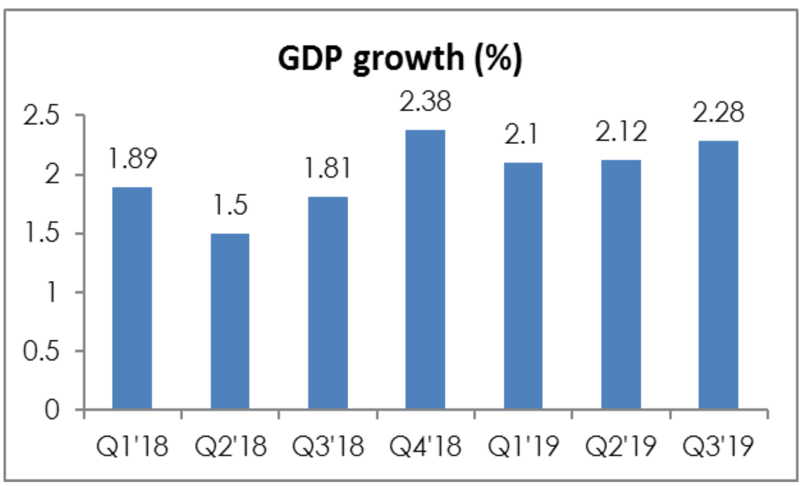
FDC Economic Bulletin

November 22, 2019

Dodging the Recession Bullet – Nigeria grows at 2.28%

The Q3 GDP report was released this morning and surprised to the upside with a growth rate of 2.28% from a revised growth of 2.12% in Q2'19. While this seems positive, the rate of growth is still way below the ERGP target (4.5%). This is an indication that the economy is in need of more fiscal incentives. The expansion in Q3 GDP can be partly attributed to the government's anti-smuggling strategy and its positive effect on domestic production. Output growth was further supported by the harvest season and increased activities in the construction sector.

A breakdown of the report showed that most of the interest rate sensitive and employment elastic sectors showed slight improvement. This suggests that the various government policies are having medium term effect. Of the 19 activities reported, 10 expanded, 5 contracted and 4 slowed.



[1]

GDP growth mirrors PMI trend

The purchasing managers' index (PMI) is a measure of the performance of the manufacturing sector. The index increased to 56.2 points in September from 49.9 points in June. This sector benefitted from the relative stability in the exchange rate. The closure of the land borders also had a positive impact on output. The manufacturing sector was one of the fastest growing sectors with a growth rate of 1.10%, up from a contraction of 0.13% in Q2'19.

[1]NBS, FDC

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The Nigerian economy is in need of more fiscal incentives

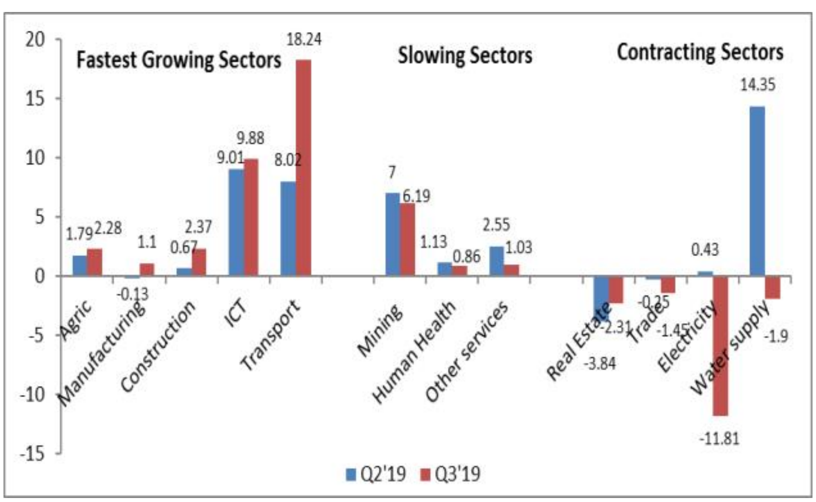
Economic growth is a function of fiscal policy and can only be complemented by monetary policy. While the Q3 GDP numbers showed that the recovery path is sustained, corporate earnings are still suffering. The inability of companies to pass on higher costs to consumers weighed on profitability and revenue growth. Consumer demand was also constrained by low disposable income. The economy needs more fiscal incentives to ensure that growth reaches its potential and full employment levels. Hence, it is expedient that the CBN's current intervention strategy is supported by more investment friendly policies in order to attract more foreign investment which is a catalyst for growth. Fiscal policies can however be complemented by monetary policy to enhance macroeconomic stability.

Sector Breakdown – 10 sectors expanded, 4 slowed while 5 contracted

An in-depth analysis of the GDP numbers showed that the fastest growing sectors are the interest rate-sensitive and job-elastic sectors. The agric, manufacturing and construction sectors expanded by 2.28%, 1.10% and 2.37% respectively. These sectors contribute approximately 40% to GDP and employ more than 30% of the labour force.

The slowing sectors include mining (6.19%) and human health (0.86%). The slow performance in the mining sector was largely due to dwindling oil prices. The average price of oil was $62.03pb in Q3'19, 9.35% lower than the average of $68.43pb in Q2.

The sectors with negative growth include – real estate (-2.31%), trade (-1.45%), and electricity (-11.81%). The trade sector is the first victim of the border closure.



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[2] NBS, FDC

Sub-Saharan Africa – Nigeria is one of the growing countries

Nigeria is one of the growing economies in Sub-Saharan Africa. Of the 11 SSA countries under our review, only Zambia increased monetary policy rate at its last MPC meeting. This is premised on the need to restore macroeconomic stability. With the monetary policy rates unchanged, the data confirms that fiscal incentives are critical in spurring economic growth.

	Q2 GDP Growth (%)	October Inflation Rate (%)	Policy Rate (%)
Nigeria	2.28 (Q3) ↑	11.61 ↑	13.5 ↔
Zambia	-	10.7 ↑	11.5 ↑
South Africa	3.1 ↑	3.7 ↓	6.5 ↔
Ghana	5.7 ↓	7.7 ↑	16.0 ↔
Kenya	5.6 ↔	4.95 ↑	9.0 ↔
Ivory Coast	7.4 ↑	0.3 ↓	4.5 ↔
Mozambique	2.0 (Q4'18) ↑	2.25 ↑	12.5 ↔
Rwanda	12.2 ↑	7.2 ↑	5.0 ↔
Botswana	3.1 ↓	2.4 ↓	4.75 ↔

[3]

Outlook

Consumer spending usually increases in the fourth quarter of the year due to festivities. This alongside the minimum wage implementation is expected to boost aggregate demand. Hence, we expect Q4 GDP growth to come in higher at 2.3%. At this rate, average growth in 2019 will be 2.2%. This is inadequate to make a dent on the rising unemployment (estimated at 30%) or an impact on the lives of the average citizen. Hence, more fiscal incentives and investment friendly policies are required to boost economic activities and attract foreign investment.

[3] NBS, Trading Economics, FDC Think Tank

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