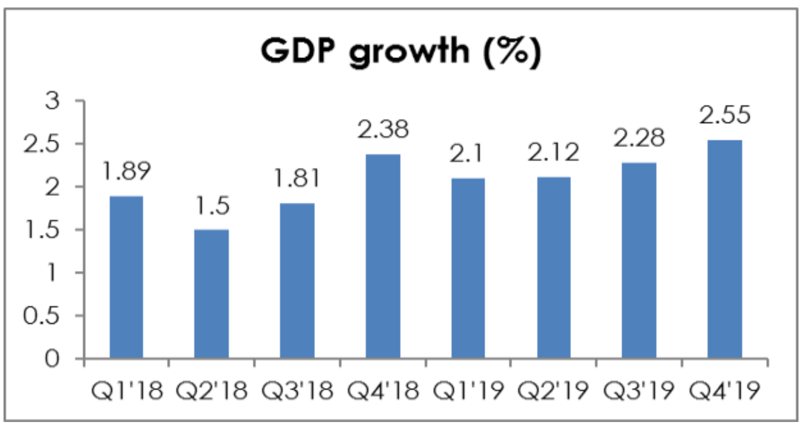
FDC Economic Bulletin

February 24, 2020

Q4 real GDP expands at a faster pace of 2.55%; FY'19: 2.27%

The widely anticipated GDP growth numbers were released this morning and as expected, Q4 real GDP growth expanded at a faster pace to 2.55% from 2.28% in the preceding quarter. This is the fastest quarterly GDP growth rate since Q4'15 and is largely driven by increased aggregate spending (Christmas effect) and the minimum wage implementation. The full year growth for 2019 is 2.27%, 0.36% higher than the average growth of 1.91% in 2018. While this seems impressive and depicts that the momentum along the economic recovery path has been sustained, the rate of growth is still sub-optimal to drive inclusive and transformational growth.

During the quarter, the fastest growing sectors covers the productive and services segment of the economy - agriculture (2.31%), manufacturing (1.24%), ICT (10.16%) and finance & insurance (20.18%). The prolonged closure of the land borders alongside the low interest rate environment positively impacted domestic production.



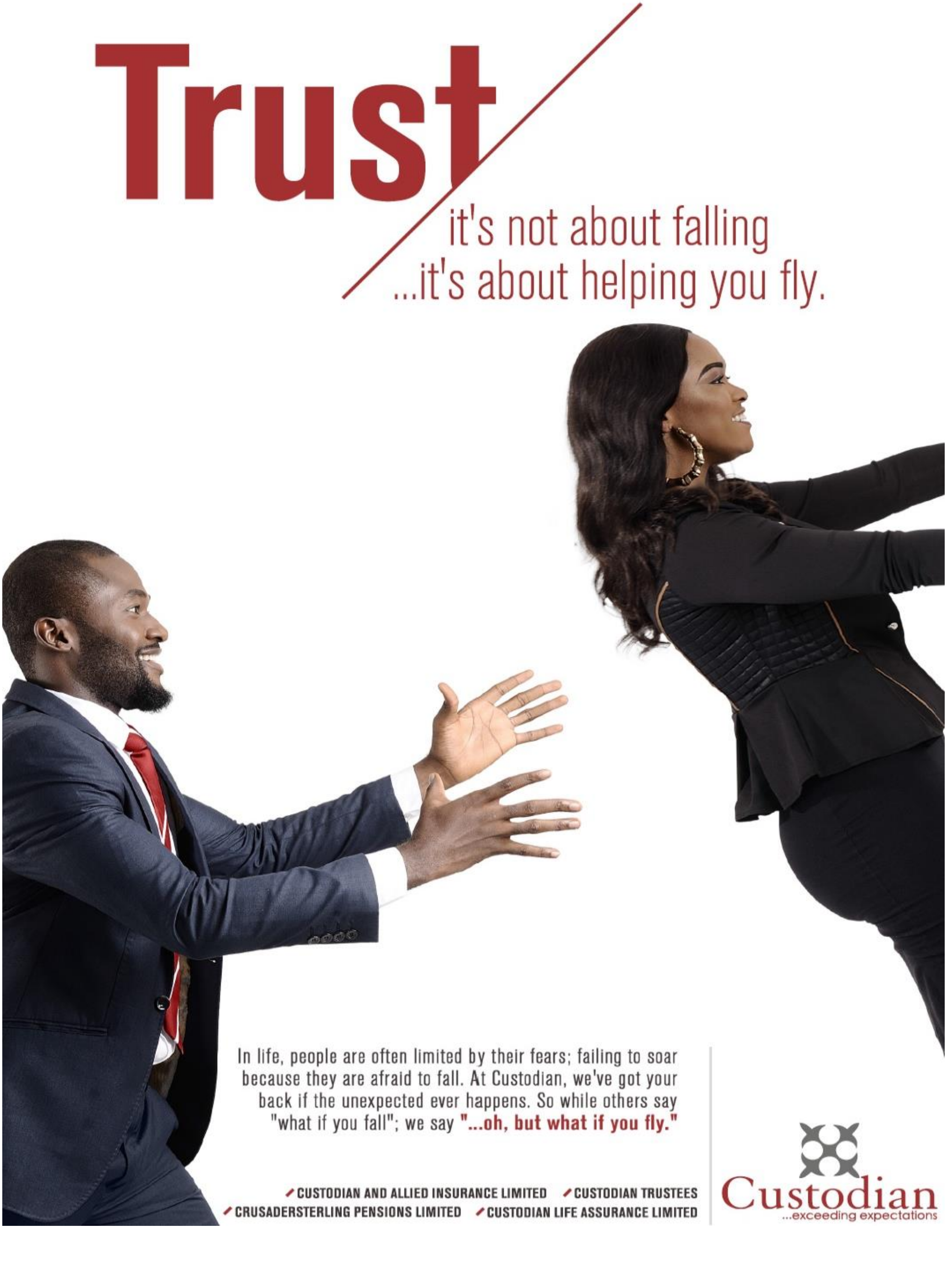
[1]

Oil and Non-oil Sectors – "Oil Still a White Knight"

An in-depth analysis of the data showed that GDP growth is largely underpinned by oil, despite the decline in its growth and contribution. The sector's growth and contribution to GDP slowed to 6.36% and 7.32% in Q4 from 6.49% and 7.06% respectively in Q3'19. The non-oil sector, on the other hand, grew by 2.26%, up from 1.84% in Q3'19. Its contribution to GDP also expanded by 2.45% to 92.68% from 90.23% in Q3'19.

The slowdown in the oil sector growth can be largely attributed to lower oil production amid dwindling oil

[1]NBS, FDC Think Tank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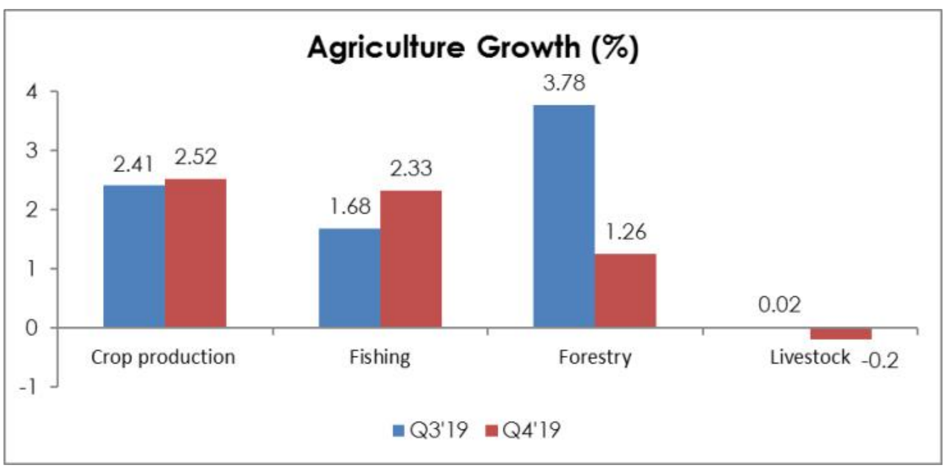
prices. During the review period, oil production declined by 1.96% to 2.0mbpd from 2.04mbpd in the previous quarter. In recent times, the OPEC joint technical committee proposed additional production cuts of 600,000 barrels per day to cushion the effect of the coronavirus outbreak on oil prices. Notwithstanding this measure, we do not expect a significant increase in oil prices. Moreover, the enforcement of the additional oil production cuts could mean that Nigeria's oil production would fall below the current level of 1.78mbpd. The Nigerian economy is more sensitive to oil production than prices. This should serve as a wake-up call to the government to intensify efforts to diversify the revenue base, especially with the IMF's downward revision of Nigeria's 2020 GDP growth forecast to 2.0%.

Agriculture: Border closure impact mixed

The agriculture sector has been a major beneficiary of various governments' interventionist policies such as the Anchor Borrowers program, the single digit interest rates and the forex access restriction on some food items. Recently, the sector's overall performance has been largely supported by output growth due to the closure of the land borders. However, a breakdown of the data showed that the border closure had varied impact on the sector's activities. For instance, in Q4'19, crop production (2.52%) and fishing (2.33%) expanded while forestry (1.26%) slowed and livestock (-0.20%) contracted. The closure of the land borders resulted in reduced supplies of poultry products (turkey and chicken). This alongside the farmers-herdsmen clashes in the North Eastern Nigeria contributed to the contraction in the livestock segment.



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Finance and insurance sector grew sharply by 20.18% - LDR increase yielding fruit?

The finance and insurance sector was the fastest growing in Q4'19, expanding by 20.18% from 1.07% in Q3'19. This impressive growth can be partly attributed to the CBN's unorthodox policies. The Apex bank, in

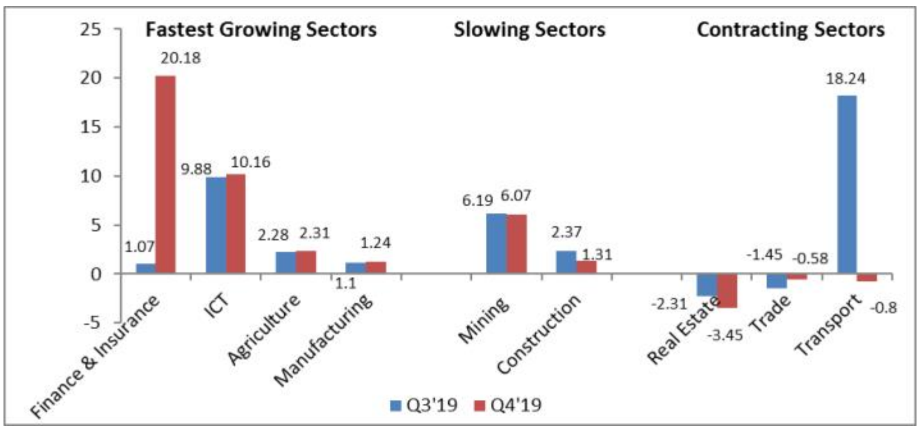
[2]NBS, FDC Think Tank

a bid to boost lending to the private sector, mandated banks to increase their loan-to deposit ratio (LDR) to 65% effective December 2019. This resulted in an increase in loans and advances of banks. The six banks that have reported their Q4'19 financials recorded a 21% increase in loans and advances to N6.85trn in 2019 from N5.67trn in 2018.

Sector Breakdown – 8 sectors expanded, 6 slowed while 5 contracted

The fastest growing sectors were finance & insurance (20.18%), ICT (10.16%), agriculture (2.31%), manufacturing (1.24%). These sectors are job elastic and highly sensitive to interest rates. Thus, the improved performance can be partly attributed to the decline in lending rates. More importantly, the agric and manufacturing sectors benefited positively from the border closure.

The slowing sectors include mining (6.07%) and construction (1.31%) while the contracting sectors were - real estate (-3.45%), trade (-0.58%), and Transport (-0.80%). Trading activities slowed due to the closure of the land borders.



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Outlook

We anticipate a slowdown in Q1'20 GDP numbers as a result of the usual lull in business activities in January. However, the Bankers Committee met last week to deliberate on the possibility of collaborating with the Federal Government in bridging the country's huge infrastructure gap which is estimated at $3trn. This is expected to stimulate growth albeit in the medium to long term.

[3] NBS, FDC Think Tank