FDC Economic Bulletin

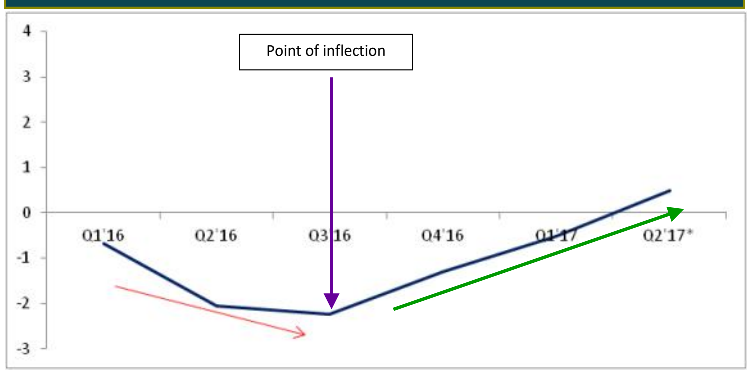
May 23, 2017

Nigeria's Real GDP Shrinks 0.52% in Q1

Real GDP growth in Nigeria contracted by -0.52% in Q1'17, representing the fifth consecutive quarter of negative growth since the recession started in 2016.

The good news is that economic contraction is occurring at a slower pace. In other words, there is an expansion of activity directionally but still negative in nominal terms. The time lag between when policy decisions are made and the effect on economic activity is important, as it highlights the need for fiscal and monetary policy coordination in delivering the common goal of accelerated growth in a stable economic environment.

Chart 1: GDP growth (%)



Source : NBS, FDC Think Tank

GDP Breakdown

The NBS report shows that key sectors such as agriculture, finance, manufacturing, ICT, construction, transport and education are currently in positive territory. A troubling development is the persistent decline in the agricultural sector although still in the positive quadrant.

The oil sector contracted at a slower pace meaning that it effectively expanded by 6%. This is because it moved to -11.64% in Q1'17 from -17.7% in Q4'16. Although the oil sector only contributes 8.9% to GDP, oil

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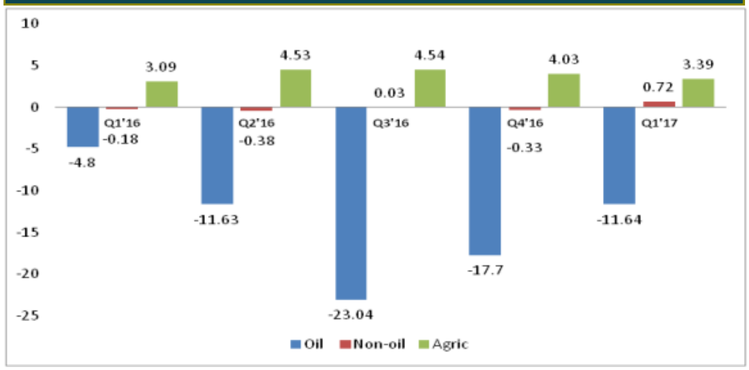
revenues are a major catalyst for other sectors in the economy, as the major source of forex earnings. The CBN's injections in the economy only began at the tail end of the quarter and as such its anticipated impact in Q1 was marginal compared to expectations.

Chart 2: Sector Growth (%)



Source : NBS, FDC Think Tank

Impact

The pace of growth in Q1'17 remains sluggish, in spite of the improvement recorded in some business proxies used to describe output performance. First quarter 2017 was the period the CBN commenced its agenda to boost liquidity in the forex market and ensure exchange rate stability, with sales of approximately $4bn. The naira appreciated 25% at the parallel market and we saw a convergence in market rates. Q1'17 was also the quarter in which the Purchasing Manager's Index (FBN PMI) increased to 52.8 (March). Whilst Nigeria's oil output dropped marginally to an average of 1.53mbpd from 1.58bpd in Q4'16, average oil prices were higher at $55pb relative to $51pb in Q4'16.

A total of N1.4trn has been shared in Q1'17 by all arms of government. However, the impact of this stimulus was not as robust as anticipated. This opens the door to private investment. However, a credibility gap still hovers in the market despite interventions by the CBN. It will take a long time for confidence to be restored, therefore as mentioned, synergy and clarity amongst policies and policymakers is imperative.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Q2'17 outlook

The budget has been approved and is awaiting presidential sign off which is expected this month. Therefore, we anticipate that increased spending on the fiscal front will help increase output both in the long and short run. However, for the economy to feel the full impact of investment, private sector investment has to be amplified. With the recent policy shift especially towards improving the ease of doing business in the country, we expect a slow but consistent recovery in investor confidence. Even though the economic recovery may have begun, it is only likely to become manifest in Q2 and Q3.

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