FDC Economic Bulletin

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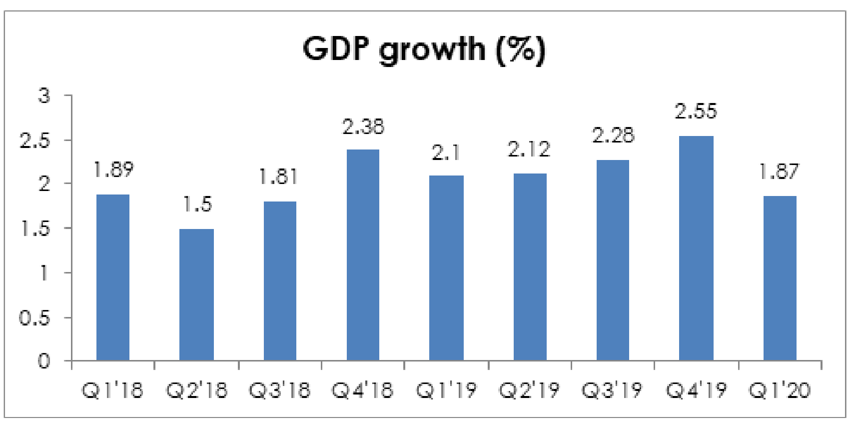
Nigerian economic pre-conditions catch up with it as Q1 slows

The Nigerian economy was already struggling in 2019. It grew by 2.27%, below the population growth of 2.6%. Many analysts had projected a steeper fall in the Q1'20 to as low as -2.5% as a reflection of the Covid impact.

Nigeria's macroeconomic pre-condition of slow productivity and shallow gross capital formation is catching up with it prior to the Covid induced paralysis. Its growth in Q1 typically a period of seasonal sluggishness was a mere 1.87%. When compared to the corresponding period in 2019, it shows a modest decline but when put in the trend line in comparison to the last quarter, the slide become more obvious. It also sets the stage for a precipitous crash in growth in Q2 which is estimated by some analysts to be as much as -3.5%.

If growth slides further to below 0%, it would mean that Nigeria may be caught in a stagflation trap. The Q1 numbers show once again that the Nigerian economy was salvaged again by growth in the oil sector courtesy of OPEC quota bursting. This will become more evident with the 42% fall in oil price and strict enforcement of the OPEC quota. The limitations of monetary policy tools in solving fiscal problems are now transparently evident.



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[1]NBS, FDC Think Tank

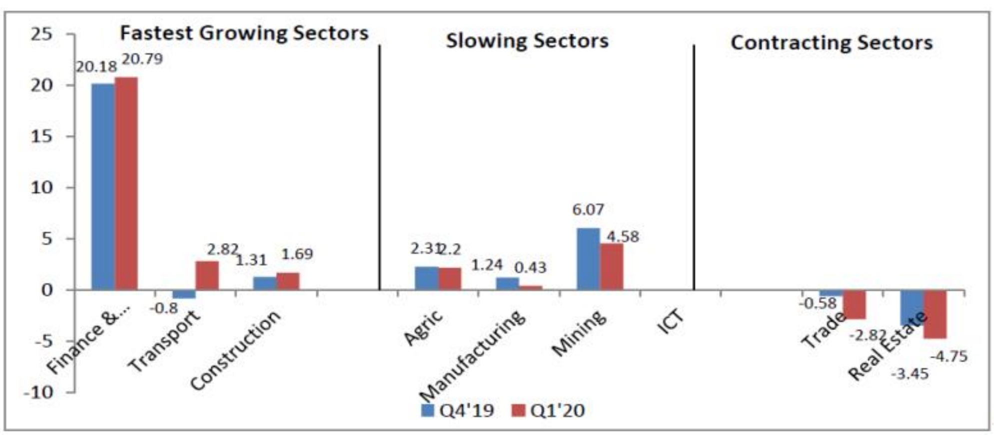
Oil and Non-oil Sectors

A breakdown of the report shows that GDP growth is still largely underpinned by oil, which grew by 5.06%. This was primarily due to the 3.5% increase in domestic oil production to 2.07mbpd. The sector's contribution to GDP increased to 9.5% from 7.32% in Q4'19. The non-oil sector grew by 1.55%, down 0.71% from 2.26% in Q4'19. The sector's contribution to GDP also slowed to 90.5% from 92.68%

Sector Breakdown – 4 activities expanded, 7 slowed while 6 contracted

- **Fastest growing are mainly in services**
- **Slowing sectors are employment elastic and interest rate sensitive**
- **Contracting sectors are lockdown sensitive**

The Covid effect started in Q1'20 but mainly external. The impact was felt most by sectors such as trade that are heavily reliant on imports. Of the 46 activities tracked by the NBS, only 9 outperformed the national GDP growth rate. The fastest growing sectors are mainly in services - finance & insurance (20.79%), transport (2.82%) and construction (1.69%). The slowing and contracting sectors are employment elastic and lockdown sensitive - agric (2.20%), manufacturing (0.43%), mining (4.58%) and ICT (7.65%), real estate (-4.75%), trade (-2.82%), and accommodation (-2.99%).



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Outlook

Real GDP growth is projected to contract by -3.5% in Q2'20 and –2.9% in Q3'20. This implies that the economy will most likely slide into recession in the third quarter of 2020. Recessions are usually

[2]NBS, FDC Think Tank

accompanied by employee layoffs, increasing unemployment. The economy is in dire need of a fiscal stimulus to jumpstart investment.

The MPC at its meeting tomorrow will be influenced by the growth numbers, but will be more worried about the exchange rate induced inflation of 12.34%. Even though lowering interest rates will help growth, the MPC is likely to maintain status quo in view of the many uncertainties.