FDC Economic Bulletin

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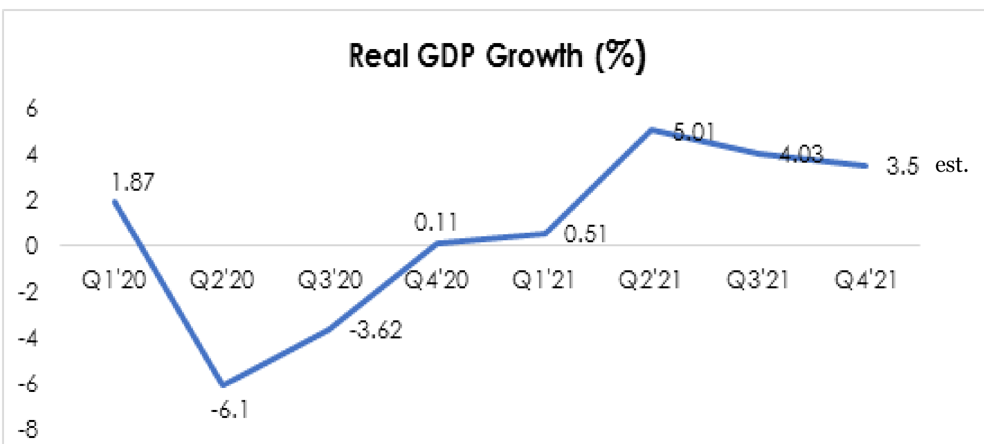
GDP slows (4.03%) as base year effects wane

The Q3 GDP report was released 7 days ahead of schedule. The growth rate even though slower than Q2 was a positive surprise to analysts and the markets. The economy grew by 4.03% (year-on-year) compared to 5.01% in Q2'21. The average growth rate in 2021 is 3.18%, which exceeds the IMF and World Bank forecasts of 2.6% and 2.4% respectively.

The positive growth was largely supported by sustained recovery in the non-oil sectors, especially rail transport (59.93%), air transport (33.31%), financial institutions (25.50%), telecoms (10.87%) and construction (4.10%). The two most important sectors of the economy— petroleum, which contracted sharply and agic, which slowed, are a cause for concern to policy makers. The petroleum sector is a major source of revenue and foreign exchange earnings while the agric sector is the highest contributor to GDP (29.94%) and the largest employer of labour (54.7%). Insecurity remains a major threat to agriculture. It has also triggered a major shift from road to rail and air transport as the preferred mode of transportation.



Nigeria needs consistent reforms to achieve sustainable growth

The average rate of growth in 2021 (3.18%) is 5.72% lower than the potential GDP growth of 8.9%. This is partly because of heightened insecurity and currency pressures. The IMF, in its article IV review maintains that consistent reforms in exchange rate and fiscal consolidation are crucial for investment and sustainable

growth. The big-push theory, which was propounded by Paul Rosenstein-Rodan, emphasizes the need for massive capital investments in developing economies if they are to achieve sustained and inclusive growth.

Oil sector growth still in the negative territory

The oil sector growth remained in the contraction territory but improved to -10.73% from -12.65% in Q2'21. This tepid performance can be largely attributed to lower oil production. Average oil production in Q3'21 was 2.48% lower at 1.57mbpd due to slowdown in drilling activities and pipeline sabotages. During the review period, there was a force majeure on one of the country's major oil export terminals (TransForcados Pipeline) due to operational challenges. Meanwhile, the sector's contribution to GDP increased to 7.49% from 7.42% in Q2'21.

Sector Performance – 27 expanded, 13 slowed and 6 contracted

Of the 46 activities tracked by the NBS, 27 expanded, 13 slowed and 6 contracted. The expanding sectors are relatively job inelastic, although they have the ability to boost productivity. The agric and trade sectors that employ about 70% of the labour force slowed in Q3 due to heightened insecurity, currency weakness and low consumer purchasing power.

Expanding Activities	Q2'21 Growth Rate (%)	Q3'21 Growth Rate (%)	Rationale	Impact on the Economy
Rail transport	53.28	59.93	* Shift to rail transport due to heightened insecurity	* Decongestion of traffic on major roads to boost productivity and efficiency
Air transport	4.98	33.31	* Increased air passenger traffic due to heightened insecurity and resumption in physical business operations	* Air transport is a faster means of transportation. It will boost productivity and efficiency
Financial institutions	-4.54	25.50	* Increased use of e-payment platforms as economic activities improve	* Velocity of circulation to increase efficiency but could stoke inflationary pressures
Telecoms	5.90	10.87	* Increased commercial usage but reduced personal usage due to low purchasing power	* Sector is a growth booster

Food, beverage & tobacco	4.87	6.07	* Re-opening of restaurants and hotels	* Sector's growth would be limited by squeezed purchasing power
Cement	3.89	5.68	* Increased demand for cement for construction purposes	* Sector to continue to benefit from government construction projects
Construction	3.70	4.10	* Increased government investment especially in road infrastructure. Private construction still limited by low disposable income	* Boost in productivity and labour intensive

Slowing and contracting sectors include:

Slowing & Contracting Sectors	Q2'21 Growth Rate (%)	Q3'21 Growth Rate (%)	Rationale	Impact on the Economy
Road transport	92.38	21.11	* Heightened insecurity reducing road passenger traffic	* Labour-intensive (employs 54.7% of the labour force)
Trade	22.49	11.90	* Weak aggregate demand due to squeezed consumer purchasing power	* Labour-intensive (employs about 16% of the labour force)
Real estate	3.85	2.32	* Reduced real estate activities due to low purchasing power	* Relatively labour intensive
Crop production	1.38	1.36	* Insecurity a major threat * Benefitted from govt interventions	* Labour-intensive (employs 54.7% of the labour force)
Crude petroleum & natural gas	-12.65	-10.73	* Low oil production	* Nigeria is more sensitive to oil production than price

Outlook & Impact

Real GDP growth will remain positive but likely to decline again in Q4 (3.5%) as base year effects wane. The sustained moderation in inflation (15.99%) and the positive GDP growth (4.03%) may persuade the MPC to maintain status quo in its policy stance.