GDP BULLETIN Q1 2023

MAY 25, 2023

FDC FINANCIAL DERIVATIVES COMPANY

NIGERIA'S Q1 GDP GROWTH SLOWS TO 2.31% AS NAIRA REDESIGN TAKES ITS TOLL

The National Bureau of Statistics (NBS) released Nigeria's Q1'23 GDP report yesterday (May 24) as expected. In line with our forecast and most analysts' predictions, real GDP growth slowed to 2.31% (year-on-year) from 3.52% in Q4'22 and 3.11% in Q1'22. Output growth in the quarter was driven mainly by financial services (25%), telecommunications and information services (11.7%), and metal ore (52.6%).

The first quarter is usually characterized by a lull in economic and business activities due to the delay in the resumption of business operations. In 2023, it was compounded by the adverse effects of the Naira cash crunch and fuel scarcity.

A breakdown of the data showed that almost all the employment elastic sectors were severely affected by the Naira cash crunch. The agriculture sector, for instance, contracted for the first time in over a decade (-0.9%) while the manufacturing and trade sectors slowed to 1.61% and 1.31% respectively. This is not surprising as most business transactions, especially in the informal sector are settled with cash.

Q1'23

2.31%

▼ 1.21%

From:

3.52%

Q4'22

Q1'23

2.31%

▼ 0.80%

From:

3.11%

Q1'22

REAL GDP GROWTH (%)

Source: NBS, FDC

BREAKDOWN OF DATA

OIL AND NON-OIL SECTORS

The oil sector contracted by 4.21% in Q1'23, an improvement from –13.38% in Q4'22 and –26.04% in Q1'22. This was bolstered by higher oil production. Domestic oil production averaged 1.51mbpd during the review period, 12.69% higher than 1.34mbpd in Q4'22 and 1.34% above 1.49mbpd in Q1'22. Improved oil production largely reflects increased efforts by the government to curb oil theft and pipeline vandalism in the upstream oil sector. The sector contributed 6.21% to GDP in Q1'23, up from 4.34% in Q4'22 but down from 6.63% in Q1'22.

The non-oil sector growth slowed to 2.77% in Q1'23 from 4.44% in Q4'22 and 6.08% in Q1'22. This was partly due to the sub-optimal performance of the agriculture, trade, manufacturing and construction sectors. The non-oil sector contributed 93.79% to the GDP in Q1'23. This is 0.42% higher than 93.37% in Q1'22 but 1.87% lower than 95.66% in Q4'22.

AGRIC SECTOR

Q1'23

-0.90%

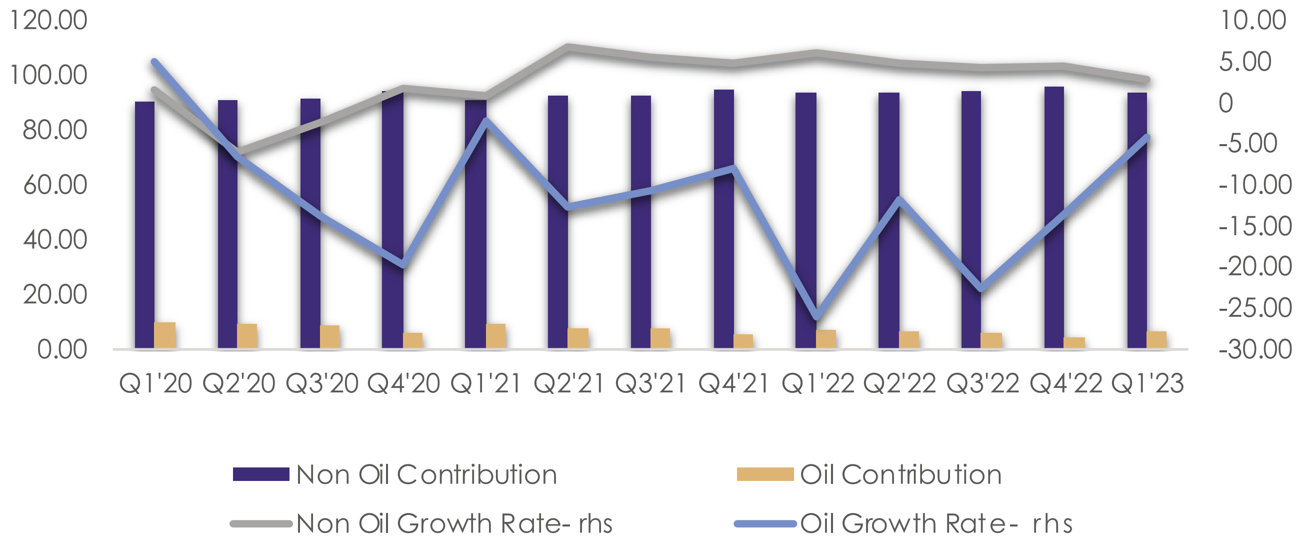
▼2.95%

From:

2.05%

Q2'22

OIL SECTOR VS NON OIL SECTOR (%)



Source: NBS, FDC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SECTOR PERFORMANCE

SECTOR ACTIVITIES TRACKED

12	22	12
EXPANDED	SLOWED	CONTRACTED

SECTOR PERFORMANCE – 12 EXPANDED, 22 SLOWED, AND 12 CONTRACTED

Only 26.09% (twelve) of the 46 activities tracked by the NBS expanded in Q1'23 compared to 36.96% (Seventeen) in Q4'22 and 54.35% (twenty-five) in Q1'22. Notably, the expanding activities are mostly in the services sector, which is relatively job inelastic.

Expanding Activities	Q4'22	Q1'23	Rationale
Metal ores	-1.97	52.56	Increased gold mining activity (by Segilola and others). Increased demand for metal by the Dangote refinery also boosted activity in the sub-sector.
Financial Institutions	12.41	24.96	Increased usage of e-payment channels boosted revenue and profitability
Air Transport	18.01	19.45	Heightened insecurity increased demand for air transport services
Telecoms	11.24	11.71	Increased usage of digital platforms boosted demand for data. Telcom growth was also buoyed by increased investment in the industry and increased adoption of 5G-enabled devices
Road Transport	-0.68	8.02	Shift to road transportation due to increased attacks on the rail facilities

Source: NBS, FDC

CONTRACTING AND SLOWING SECTORS ACCOUNT FOR 73.91% OF TOTAL ACTIVITIES

A breakdown of the data showed that 47.83% (22) of the 46 activities slowed while 26.09% (12) contracted. Most of the activities in this category are employment elastic. They were mostly affected by the squeeze in Naira liquidity, interest rate hikes and forex scarcity.

Slowing Activities	**Q4'22**	**Q1'23**	**Rationale**
Quarrying	23.68	0.23	Could be partly attributed to reduced demand for construction activities
Trade	4.54	1.31	Most transactions in the informal sector are settled with cash
Cement	3.89	1.58	Reduced construction activities (especially private construction activities) due to lower disposable income and higher costs of building materials
Crop production	2.41	1.93	Reduced demand due to naira scarcity
Education	1.23	0.72	Japa syndrome, insecurity (and kidnapping of school children) and increasing trend in school dropout weighed on the sector's performance
Construction	3.80	3.27	Low consumer disposable income and high cost of building materials weighed on private construction activities High debt combined with low revenue stymied public spending on capital project, including construction

Contracting Activities	Q4'22	Q1'23	Rationale
Rail Transport	3.81	-49.08	Heightened insecurity reduced demand for rail services
Oil refining	-39.23	-35.84	Suspension of refining activity in almost all the nation's refineries undermined the sector's activity
Livestock	-1.59	-30.57	Reduced demand due to naira scarcity High cost of feeds Rising insecurity
Insurance	2.21	-8.01	Could be partly attributed to low disposable income Increase in the cost of operation weighed on the payment of insurance premiums as well as the purchase of new policies

CAN THE DANGOTE REFINERY TURN THE TIDE?

There is no doubt that the Dangote refinery and petrochemicals will be a major game-changer, especially in Nigeria and other West African countries. However, it is a necessary but not sufficient condition for macroeconomic stability and growth. The expected reduction in downtime (fuel queues) due to the increased availability of petroleum products would boost productivity and bolster output growth. The mega project, which can process 650,000 barrels of crude oil per day is expected to create 9,500 direct jobs and about 25,000 indirect jobs due to inter-sector linkages.

To turn the tide, critical institutional and policy reforms are required. Policy reforms aimed at addressing the ballooning public debt, unrelenting inflationary pressure, dwindling revenue, and worsening currency crisis must be prioritized.

OUTLOOK

Real GDP growth is likely to slow in Q2 as political activities cloud economic events. This would be compounded by the CBN's hawkish stance, which would increase borrowing costs. The MPC raised the benchmark interest rate by 50bps to 18.5%p.a. at its recently concluded meeting.

The good news is that there is increased probability of policy and institutional reforms after the new government is sworn-in. Even though reforms come with short-term pains, the long term gains are enormous as the economy moves from partial to general dynamic equilibrium.

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