FDC FINANCIAL DERIVATIVES COMPANY

ECONOMIC SPLASH
GDP

Q2 2023

AUGUST 25, 2023

Q2 GDP GROWTH SLOWS TO 2.51% AS POLICY CHANGES SQUEEZE CONSUMER SPENDING

Q2'23

2.51%

▲ 0.20%

From: 2.31%

Q1'23

Q2'23

2.51%

▼ 1.03%

From: 3.54%

Q2'22

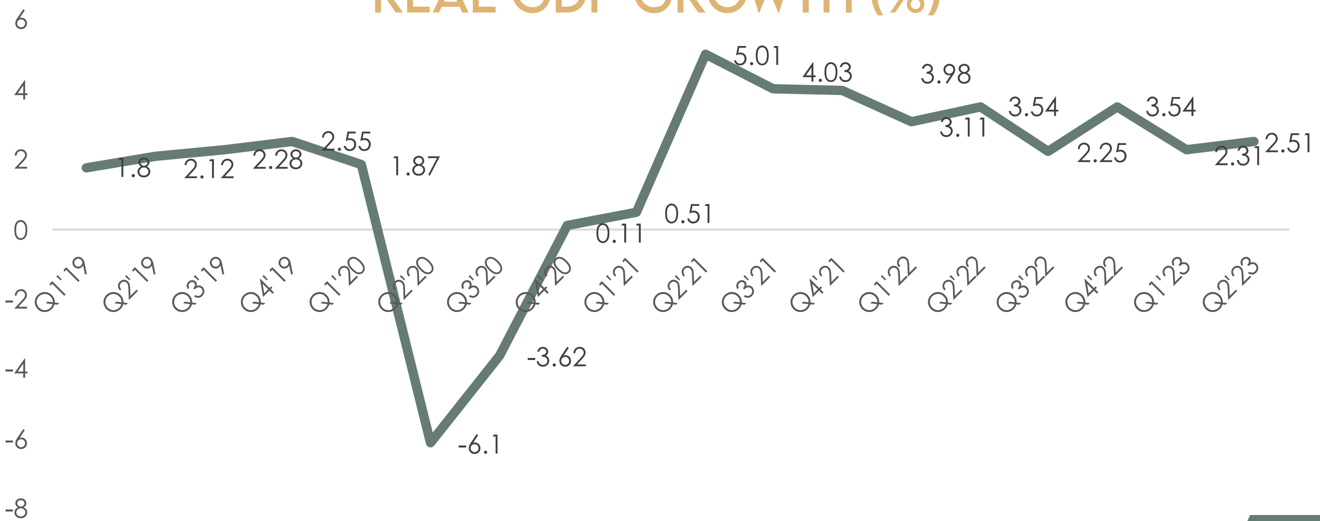
The National Bureau of Statistics (NBS) released the Q2 GDP data today. Real GDP growth declined sharply by 1.03% to 2.51% relative to the corresponding period last year (3.54%). GDP growth has been constrained by many factors, especially the debilitating and lingering effect of the naira redesign policy in Q1'23.

One noticeable trend from the growth report was that the oil sector shrank by 13.43% from -11.77% in Q2'2022. Whilst the Nigerian economy has reduced its output dependence on oil, its revenue and export earnings still remain heavily reliant on the commodity. This sector has been witnessing negative growth for 13 quarters, essentially being in recession for the past three years.

Another major trend is that most of the fast-growing sectors (metal ores, quarrying, rail transport) are not employment intensive, suggesting that unemployment could increase in the coming quarters. Based on the revised methodology adopted by the NBS in collecting labour market data, Nigeria's unemployment rate reduced to 4.1% in Q1'23 from 5.3% in Q4'22. Also, the underemployment rate fell to 12.2% from 13.7% in Q4'22.

The unemployed citizens, according to the new methodology, are those who are not gainfully employed for up to an hour out of the 178 hours in a week and are actively searching and available to work as against the less than 20 hours previously. In practical terms, a citizen who is gainfully employed for just an hour out of the 178 hours in a week can barely survive in this economy.

REAL GDP GROWTH (%)



Source: NBS, FDC

BREAKDOWN OF DATA

OIL AND NON-OIL SECTORS

As mentioned, the oil sector, a major source of revenue and foreign exchange earnings, has been in recession since 2020. In Q2'23, the sector contracted further by 13.43% from -4.21% in Q1'23 and -11.77% in Q2'22. This continued deterioration in the sector's performance was primarily as a result of lower oil production due to persistent oil theft, pipeline vandalism, and force majeure. Average daily oil production fell to 1.22mbpd in Q2'23 from 1.51mbpd in Q1'23 and 1.43mbpd in Q2'22. The oil sector contributed 5.34% to GDP, down from 6.21% in Q1'23, and 6.33% in Q2'22.

The non-oil sector grew by 3.58% in Q2'23, higher than 2.77% in Q1'23 but lower than 4.77% in Q2'22. The slow growth was partly due to the sub-optimal performance of the manufacturing, construction, trade, and real estate sectors as the spillover effects of the naira cash crunch and elevated inflation levels weighed on aggregate demand and productivity. The sector's contribution to GDP rose to 94.66% in Q2'23 from 93.79% in Q1'23 and 93.67% in Q2'22.

OIL SECTOR

Q2'23

-13.43%

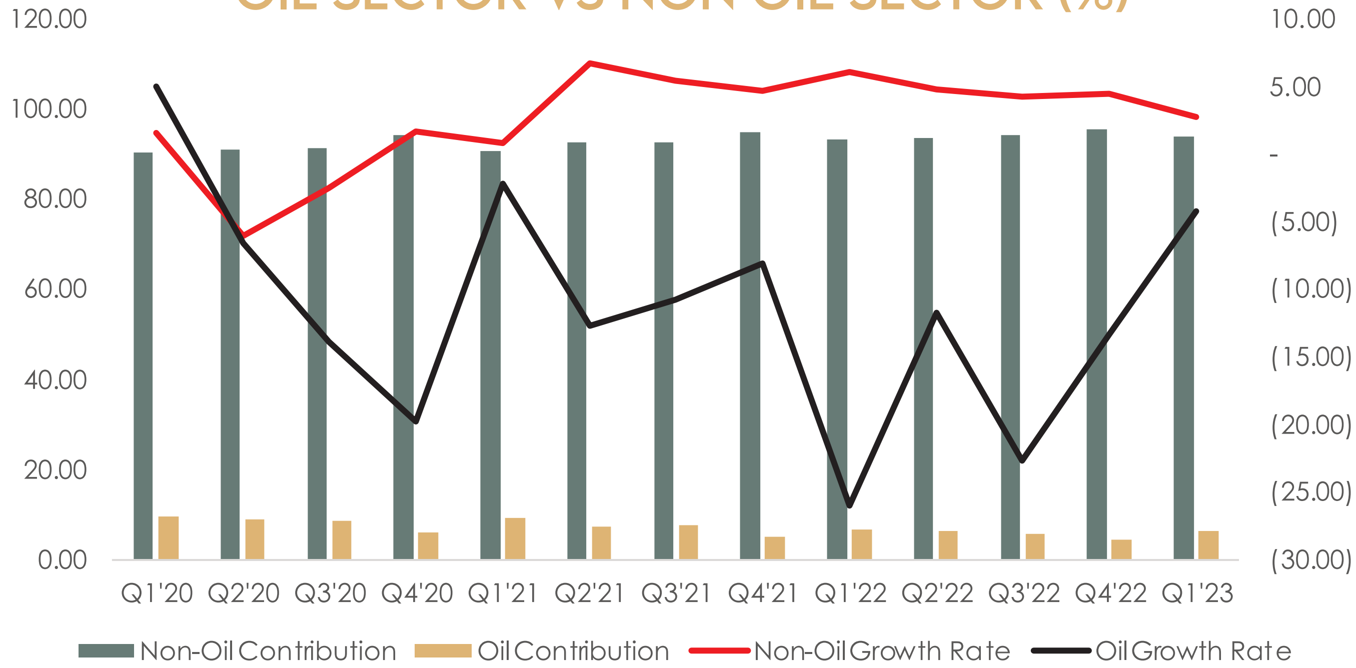
▼ 1.66%

From:

-11.77%

Q2'22

OIL SECTOR VS NON OIL SECTOR (%)



Source: NBS, FDC

SECTOR PERFORMANCE

SECTOR ACTIVITIES TRACKED

16	22	08
EXPANDED	SLOWED	CONTRACTED

SECTOR PERFORMANCE – 16 EXPANDED, 22 SLOWED, AND 8 CONTRACTED

Of the 46 activities tracked by the NBS, 16 expanded in Q2'23 compared to 12 in Q1'23 and 15 in Q2'22. More worrisome is that most of the expanding sectors are not employment intensive and will have a limited impact on unemployment that reduced to 4.1% in Q1'23 from 5.3% in Q4'22. This trend is likely to reverse as aggregate demand falls and firms begin to rationalize headcount to reduce operational costs.

Expanding Sectors	Q2'22	Q2'23	% change
Metal ores	-25.48	65.56	91.04
Quarrying & other minerals	22.15	39.18	17.03
Financial institutions	20.06	29.23	9.17
Rail transport & pipeline	-37.9	16.88	54.78
Telecoms	7.71	9.74	2.03

Source: NBS, FDC

CONTRACTING AND SLOWING SECTORS ARE MOSTLY JOB ELASTIC

A breakdown of the data showed that 22 of the 46 activities slowed while 8 contracted. Most of the activities in this category are employment intensive, primarily affected by currency weaknesses, low consumer purchasing power, and heightened insecurity.

Slowing/ Contracting Sectors	Q2'22	Q2'23	% change
Construction	4.02	3.42	-0.6
Trade	4.51	2.41	-2.1
Manufacturing	3.00	2.20	-0.8
Real estate	4.42	1.87	-2.55
Road transport	56.38	-55.14	-111.52
Oil refining	-42.12	-35.56	5.56
Coal mining	36.06	-15.73	-51.79
Crude petroleum & natural gas	-11.77	-13.43	-1.66

OUTLOOK

We expect real GDP growth to decline further to 2.15% in Q3'23 due to the short-term impact of policy changes on aggregate demand. The deceleration in GDP growth, combined with the surge in inflation to 24.08% in July, will be major considerations at the monetary policy committee meeting in September. Notwithstanding the slowdown in GDP growth, we expect the committee to maintain its aggressive monetary policy stance.

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