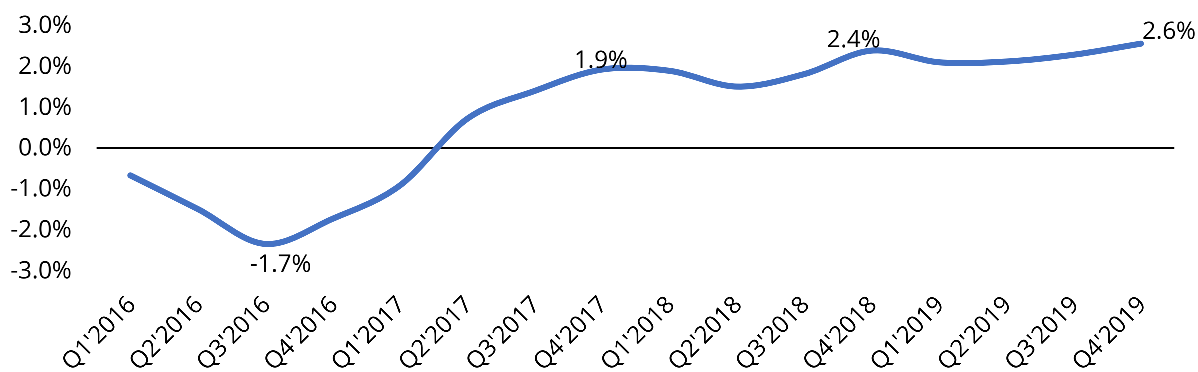
NESG 2019 GDP Alert

February 2020

Nigeria's economic growth improves to 2.3% in FY'2019 – Strongest since the recession

According to the National Bureau of Statistics (NBS), the Nigerian economy grew faster by 2.3% in FY'2019 compared with a growth of 1.9% in 2018. Similarly, the economy expanded by 2.6% in Q4'2019, which represents an improvement over economic growth in the corresponding quarter of 2018 (2.4%) and the third quarter of 2019 (2.3%). It is also the strongest Q4 growth since the recovery of the economy from recession in Q2'2017. In nominal terms, the economy expanded by 12.9% to N144.2 trillion (or $471.2 billion) in 2019 from N127.7 trillion (or $417.3 billion) in 2018. Correspondingly, per capita income grew by 10.1% to $2,258 in 2019 from $2,051 in 2018.[1]

Figure 1: Trend of GDP growth since the 2016 recession



Source: NBS & NESG Research

Growth picks up in oil and non-oil sectors in 2019

Activities picked up in the non-oil sector - which accounted for over 91% of the overall real GDP in 2019 - posting an average growth of 2.1%, marginally higher than the average growth of 2% in 2018. The steady rise in the non-oil sector growth was due to improved performances of crop production and information & communications technology (ICT). Despite the slowdown in the last two quarters of 2019, growth in the oil sector strengthened to 4.6% in 2019 over 1% in 2018. This could be attributed to a 5.3% increase in average domestic crude oil production to 2 million barrels per day (mbpd) in 2019 from 1.9 mbpd in 2018.

[1]The official (or interbank) exchange rate was used as the conversion rate.

Figure 2: Growth Performance of Oil and Non-oil Sector

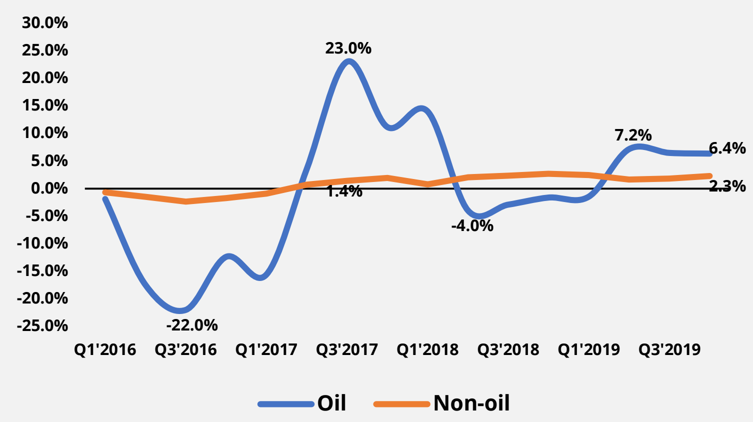
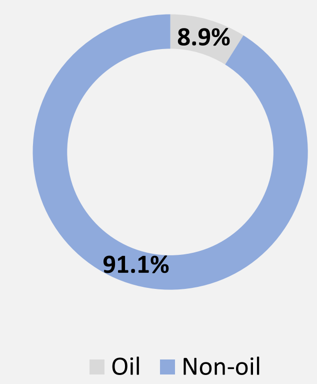


Figure 3: Share in Real GDP



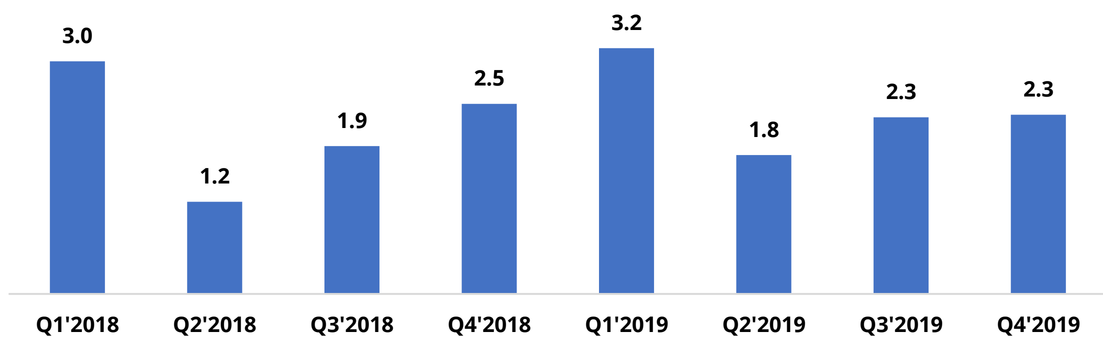
Source: NBS & NESG Research

Sub-sector Assessment

Growth in Agric sector buoyed by higher crop and fish production

As activities picked up in the last two quarters of 2019, the agricultural sector grew faster at 2.4% in FY'2019 relative to an expansion of 2.1% in 2018. This was driven by the crop and fishing production sub-sectors, which expanded by 2.5% and 3.3%, respectively, in 2019. The improved performances of both sub-sectors - with combined share of 92.2% in Agricultural GDP - in the second half of 2019 could be attributed to the various interventionist programmes of the government, such as, the Anchor Borrowers' Scheme, coupled with the positive spill-over effect of the protracted land border closure since August 2019. Meanwhile, growth in the other two sub-sectors - livestock and forestry - slowed to 0.2% and 2.6% respectively in 2019 compared to their performances in 2018.

Figure 4: Growth Performance of Agricultural Sector (%)



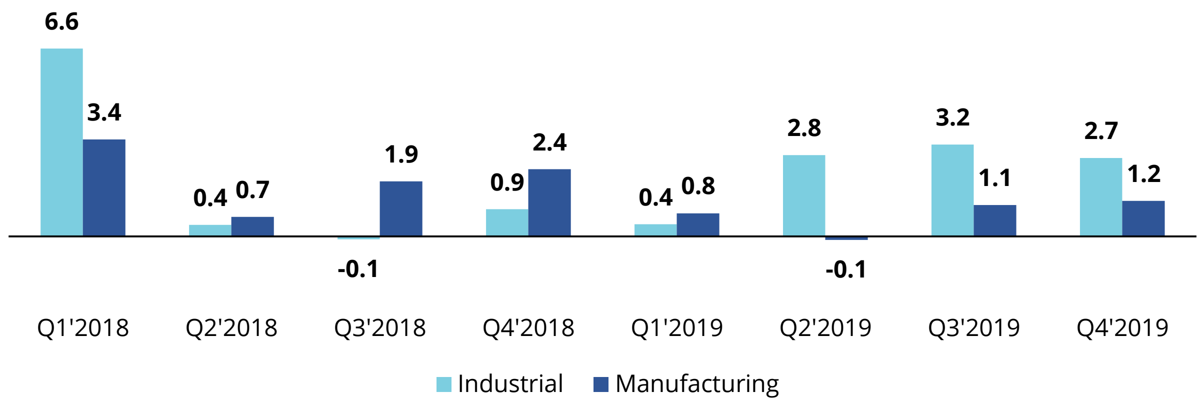
Source: NBS & NESG Research

Improved performance of mining and quarrying drives up industrial sector growth

Owing to improved performance in the second half of 2019, the industrial sector expanded by 2.3% in 2019 from a growth of 1.9% in 2018. The sector's growth was supported by increased activities in the mining and quarrying sub-sector, which grew faster by 4.4% in 2019 up from a growth of 1.1% in 2018. This was in spite of the slowdown in manufacturing and construction sectors, whose growth rates were lower at 0.8% and 1.8%

in 2019 compared to their respective growth rates of 2.1% and 2.3% in 2018. The slow pace of growth in the manufacturing sector could be attributed to a larger contraction in oil refining by 31.4% in 2019. This reflects the abysmal performance of the local refineries, whose output has overtime fallen short of the growing demand for petroleum products across the country. Out of the 14 industrial activities that expanded in 2019, 3 sub-sectors grew faster, 4 registered a growth rebound while 7 grew at a slower pace. However, activities contracted in the remaining 6 sub-sectors in 2019.

Figure 5: Growth Performance of Industrial Sector and Manufacturing (%)



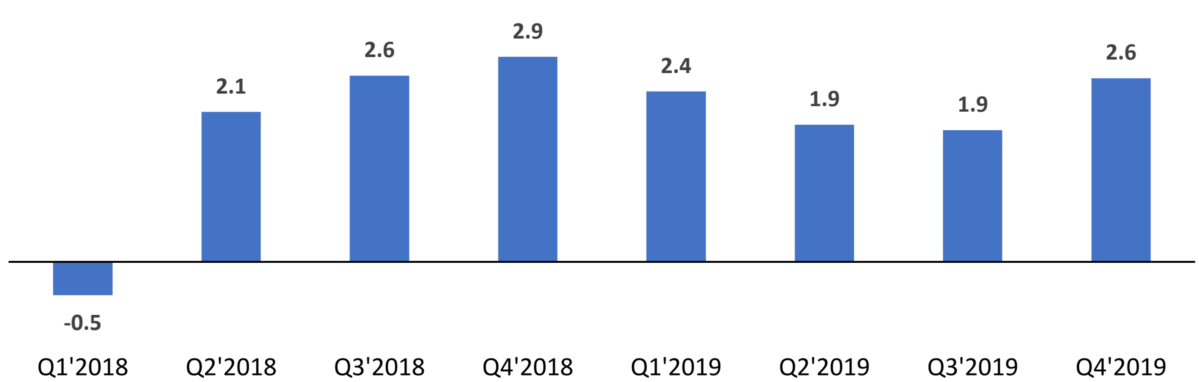
Source: NBS & NESG Research

NB: Manufacturing is a sub-sector of the industrial sector

Services sector growth driven by ICT, as the trade sub-sector contracts further

Against the backdrop of a pick-up in activity level in Q4’2019, the services sector grew faster by 2.2% in FY’2019 compared with a growth of 1.8% in 2018. This could be attributed to a faster growth in the ICT sub-sector at 11.1% in 2019 from 9.7% in the previous year. Meanwhile, the trade sub-sector, which accounts for 46% of services GDP, continued to perform poorly and contracted by 0.4% in 2019. This implies that the protracted land border closure has taken a toll on the level of wholesale and retail trading activities since the third quarter of 2019. Out of the 18 activities in the services sector that expanded in 2019, 5 sub-sectors recorded a faster growth, 4 had a growth rebound while 9 grew at a slower pace. However, activities contracted in the remaining 4 sub-sectors in 2019.

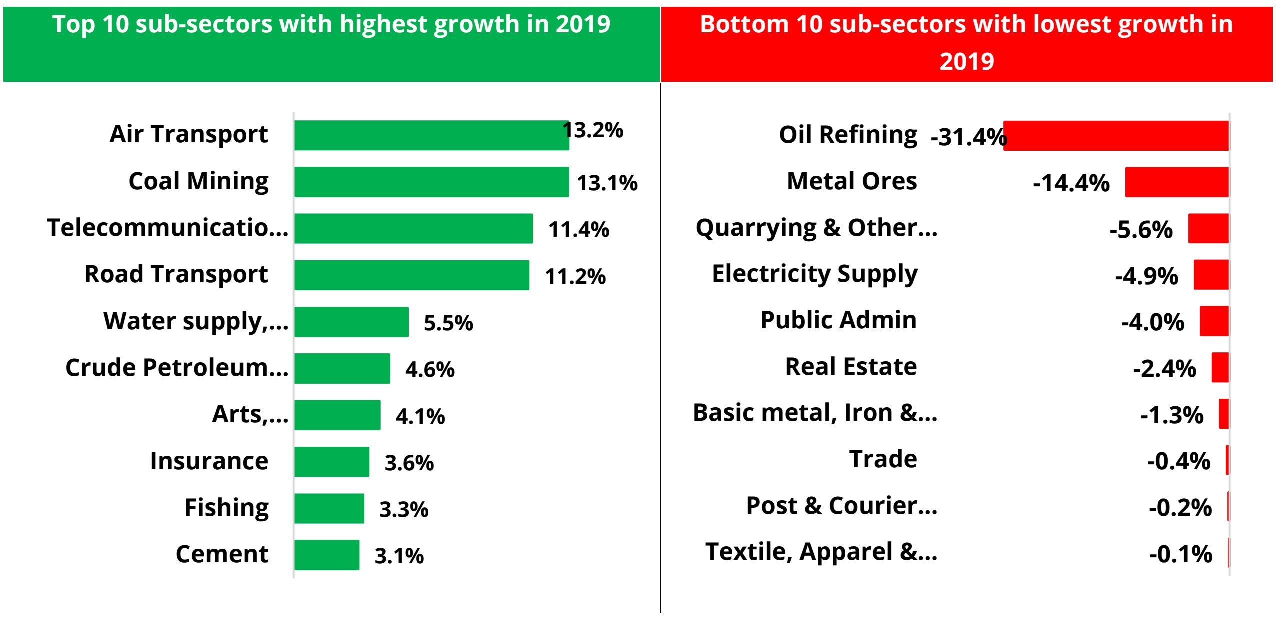
Figure 6: Growth Performance of Services Sector (%)



Source: NBS & NESG Research

Sectoral Breakdown of Growth - Top and Bottom 10 sub-sectors

In terms of activity level, it can be observed that air transport and coal mining sub-sectors led the top 10 expanding sub-sectors with respective growth rates of 13.2% and 13.1%, respectively, in 2019. Telecommunication and information services with a growth of 11.4% emerged as the third leading sub-sector. The coal mining sub-sector could be presumed to have benefitted from the investment announcements in the mining and quarrying sector worth $21.5 billion (or 72% of the total investment commitments) in 2019, according to the Nigerian Investment Promotion Commission (NIPC). Meanwhile, activities contracted in the bottom 10 sub-sectors led by oil refining, which contracted by 31.4% in 2019. Two activities in the mining and quarrying sector - metal ores (-14.4%) and quarrying & other minerals (-5.6%) – emerged as the second and third largest declining sub-sectors, respectively, in 2019.



Source: NBS & NESG Research

Conclusion

- ***Economic growth rate of 2.3% is an improvement but still below potential growth rate***

The current growth rate (2.3%) underperformed the growth expectation of 3.5% in the 2019 approved budget and is still below the ERGP target of 4.5%. More importantly, economic growth in 2019 remains skewed towards few sectors. For instance, only 3 sectors- Crop production, ICT and Crude petroleum & natural gas – accounted for 90% of economic expansion in 2019. The remaining 43 activity sectors had very minimal impact on economic growth in the year. The NESG is of the view that for Nigeria's economic growth to have impact on job creation and poverty reduction, efforts must be channelled towards reviving key activity sectors, particularly those with strong linkages with job creation. In our Macroeconomic Outlook for 2020, we highlighted six sectors – Manufacturing, Construction, Professional Services, Education, Health and Trade- which are fundamental in reducing unemployment and poverty in Nigeria.

- ***Agriculture benefits from protracted land border closure, whilst the trade sector suffers***

Though activities picked up in the agricultural sector since the closure of the land borders in August 2019, the trade sector was not resilient enough as it remained in contraction territory throughout the last three quarters of 2019. Consequently, the inability of domestic food production to match the increasing demand has heightened food inflation since September 2019, reaching a 21-month high of 14.9% in January 2020.

➢ ***Slowdown in manufacturing sector reflects unfavourable business environment***

The slow pace of growth in the manufacturing sector reflects the high cost of doing business, arising from poor power supply, infrastructural deficit and policy inconsistency. Given the overdependence on imported raw materials, the land border closure has reinforced higher cost of operations of the industry players, which have resorted to utilizing other means, such as, sea ports, to import raw materials into the country. In addition, according to several industry sources, manufacturers that export to neighbouring countries were affected by the land border closure.

➢ ***Slowdown in construction reflects huge infrastructural deficits***

The construction sector has witnessed slow pace of growth since the beginning of economic recovery in Q2'2017. Meanwhile, early passage of the 2020 budget and a higher capital budget of N2.5 trillion coupled with the commitment shown by the Bankers' Committee to partner with the federal government to finance infrastructural projects could significantly improve the performance of the construction sector going forward.

In general, the current economic growth is the strongest since the economic recession in 2016. Meanwhile, the current state of the business environment remains a great challenge, particularly for the manufacturing sector. Though Nigeria's Doing Business ranking for 2019 improved by 15 places to 131st out of 190 countries, much reforms are still needed to further ease the age-long business constraints, including the need to ensure stable power supply and to address infrastructural bottlenecks. The commitment to improve the country's business operating environment would not only boost FDI inflows (currently, at less than $1 billion), but would also help accelerate growth in strategic and employment elastic sectors, such as, manufacturing and construction.

About NESG

The NESG is an independent, non-partisan, non-sectarian organization, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

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