Economy Alert:

Nigeria's Trade Balance Swings to a Deficit

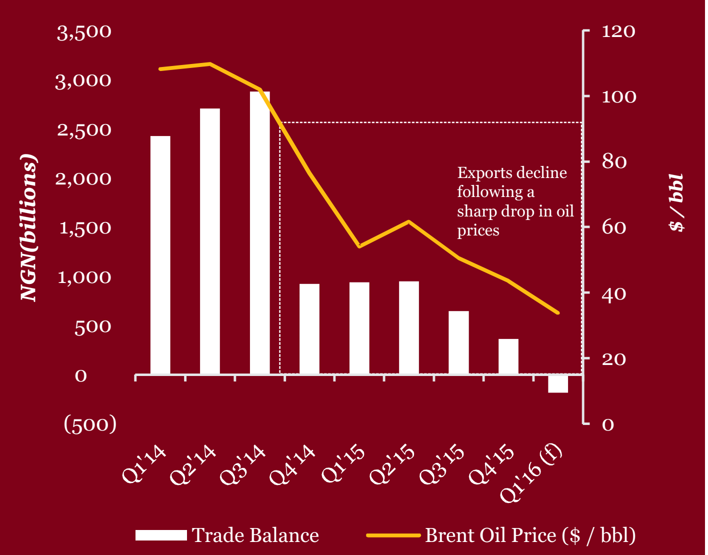
3 June 2016

Trade balance turns negative in Q1 2016

Nigeria recorded a trade deficit of NGN184.1 billion in Q1 2016, a first in seven years, following a steady narrowing of the trade surplus which started in Q4 2014. Exports fell sharply for the sixth consecutive quarter, contracting by 52.35%y/y to NGN1.27 trillion as lower oil prices continued to take its toll and was exacerbated by supply disruptions in Niger Delta. A reduction in imports of intermediate capital goods and refined fuels (46% of total imports) lowered the import bill by 15.84%, thus tapering the size of the trade deficit.

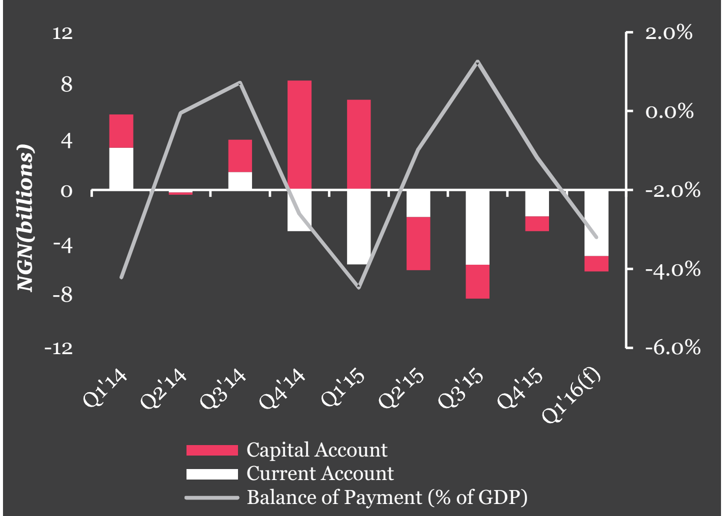
Furthermore, tighter measures around foreign exchange supply appear to have significantly impacted consumer appetite for imports. The import breakdown shows that the importation of processed food and beverages for household consumption receded for the third consecutive quarter in Q1 2016, down 53.6%y/y. China remains Nigeria's top import partner accounting for 23.8% of total imports although we note that Chinese imports declined by 12.2%y/y.

Nigeria's Trade Balance Q1 2014 - Q1 2016



Sources: NBS, PwC Analysis

Nigeria's Balance of Payments Q1 2014 - Q1 2016



Sources: NBS, CBN, PwC Analysis

Exports slump further as oil production plunges

Total exports fell sharply by 52.35% y/y due to a decline in oil exports (64.7% of exports), a reflection of the 37.3%y/y variance in the average oil price in Q1 2016 ($33.84/bbl), as well as a drop in crude oil production to 1.7mbpd (Q1 2015: 1.9mbpd) on the back of supply disruptions in the Niger Delta. Similarly, non-oil exports continued to decline owing to a reduction in export receipts for agriculture inputs as the sector awaits a boost from the government's policy framework.

FX constraints weigh on import demand

Imports declined further on lower consumer and industrial demand, a trend which started in Q1 2015.
Intermediate capital goods (52.2% of imports) was worst hit contracting by 28.5% y/y, thus weighing on the performance of manufacturing GDP, which contracted by 7% in Q1 2016.

Deficit in Balance of Payment to widen

We expect the 2016 current account balance to remain in a deficit at c.4% of GDP as exports contract further on lower oil prices and production shortages, and imports remain tepid given the government's import substitution efforts. The proposed plan for a flexible foreign exchange regime, if supportive of price discovery and liquidity, should provide an uptick to Foreign Direct Investment and Foreign Portfolio Investment. Nonetheless, we expect the Balance of Payments deficit to widen, reaching c.2.8% of GDP in 2016 (2015: -1.18%).

In the long term, Nigeria could strengthen efforts at expanding its non-oil sector exports particularly in services which accounts for only 0.66% of non-oil GDP despite contributing 55% to the economy. Through human capital development, knowledge transfer and technological innovation, Nigeria could become the services hub for West Africa, exporting services at a level similar to India.

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