Economy Alert:

Nigeria 2016 Q1 GDP: Economy contracts to -0.36%y/y

25 May 2016

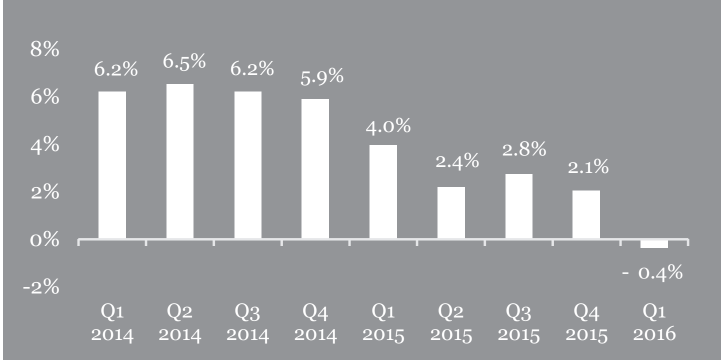
GDP records negative growth in Q1'2016

First quarter real GDP growth in Africa's largest economy contracted to -0.36% y/y (Q1'2015: 3.96% y/y) as the impact of the decline in oil prices continues to hit home.

The slowdown in economic momentum which became evident in Q1'2015 has culminated in negative growth largely on the back of foreign exchange and fuel shortages, which have adversely impacted the operating environment. In addition, the seeming inaction around government policies as well as the delayed passage of the 2016 budget reinforced concerns around Nigeria's economic outlook.

Consequently, the manufacturing and services sectors (69.2% of GDP) were worst hit with growth at -7.0%y/y and 0.8%y/y respectively, relative to -0.7% y/y and 7.0%y/y in Q1'2015 and well below the 5-year first quarter average of 7.2%y/y and 5.6%y/y respectively.

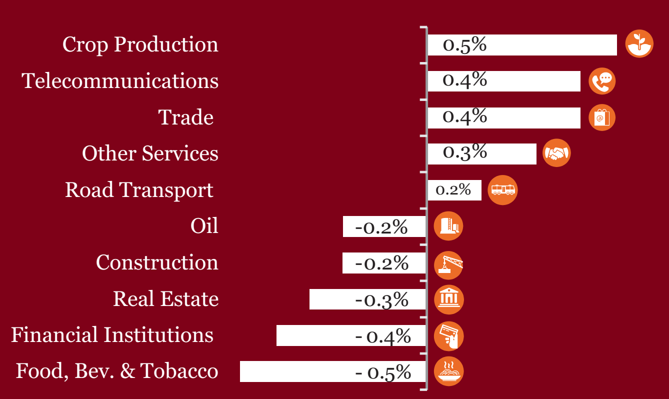
Real GDP Growth (2014-2016)



Sources: NBS, CBN, PwC Analysis

Real growth in the oil sector was -1.9% y/y representing an improvement from -8.2% y/y recorded in Q1'2015. On the bright side, Agriculture (20.5% of GDP) was one of the few sectors which mustered strong positive growth at 3.1% y/y, albeit below trend owing to lower crop output.

Sector Contributions to GDP Growth 2016 Q1



Source: NBS, CBN, PwC Analysis

Manufacturing Sector contracts further

The manufacturing sector, representing 47.9% of Industry GDP, contracted, with growth at -7.0% y/y (Q1'2015 : -0.7% y/y) with sector heavyweights Food, Beverage and Tobacco, and Cement accounting for the drag growth.

Supply chain disruptions resulting from foreign exchange and fuel shortages, as well as the inability of manufacturers to pass on the increased cost of business to market prices reflected on the performance of this sector. We note that the Manufacturing Purchasing Managers' Index declined to 45.9% in the first quarter, relative to 48.9% in Q1'2015.

Growth in Services slows sharply to 0.8%

Services sector (59.7% of GDP) recorded real growth of 0.8% y/y, an all time low, relative to 7.0% y/y in Q1'2015. This was largely driven by slower activities within the trade sector, a result of lower import demand, foreign exchange unavailability, as well as a decline in consumer real incomes following: sticky wage growth, rise in unemployment and the inability of some state governments to meet wage and pension obligations.

In addition, financial institutions and real estate subsectors contracted to -11.3% y/y and -4.7% y/y respectively, a reflection of a tighter credit environment even as banks have become more cautious in consideration of rising impairment charges.

2016 Prospects

Growth in the non-oil sector (89.7% of GDP) has been the main driver of Nigeria's economic growth (5-year average: 6.2%), and employment. Whilst we expect growth in Q2 to be as tepid as Q1, we are optimistic about the second half of 2016.

First, the passage of the 2016 budget allows for some implementation of fiscal policy which is supportive of growth. Second, the introduction of a flexible interbank foreign exchange should improve trade flows and unlock Foreign Direct Investment, thus complementing the government's reflationary plans. Third, the boost from the harvest season in the second half is typically supportive of Agriculture sector growth (20.5% of GDP).

Nonetheless, the major headwind remains consumer expenditure (representing 65% of GDP) which in our view is unlikely to recover until structural bottlenecks ease and the impact of policies restore wage growth. Consequently, we expect 2016 real GDP growth to remain below trend, at 1.6%y/y.

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