

Nigeria Economic Alert

As real GDP settles at 2017 levels, implementation of wide-ranging reforms is imperative to quicker recovery...

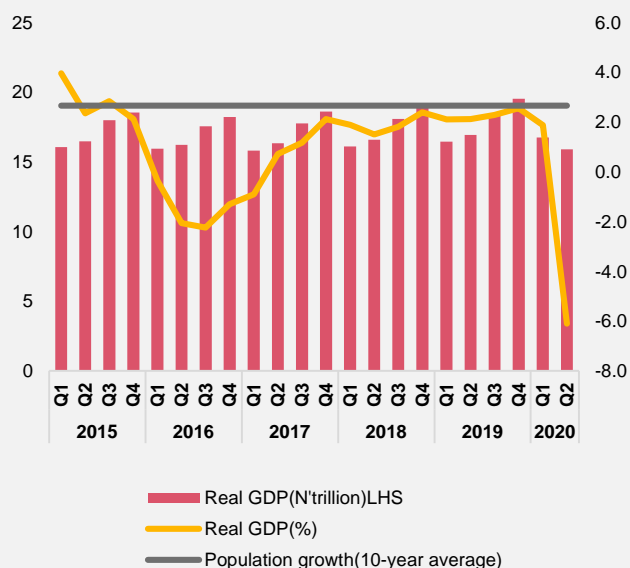
NB: Analysis is on yearly(y/y) except otherwise stated

Please note that in these Bulletins we use the official statistics issued by the National Bureau of Statistics. These are issued to 3 or in some cases 4 (e.g. inflation) significant digits. In an economy where more than 50% of the economic activity is in the informal sector, it is difficult to estimate to this number of significant digits. However, at PwC Nigeria we have taken the position to use the official numbers for our reports, albeit to a single decimal point or the nearest whole number.

Impact of COVID-19 on the local economy...

Nigeria's economic contraction in the second quarter of 2020 was no surprise to most analysts as the trends in other climes implied a significantly dip would be recorded in the period. The real GDP (rebased in 2014) dipped by 6.1% y/y to N15.9 trillion in Q2 2020 from N16.9 trillion in the corresponding period last year. In nominal term, the GDP contracted by 3%y/y to N34 trillion in Q2 2020 from N35 trillion in Q2 2019. With this drop, coupled with the average growth rate of 2% per annum (post-2016 recession), the economy may have lost over N1.4 trillion on the back of both demand and supply shocks.

Figure 1: Nigeria's Real GDP and Population growth



Source: NBS, CBN, PwC analysis



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On the demand side, in addition to the impact of several movement restrictions on certain products and services, the fear of downside risks to the global and domestic economy may have also impacted the precautionary demand for money as against transaction demand.

According to the Manufacturing Association of Nigeria (MAN), manufacturers' inventory of unsold goods rose to a record high of N402.4 billion as consumer spending fell.¹

On the supply side, the foremost measures embraced by governments to reduce the spread of the pandemic, which disrupted global and regional supply-chains, had an adverse impact on the manufacturing and services sectors in Nigeria. The country's Purchasing Managers' index (PMI) for both manufacturing and non-manufacturing index dipped to the lowest level since July 2014. More specifically, non-manufacturing PMI fell the most, to 31 points in Q2 2020 from 56 points in preceding quarter, compared with manufacturing PMI which declined to 42 points in Q2 2020 from 56 points in the first quarter.

As more economies begin to reduce restrictions and commence economic activities (despite the absence of globally proven and acceptable therapeutics or vaccines for COVID-19), this is expected to have a somewhat positive effect on Nigeria's manufacturing sector and the overall economy.

Meanwhile, it is crucial to highlight that the contraction in Q2 2020 has pulled the economic size down to Q1 2017 levels. Therefore, considering the International Monetary Fund's (IMF) forecast for Nigeria, put at -5.4% and 2.6% in 2020 and 2021, respectively, the economy may not be restored to pre-pandemic levels in the next 3 years (2022).

A shock like no other: both oil and non-oil sector turns southward

Prior to the pandemic, the non-oil sector was mostly stable compared with a highly volatile oil sector (see figure 2).

However, the unparalleled oil shock has changed this narrative as both oil and non-oil sector GDP declined by 6.6% and 6.1% year on year respectively in Q1 2020.

The decline in the performance of the oil sector is partly traceable to the sharp drop in Brent crude price to about a two-decade low of US\$18.4 bpd in June 2020, and the 13.4% (q/q) reduction in oil production to 1.8 mbpd (in Q2 2020), in response to an overly bearish international oil market as well as unprecedented elevated risks for global economic outlook for the rest of 2020.

¹ Bloomberg report on Economics (September 10, 2020)

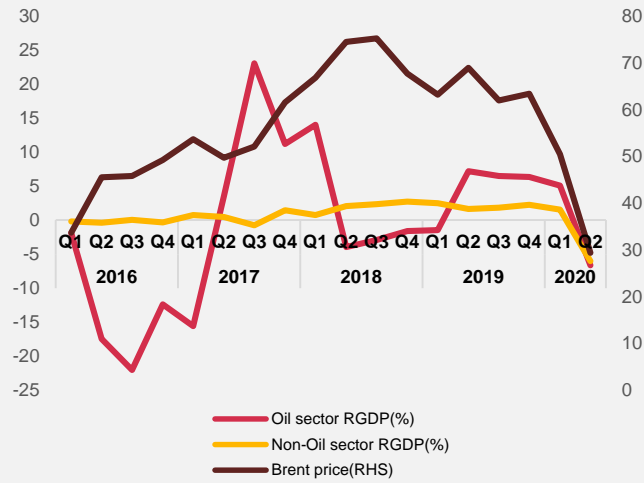


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The abrupt disruption of economic activities, limited household consumption of non-essential items, depressed fixed investments, among others, precipitated the contraction in the non-oil sector.

Figure 2: Oil sector vs. Non-oil sector, percent, y/y vs. average Brent price (US\$bbl)



Source: NBS, EIA, PwC analysis

Agricultural sector enjoys less disruption

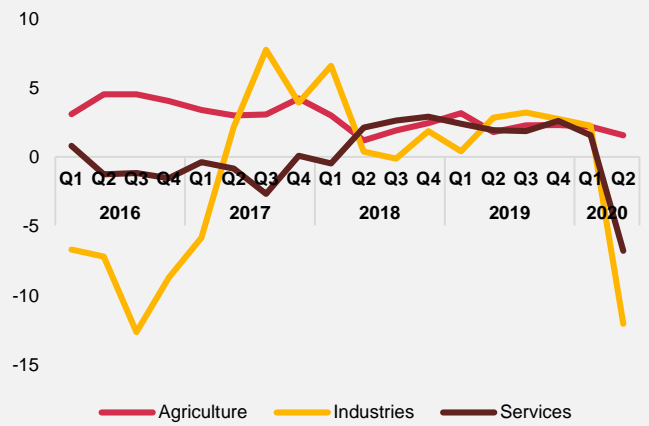
Agricultural sector stayed slightly above water despite the restrictive impact of the pandemic on economic activities. This was due to less restriction on the movement of, and trading of foods, and other essential items during the lockdown period. The sector rose by 1.6%/y/y, although lower than the 2.2% recorded in the previous quarter. Among its subsectors, fishing and livestock grew the fastest, at 5.7% and 2.2%, respectively compared with 1.4% and 1.1% in crop production and forestry.

Conversely, the contraction of the Industrial and Services sector was worse than the real GDP. The two sectors dipped by 12.1% and 6.8%, respectively from growth of 2.3% and 1.6% in the previous quarter.

The Industrial sector was particularly depressed on the back of the 32% decline in the growth of construction activities, 9% dip in the performance of the manufacturing sector and 7% drop in mining and quarrying. Similarly, the decline in the Services sector was due to the 49% contraction in the transportation and storage sub-sector, as well as the 40% decline in accommodation and food services. Other sub-sectors that impacted the performance of the Services sector with significant decline in growth rate include the Education (24%), the Real Estate sector (22%), trade (17%) and the Professional, Scientific and Technical services (15%) sub-sectors. These negative performances netted off the significant GDP growth of 19% and 15% in the financial services and the Information and Communication (ICT) sub-sectors respectively.



Figure 3: Agriculture, Industries and Services RGDP growth, percent y/y



Source: NBS, PwC analysis

Further insights and implications of the economic performance

Beyond the measurable impact of the contraction in real GDP on household income, business climate, government spending and international trade position, the result also reveals heightened domestic risks going forward.

Here are some implications of the negative growth, and gloomier economic outlook for the Nigerian economy in the near-term:

- Poverty level & household consumption:** Consumption expenditure accounts for over 60% of Nigerian's GDP. Hence, the economic contraction implies that household consumption expenditure and disposable income will remain depressed. As consumer confidence reflects a lackluster outlook, fixed investments will be lower for longer. This will put further upward pressure on the unemployment rate and increase the poverty level as well.
- Business investments:** Economic uncertainty has constrained the effectiveness of both the fiscal and monetary policy framework to curtail the impact of the pandemic on economic growth in Q2 2020. As a result, investors may continue to hold off for longer the commitment of resources to grow business activities. This will affect both forward and backward integration, and ultimately, increase the downside risk to economic growth in the near term.
- Implementation of fiscal policy:** Like most countries, Nigeria is also relying on fiscal policy to alleviate the impact of the pandemic on the health and welfare of Nigerians. The economic contraction in Q2 2020 shows that the tax revenue mobilisation needed to cushion the effect of the significant shortfall in oil revenue could be impacted. Consequently, this could affect the implementation of the proposed fiscal measures to curtail the socio-economic impact of the pandemic going forward.
- International trade position:** foreign trade has also been impacted, as most sectors across the export value-chain declined.

Nigeria Economic Sustainability Plan (NESP): Implementation is still a major concern

In response to the impact of the COVID-19 pandemic on the economy, the FG developed a comprehensive policy called the "Nigeria Economic Sustainability Plan (NESP)" to hasten the desired economic recovery and sustainable growth.

This plan is proposed to be supported with a N2.3 trillion stimulus package (over 20% of the 2020 fiscal plan).

Without a doubt, the plan is inclusive and promising, as it highlights some of the most efficient paths to achieving economic recovery and growth. However, the broad age-long challenges to the execution of plans in Nigeria - revenue mobilisation and commitment to implementation regardless of vested interests - needs to be addressed, if the NESP is to achieve its goals.

Put differently, the NESP and other strategic blueprints designed to stimulate Nigeria's economic recovery and growth may not achieve their stated objectives, if the country's overdependence on oil proceeds for fiscal budgetary and export revenues, as well as lack of prudence in fiscal spending are not genuinely addressed.

In addition, there must be an urgent, concerted and wide-ranging execution of reforms across the fiscal policy, monetary policy, trade policy and regulatory/business environment. The implementation of comprehensive reforms that cut across these areas will not only hasten Nigeria's economic recovery but position her economic trajectory on an inclusive path going forward.



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