

Nigeria Economic Alert

Nigeria's economic recovery continues albeit at a slower pace...

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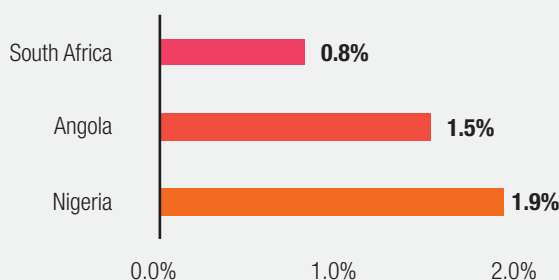


Economic prospects for Nigeria remain positive despite slow recovery

Projections for Sub-Saharan Africa (SSA) for 2018 remain optimistic though growth in the region's largest economies – Nigeria, South Africa and Angola – remain fragile. Quarterly GDP figures for Nigeria in 2018 reflect that economic activities have slowed. The economy remains vulnerable with growth of 2.1% in Q4'17 falling to 1.9% in Q1'18 and further downward to 1.5% in Q2'18.

Biggest economies in SSA

Sub-Saharan Africa, 2018 forecast, percentage GDP growth



Source: World Bank

In addition, with growth rate averaging 2.6% annually, the country's population is rising faster than average GDP growth in 2018, which signifies no recovery. South Africa slipped into recession during Q2'18, shrinking by 0.7% Q/Q. This followed a revised 2.6% contraction of GDP in Q1'18. Similarly, Angola's Q1'18 GDP fell by 2.2% compared to the previous period of 2017.

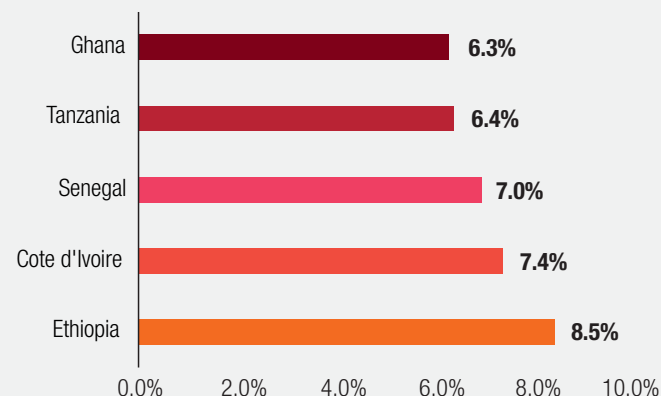
Subsequently, the World Bank cut its economic growth forecast for SSA for FY'18 to 2.7% from an earlier forecast of 3.1%, citing slower-than-expected growth in the continent's bigger economies.

SSA's bright spots

Excluding Nigeria, South Africa, and Angola, growth in the rest of the region has been broadly steady, although performance varies across countries.¹ According to the World Bank, 6 of the 10 fastest growing economies in the world, are in Africa. Based on insights from the World Economic Forum (WEF), Ethiopia's rise has been largely driven by an increase in industrial activity, including investments in infrastructure and manufacturing. According to the IMF, foreign direct investment growth was 27.6% in 2016/17, with investments going into new industrial parks and privatization inflows.

These are Africa's fastest growing economies

Sub-Saharan Africa, 2018 forecast, percentage GDP growth



Source: IMF, WEO, PwC Analysis

Côte d'Ivoire's solid economic performance has averaged above 7% annually since 2012 underpinned by export volumes from cocoa. Upward trend in cocoa prices for the first time in 3 years, coupled with the raise in local farmers' remuneration by the country's commodity regulator is set to boost consumer spending and GDP growth for the rest of 2018.

For Ghana, real GDP for Q1'18 grew by 6.8% compared to 6.7% in Q1'17. The Industrial sector recorded the highest growth of 9.6%; the Services sector followed with 5.2% and Agriculture with 2.8%.

According to Kenya National Bureau of Statistics (KNBS), the country's real GDP expanded by 6.3% in Q2'18 compared to 4.7% in Q2'17. According to KNBS, the growth was as a result of a fairly stable macroeconomic environment and favourable weather conditions. During the review period, the country experienced heavy rains that impacted positively on most of the agricultural and hydroelectricity activities.²

Africa's largest economy susceptible to external shocks

Nigeria is susceptible to the supply-demand dynamics of the global oil sector. In 2016, global oil prices reached a 13-year low and production in Nigeria was hampered by vandalism/militant activities in the Niger Delta. This resulted in significant contraction of Oil GDP. Though the Oil sector accounted for only 8.4% of GDP in 2016, lower forex earnings from exports had spill-over effect on non-oil sectors dependent on imports of inputs/raw materials. Consequently, overall real GDP contracted by 1.5%.

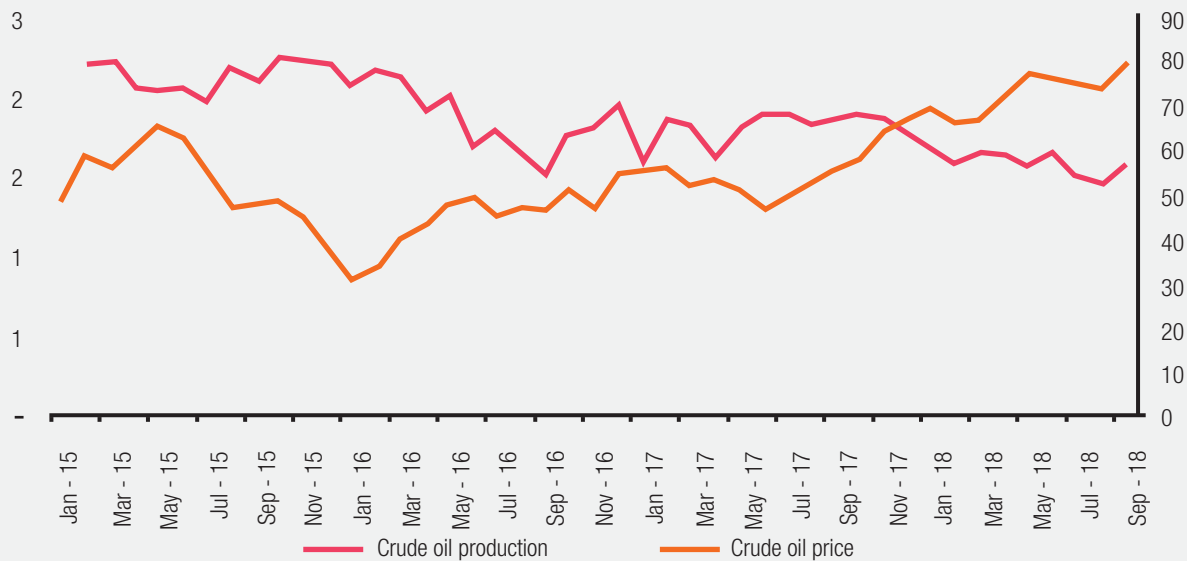
1 World Bank Economic Outlook (October 2018)
2 Kenya National Bureau of Statistics (KNBS)



Lately, oil prices are on an upward trajectory. Brent crude futures prices have climbed above \$80 per barrel – a 4-year high. Analysts predict this upward trend will continue and some further posit that the commodity could hit US\$100 by FY'18. The optimistic view is on account of the intent by the US to impose restrictive sanctions on Oil importing countries of Iran and Venezuela, in a supply market already exacerbated by the Libyan civil war.

Despite the continued rise in crude prices, lower oil production in Nigeria offset the gains from the increased value of the commodity in Q2'18. Average daily oil production volume dropped to 1.84 million barrels per day from 2 million bpd in the previous quarter. The drop has been attributed to production issues encountered by the sector.

Crude oil price vs Crude oil production



Source: OPEC, NBS, PwC Analysis

Weak household consumption growth compounded by contraction in agriculture

Nigeria has been impacted by less than optimistic consumer demand further dampened by slow growth in agricultural output. In our previous paper analyzing Nigeria's Q2 GDP results, agriculture growth slowed to 1.2% y/y, the lowest since 2015. Furthermore, manufacturing growth fell to 0.6% y/y in Q2'18 from 3.3% y/y in Q1'18, due to the food, beverage and tobacco sector, which dropped to the lowest in five quarters from 5.4% y/y in Q1'18 to 1.2% y/y in Q2'18.

Consequently, the World Bank revised its growth forecast for Nigeria to 1.9% from the previous 2.1%, as a result of the downward trend in oil production and agricultural output. Flooding across major farming belts in 10 states in Q2 and Q3'18 will adversely impact food security going forward. Major news sources report that the floods have ruined crops for 100,000 farmers. Furthermore, the Federal Ministry of Agriculture issued a warning that there could be a shortage of rice, the country's staple crop. As a result, poor harvests are likely to place further inflationary pressure on food prices engendered by crop shortages.

In addition to the IMF's projections, the Central Bank of Nigeria (CBN) in October 2018 forecasts the country's GDP growth to be 1.75% by FY'18.

Enhancing focus on the ERGP will improve economic growth going forward

By 2050, Nigeria will become the world's third largest country by population. Going forward, the FG has to ensure that real GDP grows at a faster rate than population growth for economic growth to be inclusive.

We believe that intensifying focus on implementing the Economic Recovery and Growth Plan (ERGP) reforms will improve non-oil sector growth, particularly in the manufacturing sector for FY'18. Furthermore, boosting oil production to normal level coupled with the upward trend in prices will also provide much-needed revenues to support macro-economic growth.

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