Nigeria Economic Alert

Q2'19 GDP report:

Economic growth slows for the second quarter in a row…

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Please note: In these Bulletins, we use the official statistical data issued by the National Bureau of Statistics (NBS). These are issued to three (or in some cases, four) significant digits (e.g. inflation). In an economy where about 65% 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 (exactly as issued) in our reports.

Growth momentum decelerates on quarterly basis

Real GDP growth slowed to 1.94% in the second quarter of 2019 (Q2'19) from growth of 2.1% recorded in Q1'19 **(Note: GDP was revised upward from 2.01% for Q1)** due to fiscal policy uncertainty, further impacted by the delay in ministerial appointments.

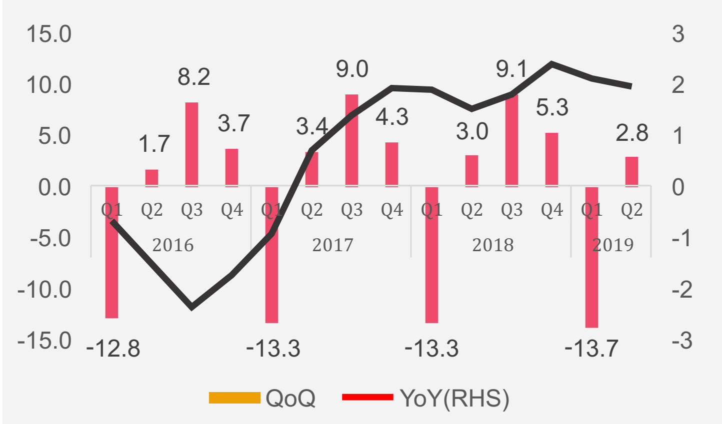
Non-oil growth decelerated to 1.64% in Q2'19 (Q1'19: 2.47%). This represented the second lowest quarterly growth rate since Q1'18.

Oil sector recovery, on the other hand, supported real GDP growth. Oil production increased by 2.59% to 1.78 million barrels per day, which contributed to oil sector growth rate of 5.15%, signifying a reverse from the previous five consecutive quarters of decline since Q2'18.

Overall, the Q2'19 real GDP growth performance was below the targeted annual growth rates outlined in the 2019 budget, Economic Recovery and Growth Plan (ERGP) and the Monetary Policy Committee (MPC) at 3.01%, 4.50% and 2.27% respectively.

Due to the moderate growth in real GDP in the last 2 quarters of 2019, we revise our forecast for FY'19 from 2.5% to 2.1%.

Real GDP rates(year-on-year and quarter-on-quarter)

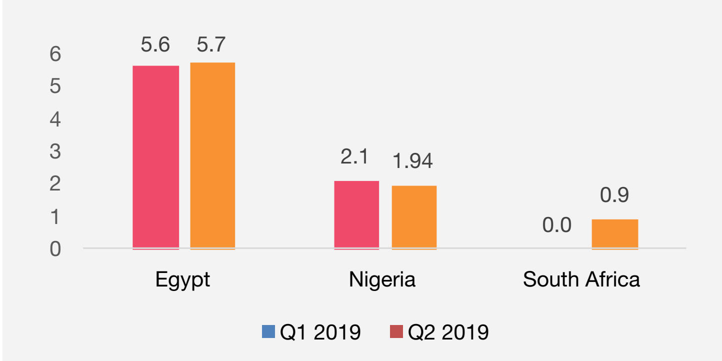


Source: NBS, PwC analysis

GDP growth of the two largest economies remain subdued…

Nigeria and South Africa, the largest economies in Africa, fell short on inclusive growth as Q2'19 GDP growth underperformed population growth rates of 2.6% and 1.2% respectively. The volatility of the commodities markets which impacted the fiscal plans of both economies, coupled with depressed consumer demand and the usual uncertainty associated with post-election results were the major downsides to growth.

RGDP growth of top 3 African economies



Source: NBS, StatSA, CAPMAS, PwC analysis

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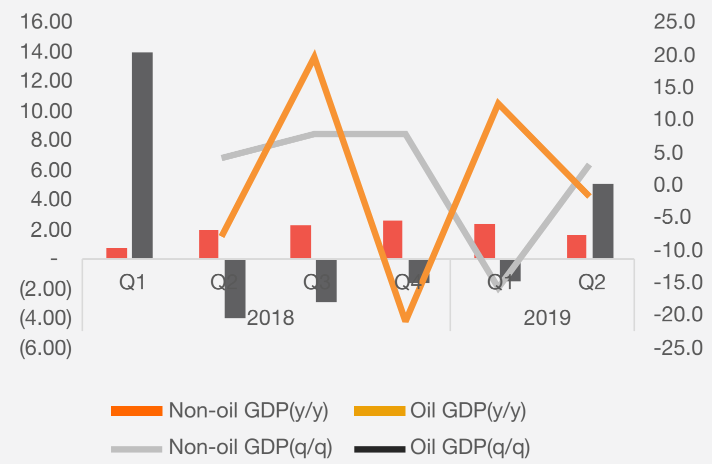
Global headwinds put pressure on Oil sector recovery...

Geopolitical tensions and trade disagreements between the United States and China precipitated the downward review of global economic outlook by the IMF to 3.1% from 3.2% in 2019.

Consequently, the likelihood of a recession in the U.S. economy and slower growth in the Asian market have accentuated investors' fears, as signaled by the inverted yield curve in the U.S. This signaling effect weighed on global oil demand, which fell to 99.08 mbpd, down from OPEC's estimate of 99.25 mbpd in Q2'19.

Non-oil sector growth, on the other hand, slowed on to 1.64%y/y in Q2'19(vs Q1'19: 2.15%, Q4'18: 2.7%).

Growth rate(year-on-year and quarter-on-quarter(RHS))



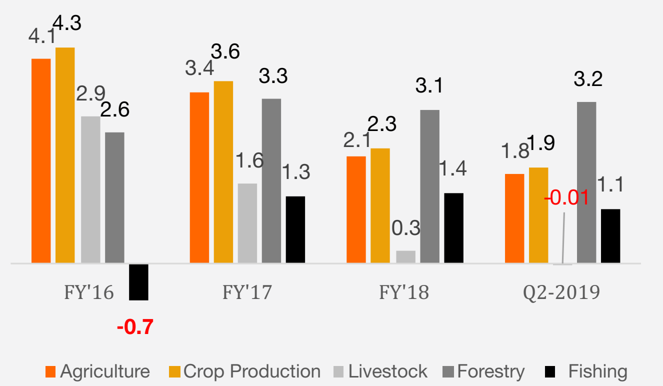
Source: NBS, PwC analysis

Agricultural sector continued to underperform previous periods...

Agriculture sector GDP growth of 1.79%y/y was below the previous quarter of 3.17%y/y, though above the corresponding period in Q2'18 of 1.19%y/y. Despite this, Q2 Agriculture GDP had the second lowest performance since Q2'18.

The downturn in the sector could be attributed poor management of seasonality effect, ecological challenges and lingering socio-cultural conflicts.

Agriculture GDP growth



Source: NBS, PwC analysis

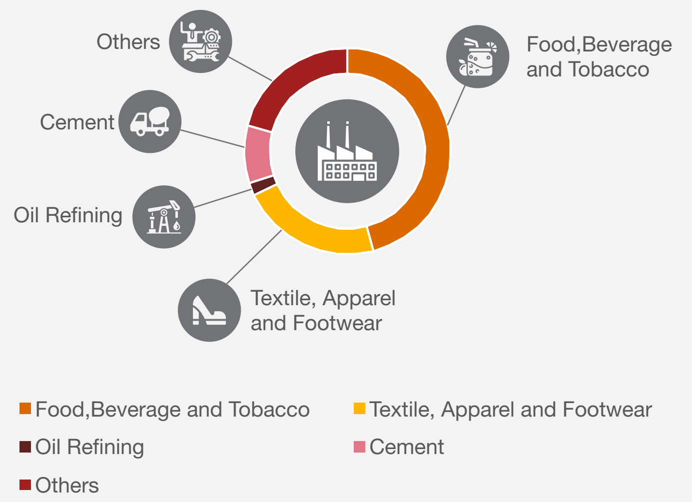
Manufacturing GDP declines on the back of several challenges…

Manufacturing sector declined by 4.41% in Q2'19. The decline in Manufacturing GDP was due to contraction in 10 of its 13 sub-subsectors.

The challenging business environment coupled with fiscal uncertainty contributed to the depressed growth in Q2'19. FMCG companies, in turn, continued to respond to the current shift in consumer spending with the continued introduction of smaller packaged versions of relative brands to fit consumer needs.

These challenges persist, despite the signaling effect of the monetary authority's policy rate-easing stance to stimulate the real sector of the economy.

Contribution to Manufacturing sector



Source: NBS, PwC analysis

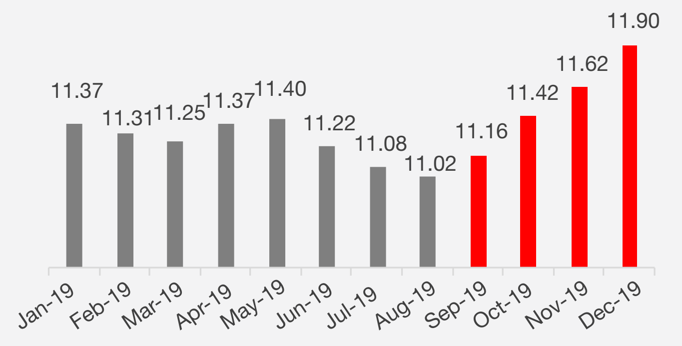
Structural factors make CBN's inflation target unlikely in the near term…

Inflation rate has remained within the two-digit threshold, and below the target set by the Central Bank of Nigeria (CBN) of between 6% and 9% in 2017 Conduct of Monetary Policy.

Headline inflation rate in August 2019 was 11.02%, signifying a marginal drop from 11.08% in the previous month.

With the partial closure of the borders, and the proposed restriction to forex access for food imports, both headline and core inflation are expected to trend upward by FY'19.

Headline Inflation rate, percentage(year-on-year)



Source: NBS, PwC estimates

Relatively stable oil prices and increasing oil supply support Nigeria's foreign exchange (FX) market

In a bid to ensure financial system stability, the CBN has sustained its intervention in the foreign exchange market to keep exchange rates relatively stable. Although the level of foreign reserves, which determines the strength of CBN's intervention in the FX market is currently at US$42.84billion as at 12th of September 2019, which represents 10 months of import cover.

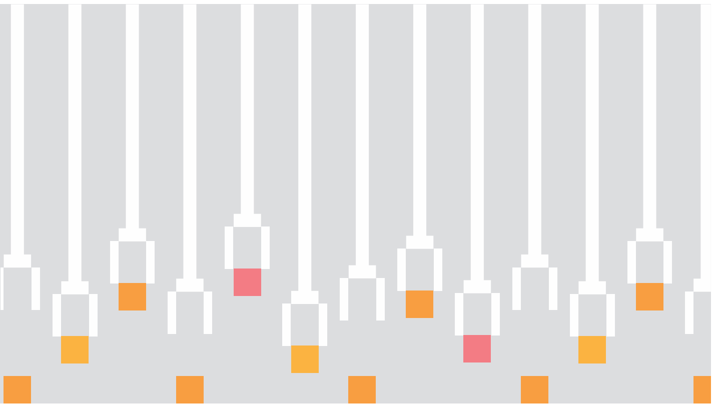
The foreign reserves continue to decline, albeit at a marginal pace. Foreign reserves stood at US$43.61 billion as at August 31, a drop of 2.9% from the previous month. In eight months (January to August), the foreign reserves balance improved by only 1%.

In response to the global market uncertainties, and depleting foreign reserves, the CBN has maintained its forex restriction policy for selected items. Subsequently, the major threat to exchange rate stability in the near to medium term is oil prices.

There was production disruption of the two largest oil facilities in Saudi Arabia this month due to drone strikes. This negatively impacted over 50% (or 5.7 mpd) of total production capacity. These oil facilities account for 6% of the world's oil supply. Consequently, oil prices rose to as high as 20% to US$69.02 on September 16 on the back of expected shortfall in global oil supply.

According to the Energy Ministry of Saudi Arabia, production in both facilities are expected to resume in 3 weeks. As a result, market sentiment on oil prices retracted slightly to US$63.47 in the same week.

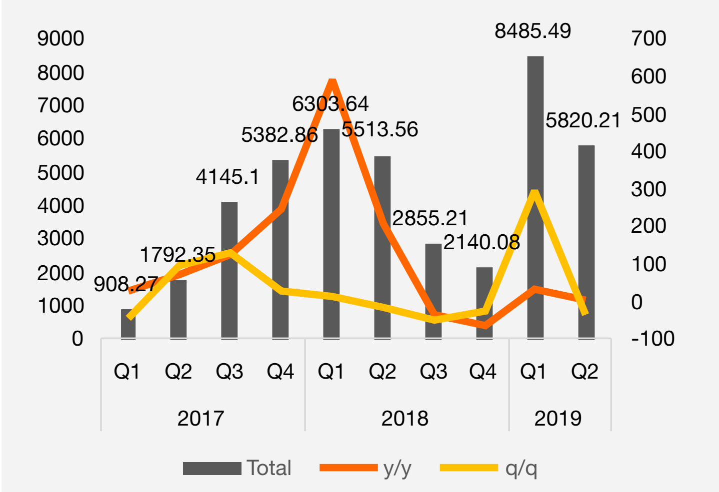
Going forward, the markets await the impact on global oil prices and supply in the coming weeks.



Foreign Direct Investments (FDI) yet to find Sweet spot in Nigeria

Q2 capital importation declined by 31% to US$5.82 billion from US$8.49 billion in the previous quarter. Foreign direct investments (FDIs) declined by 8% to US$222.89 million from US$243.36 million in Q1.

Total Capital Importation(US$'MN)



Source: NBS, PwC analysis

Approaches to drive inclusive economic growth in Nigeria

Nigeria's economy is growing below its potential.

Therefore, Nigeria's fiscal authority needs to be more committed to broad-based strategies that would enhance real sector performance, create jobs, and ultimately alleviate poverty. To improve revenue base, the government must review the set targets for the various sectors outlined in the Economic Recovery and Growth Plan (ERGP).

Realistic plans must be put in place and promptly executed to improve investors' confidence in the system. This will, in turn, drive FDIs into the country for infrastructure and real sector growth.

Contacts

Andrew S. Nevin Ph.D
Partner & Chief Economist
andrew.x.nevin@pwc.com

Omomia Omosomi
Manager/Economist
omomia.omosomi@pwc.com

Temitope Omosuyi
Economic Analyst
temitope.omosuyi@pwc.com