

Nigeria Economic Alert

Q3'17 GDP: weak non-oil sector pulls back economic recovery

22 November 2017



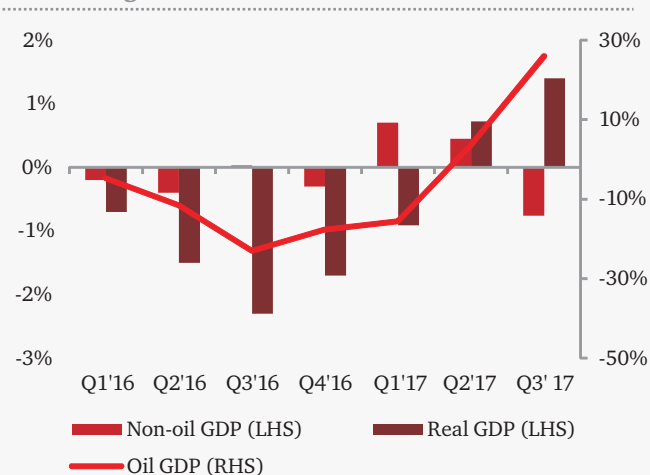
Economic growth accelerates on improved oil production

Nigeria's economy recorded positive growth for the second consecutive quarter, as real GDP growth accelerated to 1.4% y/y in Q3'17 (Q2'17: 0.7% y/y). This reflects a strong performance of the oil sector which increased 25.9% y/y, the highest ever since 2010, and well above the growth of 3.5% y/y in the previous quarter. This expansion was driven by 26.1% y/y increase in average crude oil production to 2.03mbpd, the highest in six quarters. We note that real GDP growth in Q2'17 was revised upwards to 0.7% y/y (previous: 0.5%y/y), due to a 30,000 bpd increase in actual oil production for May and June 2017. However, the non-oil sector contracted -0.8% y/y in Q3'17 (Q2'17: 0.5% y/y), reflecting a broad decline across the manufacturing, trade, real estate and information and communication sectors.

Manufacturing sector returns to negative territory

The manufacturing sector contracted by -2.8% y/y in Q3'17, recording its worst performance in four quarters. This was a reflection of slower growth in the food, beverage and tobacco sector, and a steep decline in output in the cement sector, both of which account for 53.0% of manufacturing GDP. Our evaluation of the trends in Q3'17 corporate performance suggest that price increases across the manufacturing sector, particularly among the consumer and industrial goods companies, continue to weigh significantly on volumes. Hence, this suggests recovery in this sector remains fragile, and may be prolonged owing to sluggish consumer demand.

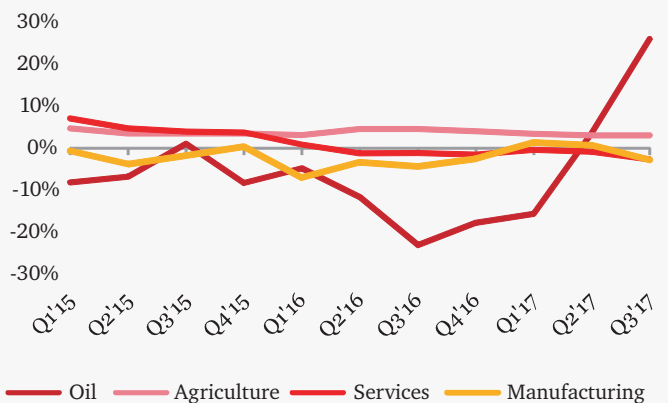
Real GDP growth rate



Services sector records worst quarter since 2010

The services sector (48.3% of GDP) contracted -2.6% y/y in Q3'17, the sharpest slowdown since the quarterly series started in 2010, affirming the narrative of a protracted recovery in the non-oil sector. In particular, there was a broad contraction among heavyweight sub-sectors such as trade (-1.7% y/y), real estate (-4.1% y/y), financial services (-5.9% y/y), construction (-0.4% y/y), and information and communication (-4.4% y/y). We believe this is largely reflective of the weakness in consumers' purchasing power.

Sector real GDP growth



Real GDP growth for FY'17 maintained at 0.7% y/y

Although Q3'17 real GDP growth is slightly below our expectations of 1.8% y/y, we maintain our FY'17 estimate at 0.7% y/y for FY'17. To achieve this, we estimate real GDP will have to expand by at least 1.4% y/y in Q4'17. We believe this is plausible given the increase in oil production, supported by a slight recovery in the non-oil sector due to the seasonal fourth quarter increase in agriculture output, and stronger consumer demand supported by the festive season. The major risks to our estimate include a decline in oil production, and persistent weakness in consumer spending.

Macroeconomic stability to boost real GDP growth to 2% y/y in 2018

We forecast real GDP to expand 2.0% y/y in 2018, driven mainly by a continued improvement in the macroeconomic environment. We expect the non-oil sector to be the main driver of growth, supported by stability in oil price and production. Specifically, we expect the continued stability in exchange rate, and the rebound in investments to support a modest consumer recovery, thereby boosting manufacturing and services output.

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