Nigeria Economic Alert

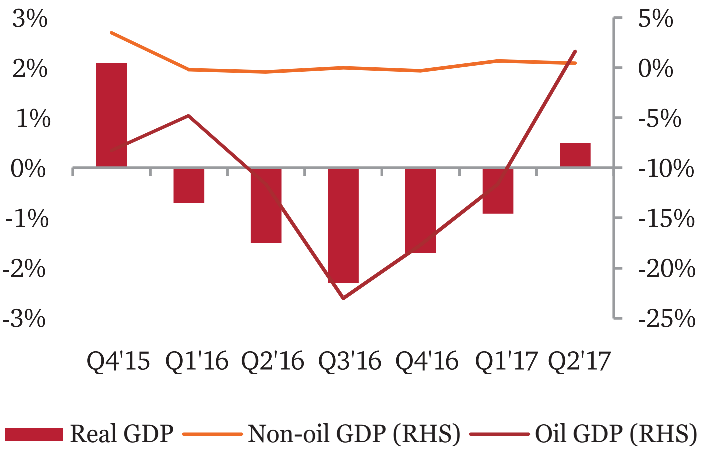
Nigeria's Q2'17 GDP: from recession to recovery

07 September 2017

Nigeria's economy exits recession

In Q2'17, Nigeria's economy returned to positive growth as real GDP grew 0.5% y/y after successive declines for five quarters. This recovery was supported by a strong rebound in the oil sector (8.8 % of GDP), which expanded by 1.6% y/y (–15.6%y/y in Q1'17). The non-oil sector on the other hand was boosted by a strengthening of the broader manufacturing sector, reflecting the impact of improved foreign exchange liquidity. We note that the Q1'17 real GDP growth was revised down to -0.9% y/y (previous: -0.5% y/y); a revision necessitated by lower than estimated oil production figures for March 2017 which dragged oil output lower.

Figure 1: Real GDP growth turns positive



Source: NBS, PwC analysis

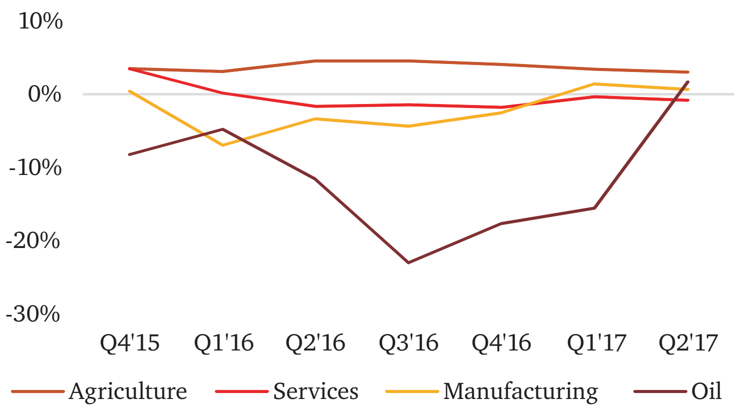
Agriculture decelerates on grain scarcity

Agriculture grew at a slower pace for the fifth consecutive quarter, recording a growth of 3.0%y/y in Q2'17 (Q1'17: 3.4% and Q2'16: 4.5%). This trend has been driven mainly by weaker output in the livestock and fishing sub-sectors, resulting from the scarcity of grains. In addition, we suspect the second quarter resurgence in insecurity in the North East might have negatively impacted crop production activities. This explains the trend in food inflation, which spiked to a 7-year high of 20.3%y/y in July 2017.

Manufacturing expands at a slower pace

The manufacturing sector expanded for the second consecutive quarter, although at a slower pace. Real growth increased by 0.6%y/y in Q2'17, relative to -3.3%y/y a year earlier. Relative to Q1'17, however, growth slowed from 1.3%y/y, a reflection of the performance of sector heavy weights, food, beverage and tobacco and cement which account for 54.0% of manufacturing GDP. Whilst the broader sector appears to have benefitted from the improved availability of FX, we suspect the price increases implemented across most consumer companies in the course of the year might have impacted volumes. Nonetheless, quarterly data (Q2'17: 1.0%q/q vs Q1'17: -5.0%q/q) suggests the consumer recovery remains underway, albeit fragile.

Figure 2: Sector real GDP growth



Source: NBS, PwC analysis

Real GDP estimate maintained at 0.7% in 2017

Our 2017 GDP forecast remains unchanged at 0.7% y/y. To attain this growth forecast, we estimate that real GDP will expand by 1.8%y/y in Q3'17 and 1.1%y/y in Q4'17. We think this is plausible, given our expectation of a strong harvest season and sustained FX liquidity, which should support a broad-based economic recovery. Risks to our forecast include a decline in oil price and production, and policy disruptions which could hamper investment flows to the economy.

Empirical evidence suggests the economy is set for another long period of economic growth

Based on the study conducted by Terrones et al (2009), which examined a sample of 122 business cycles in 21 advanced economies, an oil-induced recession, on average, lasts for about 4 quarters. After the economy bottoms, it could take about a year for real GDP to recover to pre-recession levels. Subsequently, the economy expands for a period, which could often exceed 5 years, depending on the structure of the economy and the reforms implemented.

Following the economic contraction recorded in 1991, Nigeria's economy recovered to pre-recession levels one year after, and experienced positive growth for another 24 years. Of course this growth was fueled by a mix of factors including the oil boom, a maturing political system, as well as accelerated reforms which opened up the economy for sustainable growth. Thus, we expect real GDP to attain full recovery by 2019, with growth moving closer to its long-term trend of 6.7%.

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