Nigeria creeps out of recession; Economy expands 0.1% in Q4-2020

United Capital
The Intelligent Choice

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Real GDP	Oil GDP	Non-Oil GDP
0.1%	**-19.8%**	**1.7%**

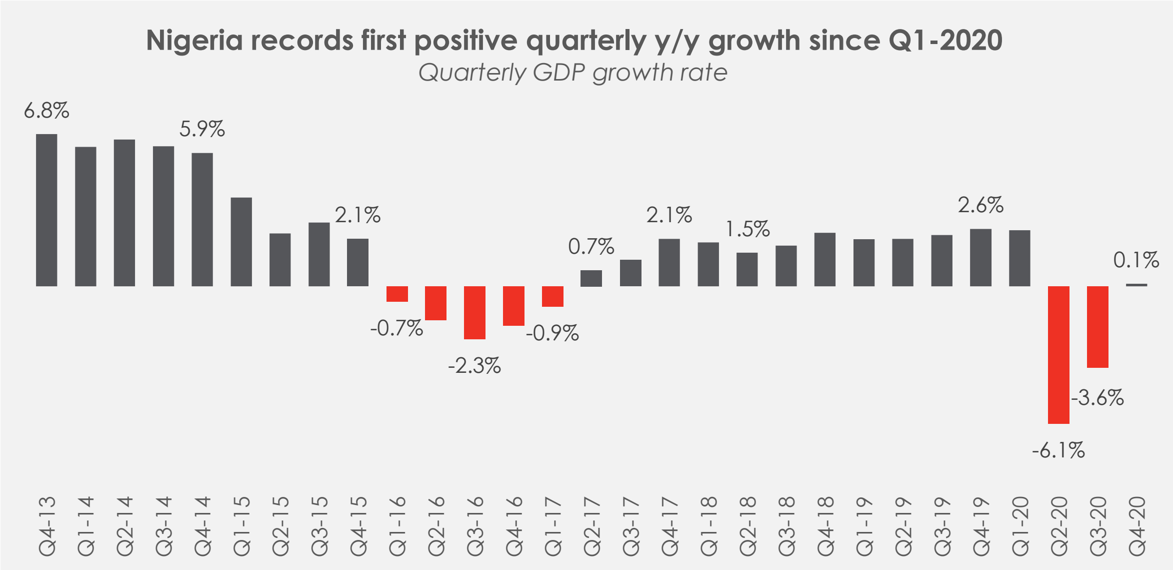
Yesterday, the National Bureau of Statistics (NBS) published its Q4-2020 GDP estimates. According to the report, Q4 GDP grew 0.1% y/y, representing the first positive quarterly y/y growth since Q1-2020, an indication that the economy rebounded from the Covid-19 induced recession. Thus, the Q4 recovery is traceable to the reopening of the economy following the lifting of COVID-19 lockdown restrictions. The statistics showed that on a q/q basis, real GDP growth was 9.7%, representing the second consecutive positive q/q real growth rate in 2020. Despite the recovery, the fragility of the state of the economy was reflected in the fact that only 7 sectors (previously 9 sectors) expanded in Q4-2020 while 12 sectors (previously 10 sectors) contracted. Overall, real GDP growth settled at -1.9% in FY-2020 compared to the 2.7% recorded in FY-2019. The bright spots in the economy remain Telecoms (+16.0) and Agric (+3.4%). On the contrary, Oil Refining (-56.5%), Air Transport (-51.7%) as well as Accommodation & Food Services (-15.0%) were the worst hit.

Oil GDP: Oil sector slumps further in Q4-2020

Largely in line with expectations, the oil sector contracted 19.8% y/y in Q4-2020 compared to a contraction of 13.9% y/y in Q3-2020. The steeper decline in oil sector GDP in Q4-2020 reflects weaker oil production levels within the quarter as Nigeria suppressed output to compensate for overproduction in prior quarters under the OPEC+ oil production quota. In Q4-2020, crude oil production averaged 1.56mb/d compared to 1.67mb/d in Q3-2020. Overall in FY-2020, crude production averaged 1.78mb/d compared to 2.01mb/d in FY-2019 due to the country compliance with OPEC's output quota, which was in place for most of 2020 to stabilise the market amid supply and demand shocks. As a result, the oil sector contracted by 8.9% in 2020 compared to a growth of 4.6% in 2019. As a by-product of the deep slump in the oil sector, its contribution to aggregate GDP plunged to a record low of 5.9% in Q4-2020 and 8.2% in FY-2020.

Non-Oil sector: Service sector recovery buoys non-oil sector rebound

In Q4-2020, the non-oil sector output grew by 1.7% y/y compared to a 2.5% contraction in Q3 -2020. However, on an annual basis, in FY-2020, the non-oil sector declined by -1.3% as against a 2.1% growth in FY-2019. The Non-oil sector's contribution to real GDP improved during the period, accounting for 94.1% (vs 92.7% in Q4-2019 and 91.3% in Q3-2020). The rebound in non-oil GDP was broadly supported by faster growth in Agriculture (+3.4% y/y), sustained expansion in ICT (+15.0% y/y) and smaller contractions in sectors like Transportation



Sources: National Bureau of Statistics, United Capital Research

(Q4-2020: -6.0% y/y vs Q3-2020: -43.0% y/y), Accommodation & Food Services (Q4-2020: -15.0% y/y vs Q3-2020: -22.6% y/y), Trade (Q4-2020: -3.2% y/y vs Q3-2020: -12.1% y/y), and finally the recovery of the Real Estate sector (+2.8% y/y), after a 6-quarters long recession. On a broader classification, the mild growth in Q4-202 was supported by improved outing in the Agricultural and services sectors. Clearly, the sectors that drove the recovery were sectors that benefitted from reopening of the economy which allowed people resume back to their normal life at a decent level. The impact was consequently felt on movement of goods and people (Transportation), return of social gatherings & use of QSR outlets (Food services & Agriculture).

Agricultural sector: Highest growth since Q1-2019

The Agricultural sector grew by 3.4% y/y in Q4 2020, 110bps larger than the growth recorded in Q3 2020. Overall, the sector recorded an annual growth of 2.2% in FY-2020. The stronger growth in the Agriculture sector was underpinned by improved crop yields due to the harvest season and stronger demand along the food value chain which supported improved harvests & supply. We note that the stronger growth defied security concerns across most food producing states as farmer-herder crisis and attacks by terrorists continue to discourage farming activities. Across the sub-sectors within the Agricultural sector, crop production, which accounts for about 85% of the composite, grew the fastest, up 3.7% in Q4-2020 and 2.2% in FY-2020, evidencing improved food crop production and stronger demand along the food value chain with Quick Service Restaurants now operating at higher capacity.

Manufacturing sector: Broadly weak as FX and movement restrictions hinder recovery

In Q4-2020, the manufacturing sector contracted by 1.5%, a similar pace to the contraction in Q3-2020. Generally, the manufacturing sector continued to suffer FX scarcity which impacted the ability to purchase key raw materials while movement restrictions in the international community continue to weigh. In addition, we note that the protests during the quarter disrupted the flow of goods and manufacturing activities within the quarter. Across the sectors, the heavily weighted Food, Beverage & Tobacco recorded slower expansion in Q4-2020, growing by 2.2% y/y compared to 5.6% in Q3-2020. The slower growth in our opinion reflects a confluence of the fallout of weaker consumer incomes and restrictions on social gatherings & on-trade channels for alcoholic consumption, re-introduced in Q4. In addition, growth in the decently weighted cement sub-sector tapered in Q4-2020, growing by 6.6% in Q4-2020 compared to 12.0% in Q3-2020. Nevertheless, we note that the growth in the cement sector for Q4 remains broadly decent. The Textile, Apparel & Footwear sub-sector, another decently weighted sector, recorded a smaller contraction of 5.6% in Q4-2020 (compared to a contraction of 14.4% and 12.1% in Q2-2020 and Q3-2020 respectively). We note that the textile and clothing industry in Nigeria has strong links with China and Turkey, considering the huge level of clothing imports from these countries. Thus, the resumption of activities in those countries following a slowdown in the Covid-19 outbreak supported activities within the local industry in Nigeria, albeit still below its prime.

Outlook: 2020 low base to support a fragile V-shaped recovery

Looking ahead, we remain optimistic about the sustained pace of recovery in the aggregate level of economic activities. While growth in Q1-2021 maybe muted due to a high base effect of Q1-2020, our optimism feeds largely on potential stronger recovery in Q2 and Q3-2021 relative to the negative growth observed in the corresponding quarters of 2020. Specific to the non-oil sector, we expect the improved performance in Services to be sustained as people become more confident to go about their daily activities. Also, we think the Agricultural sector would build on the gains of 2020 as demand remains strong, security challenges abate, and weather conditions improve.

In the oil sector, we expect improved performance in FY-2021 considering the low base for oil production in 2020. While the country's production continues to be capped under the OPEC+ quota, we expect a recovery in production as OPEC+ gradually returns production level back to pre-pandemic levels following recent price gains and positive sentiments from increased rate of vaccinations which could spur demand for travel and consequently oil. Overall, we maintain our base case scenario GDP growth forecast of 1.7% for FY-2021 with a bull case forecast of 2.1% premised on faster than expected recovery in oil sector GDP.

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