Fastest economic growth since 2014; Economy expands 3.40% in FY-2021

United Capital
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Economics | Data Reaction

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Real GDP	Oil GDP	Non-Oil GDP
3.40%	**-8.30%**	**4.44%**

Last week, the National Bureau of Statistics (NBS) published its FY/Q4-2021 GDP estimates. According to the report, Q4-2021 GDP expanded by 4.0% y/y, representing the fifth consecutive quarterly y/y growth, affirming the economy's recession woes are now tales of the past. For FY-2021, the economy expanded by 3.4% y/y, compared to the negative growth of 1.9% in FY-2020. The growth print of 3.4% represents the economy's fastest growth since 2014, reflecting the impact of a low base from 2020. The expansion was broadly supported by positive outing from the agricultural sector, manufacturing sector and services sector. The statistics showed that on a q/q basis, real GDP growth was 9.6%, reflecting the impact of stronger economic activities in Q4 due to festivities and end-of-year celebrations.

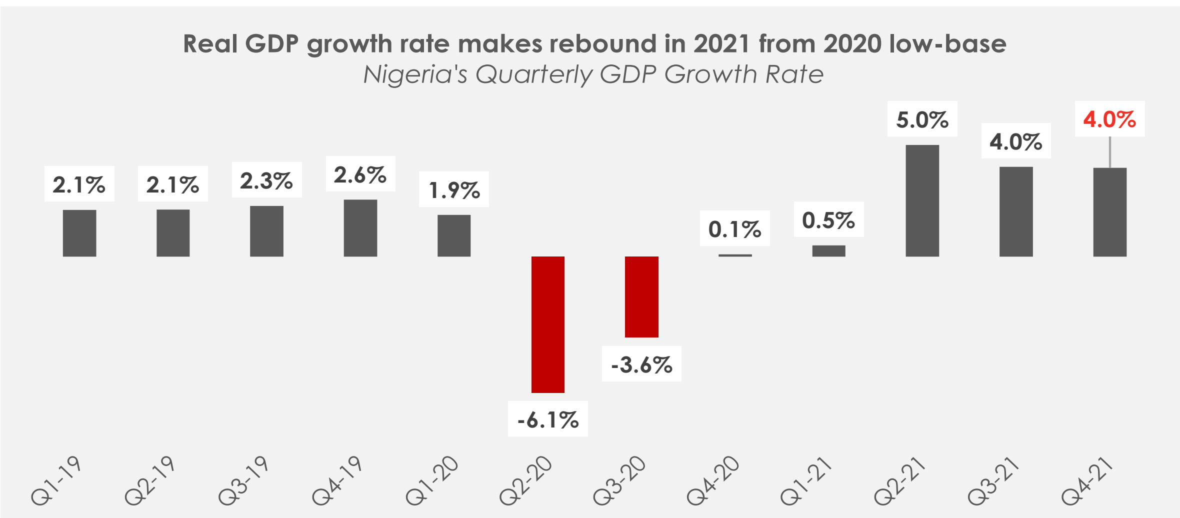
Non-Oil GDP: A positive outing

The non-oil sector expanded by 4.7% y/y in Q4-2021, bringing FY-2021 growth to 4.4%. The growth in FY-2021 represents a modest rebound from the 1.3% contraction in FY-2020. Clearly, the non-oil sector remains the primary driver of economic growth with the oil sector still lagging, after it contracted 8.3% in FY-2021. The growth in the non-oil sector was mainly driven by expansion in the Services sector, growing by 5.6% y/y in FY-2021, on the back of a sturdy outing in the ICT sub-sector (+6.6% y/y), Financial Services (+10.1% y/y), and recovery in Trade (+8.6% y/y). Increased internet penetration & data usage, strong credit creation and resumption of international travel were all factors that contributed to solid expansion in ICT, Financial Services and Trade.

In addition, the Agricultural sector (+2.1% y/y) and Manufacturing sector (+3.4% y/y) also contributed to the strong growth in the non-oil sector. The agricultural sector defied banditry/insecurity concerns, unfavourable climate conditions and legacy infrastructure challenges as strong food demand remains an overriding positive for the sector. Similarly, reopening of economic activities and stronger consumer & business consumption supported manufacturing output. By extension, improvement in supply chain bottlenecks provided much needed relief for the sector.

Oil sector: Negative growth trend persists

The oil sector contracted for the seventh consecutive quarter with a negative growth print of 8.1% in Q4-2021, bringing FY-2021 oil sector negative growth to 8.3%. Providing some comfort is the trend of slowing contraction in the oil sector as the negative growth of 8.1% in Q4-2021 is 4.6ppts and 2.7ppts slower than the 12.7% and 10.7% contraction in Q2-2021 and Q3-2021. The sustained contraction in oil sector GDP remains down to persistent reduction in crude oil production. For context, data from the NBS showed that crude production averaged 1.5mb/d in Q4-2021, 3.8% and 4.4% lower than Q4-2020 and Q3-2021's 1.6mb/d. In addition, average crude oil production for FY-2021 printed at 1.6mb/d, 10.0 lower than FY-2020's average of 1.8mb/d. The steady decline in oil production is directly associated with operational and maintenance issues, supported by incessant pipeline vandalism, which has prevented Nigeria from meeting its OPEC+ production quota in FY-2021, despite upward adjustment that has seen Nigeria's production quota rise to 1.72mb/d (excluding condensates). In addition, capex investment in the oil and gas sector continues to lag below pre-pandemic levels, despite signing of the Petroleum Industry Act. As a result of contraction in the sector's output, contribution to real GDP in FY-2021 declined to 7.2% (vs 8.2% in FY-2020 down by 1.0ppts y/y). For additional context, oil sector contribution to real GDP prior to the Covid-19 outbreak was 9.5% in Q1-2020.



Sources: National Bureau of Statistics, United Capital Research

Agricultural sector: Strong Q4 outing propels sector performance

The Agricultural sector recorded its fastest quarterly growth in 16 quarters after it expanded by 3.6% y/y in Q4-2021 (vs 1.2% y/y growth in Q3-2021, up by 2.4ppts), which further propelled the overall growth of the sector in FY-2021 to settle at 2.1%, nevertheless lower than FY-2020's growth of 2.2% by 4bps. The sector's contribution to real GDP remained stable in Q4-2021 relative to Q4-2020 but reduced when comparison is done on a FY-2021 vs FY-2020 basis (25.9% vs 26.2%). Growth in crop production remained the key driver of the sector, after it expanded 3.9% in Q4-2021 and 2.3% in FY-2021.

The strong growth in Q4-2021 was largely due to the seasonal impact of the harvest season which spurred agricultural output. In addition, sturdy food demand helped to sustain sector's growth in FY-2021. That said, the sector's potentials remains undermined by insecurity challenges such as the farmer-herder crisis and banditry activities in key food-producing states which continues to reduce farming population, consequently discouraging farming activities.

Manufacturing Sector: Economy reopening and strong demand underpins growth

Growth in the manufacturing sector slowed to 2.3% in Q4-2021, down by 2.0ppts and 1.2ppts relative to Q3-2021 and Q2-2021. Nevertheless, growth remained strong for FY-2021 with the manufacturing sector expanding 3.4% y/y compared to a contraction of 2.8% in FY -2020. Leading the growth in the manufacturing sector were the Cement and Food, Beverage & Tobacco sub-sectors, both of which expanded 6.6% and 5.7% respectively in FY-2021. Strong private demand for cement amid surge in construction activities, robust Federal Government capex, and improving exports underpinned the growth in the cement sector. For the Food, Beverage & Tobacco sector, improvement in consumers' incomes supported consumption demand and consequently led to strong growth in the sector.

Noteworthy to highlight, the changing dynamics of how people handle health issues in the wake of the Covid-19 crises has continued to propel the pharmaceutical industry. In addition, several CBN intervention programs to foster research, and production of drugs and medical utilities have helped to support growth. Unsurprisingly, the sub-sector grew by 8.1% in FY-2021, recording the fastest growth within the manufacturing sector.

Our verdict: Positive surprise but…

Overall, we believe the economic growth of 3.4% in FY-2021 is a positive surprise particularly as it outperformed our base expectation of 2.4%. Also, the strong recovery in the manufacturing sector as well as the above-average outing for the agricultural sector offered a bit of encouragement for the economic recovery story. That said, it is imperative to highlight that the fast-paced economic growth in 2021 is largely down to the low base from FY-2020. For context, FY-2021 absolute real GDP is higher than FY-2019 by 1.4%. Thus, while the economic recovery is commendable, we retain concern that the economy continues to carry underlying weaknesses. The services sector, a primary driver of the 2021 economic growth will continue to be weighed down by the real estate sector while trade is expected to revert to status quo. Also, the issues bedevilling the agricultural sector are not expected to go away. Lastly, the oil sector continues to grapple with the challenge of years of underinvestment and unabating oil theft. Thus, while we consider the GDP growth in FY-2021 as a positive surprise, a lot more is needed to keep economic expansion above GDP growth.

Outlook: Growth trajectory to be sustained but at a slower pace

Looking ahead, we expect the economy to sustain its growth trajectory in 2022. However, we expect the recovery to be driven by both the oil sector and non-oil sector. For the oil sector, we expect crude oil production will recover on the back of new oil projects coming on stream as well as concerted efforts by all parties to combat persistent oil theft. Also, we expect global oil demand will remain strong as economic activities continue to return to normalcy while vacation travels flourish. Also, we expect OPEC+ members will continue to support increase in output cap as oil demand remains sturdy.

For the non-oil sector, we expect the sector to remain on the path of growth, albeit at a slower pace compared to FY-2021's print. First, we expect the agricultural sector to post output growth in line with recent average as we do not expect the existing bottlenecks to be resolved. Insecurity which has continued to shrink farming population has continued unabated while farming infrastructure continue to decay. Nevertheless, we expect traditional strong food demand (locally & internationally) will continue to sustain the sector's growth. Also, the impact of the CBN's recent apparent focus on non-oil exports via its RT200 FX Programme will be an interesting factor in 2022 but we think it may be too soon to see the impact of the policy in 2022.

The services sector, a key part of the non-oil sector is expected to slow in 2022 as we expect the recovery steam in trade and real estate sub-sectors would run out. The trade sector remains blighted by FX challenges and supply side disruptions which has prevented the sub-sector from returning to pre-pandemic levels. In addition, the telecommunications sector has been showing signs of slowing in recent months. For context, data from the Nigerian Communications Commission (NCC) showed that broadband subscriptions have declined 12.3% to 78.0m in Dec-21, from a peak of 87.7m in Oct-20 while penetration rate printed at 40.9% in Dec-21, from a peak of 45.9% in Oct-20. Unsurprisingly, annual reports from key telecom stakeholders have shown persistent decline in subscriber count. Thus, we believe the pandemic-supported acceleration in the sector's growth is starting to wear-off and would see the sector's growth rate moderate. That said, coming on stream of 5G technology will likely provide a boost for data usage and consequently the sector's growth.

Furthermore, the manufacturing sector is expected to be weaker in 2022. FX illiquidity and supply-side challenges are expected to be limiting factors on the sector's output growth in 2022. The CBN's ability to sustain interventions in the FX market has come under pressure in recent weeks, prompting sustained decline in activities in the I&E window which could have negative consequences for importation of raw materials and machinery. In addition, supply

-side bottlenecks remain in the global market where local manufacturers source raw materials for production activities.

Overall, we project a GDP growth of 2.1% in 2022, 1.3ppts slower than 2021's economic expansion rate. We expect growth in agriculture, modest recovery in the oil sector, and moderate growth in the services sector will sustain economic expansion. However, we retain some pessimism on the outlook for the manufacturing sector.

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