

Economic Commentary

Q4 19 GDP: Positive Surprise, but Sustainable?

- Nigeria's GDP increased by 2.55% YoY in Q4 2019 compared to 2.3% YoY growth in Q3 2019
- Services and Oil sector GDP posted higher than expected growth in Q4 of 4.0% and 6.4% YoY respectively.
- The Oil sector growth suggests crude oil production averaged 2.00mbpd in Q4 19, lower than average of 2.03mbpd in Q3 19.

Data released this morning showed real GDP in Nigeria grew by 2.6% YoY in the fourth quarter of 2019. Not only was the outturn for Q4 higher than consensus forecast, as well as our own projection of 2.3%, but it is 27bps ahead of the growth rate of 2.3% YoY posted in Q3 19. The outturn in Q4 relative to the prior quarter largely reflects stronger growth in services (contributed 1.5% to overall growth in Q4), manufacturing and resilient growth in both the agriculture and oil sector. On balance, Nigeria posted 2.3% YoY growth in full year 2019, reflecting improvement in the services, crude oil and agriculture sectors. On an attribution basis, the services sector contributed 1.2% to overall growth in 2019, with composition to GDP improving to 37% from 36% in 2018.

Figure 1: Real GDP Growth across segments

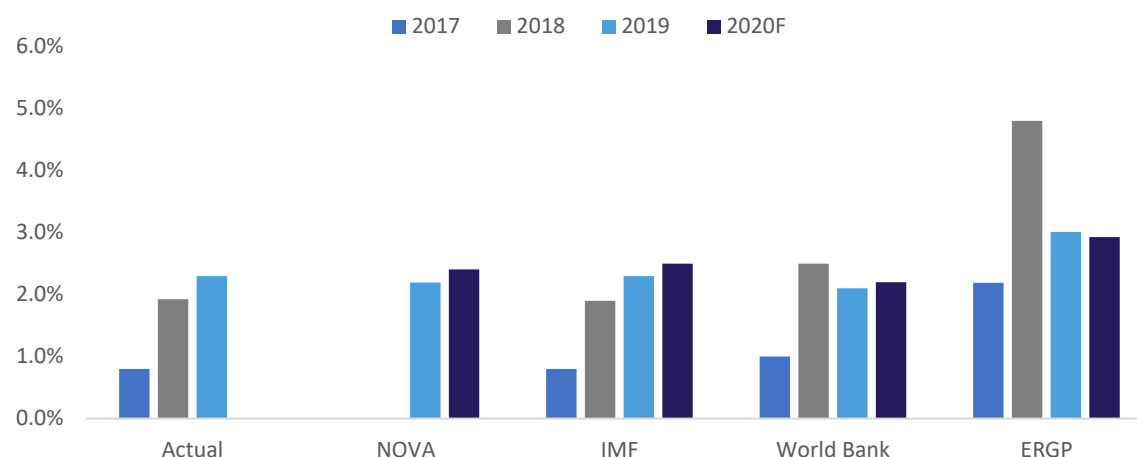
YoY Growth	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	FY 18	FY 19
Agriculture	3.0%	1.2%	1.9%	2.5%	3.2%	1.8%	2.3%	2.3%	2.1%	2.4%
Manufacturing	3.4%	0.7%	1.9%	2.4%	0.8%	-0.1%	1.1%	1.2%	2.1%	0.8%
Services	0.5%	4.1%	3.4%	3.8%	3.1%	2.9%	3.5%	4.0%	3.0%	3.4%
Construction	-1.5%	7.7%	0.5%	2.0%	3.2%	0.7%	2.4%	1.3%	2.3%	1.8%
Trade	-2.6%	-2.1%	1.0%	1.0%	0.8%	-0.2%	-1.5%	-0.6%	-0.6%	-0.4%
Mining and Quarrying	14.1%	-3.8%	-2.8%	-1.2%	-1.4%	7.0%	6.2%	6.1%	1.3%	4.3%
Oil GDP	14.0%	-4.0%	-2.9%	-1.6%	-1.5%	7.2%	6.5%	6.4%	1.1%	4.4%
Non-Oil GDP	0.8%	2.0%	2.3%	2.7%	2.5%	1.6%	1.8%	2.3%	2.1%	2.1%
Real GDP	1.9%	1.5%	1.8%	2.4%	2.1%	2.1%	2.3%	2.6%	1.9%	2.3%

Source: NBS, NOVA Research

More broadly, while the oil sector decelerated by 13bps to 6.4% in Q4, growth in the non-oil sector expanded by 42bps to 2.3% YoY. The services sector largely dominated growth in the non-oil sector, followed by agriculture and manufacturing. In the services sector, growth accelerated 56bps to 4.0% YoY following solid outturn in ICT (+8.5% YoY) and even a more material growth in financial services (+20.2% YoY). While the growth in the ICT emanated from increase in subscriber base by 6.8% YoY to 184 million, the material growth in the financial services sector

reflects the increase in credit creation by banks to meet up with the minimum loan to deposit ratio prescribed by the Central Bank of Nigeria. Also, the Agric sector remained resilient to sustain the momentum in Q3. It expanded 2.3% YoY on the back of improvement in crop production, forestry and fishing, all of which more than neutered the contraction in livestock (-0.20% YoY). For the manufacturing (+14bps to 1.2% YoY), the fragile growth is however surprising, given the solid rise in financial services on the backdrop of the LDR policy by the CBN which should have resulted in improved gross investment and output in the manufacturing sector.

Figure 2: Historical and Forecast GDP Growth



Source: Source: NBS, IMF, World Bank, Budget Office, Nova Research

As stated in our NOVA Economic Outlook (NEO) H1 2020 (See report: [NOVA Economic Outlook H1 2020](#)), we expect the Nigerian economy to grow by 2.4% YoY over 2020. Central to our forecast is a possible breach of the OPEC production cap. We stated that the oil sector can only avoid recession in 2020 if output is maintained at the 2019 highs, exceeding its quota with average output of 2.05 mb/d, including condensates. Also, we believe the receding herdsmen and farmers conflict amidst ongoing government intervention in crop production, will support growth in Agriculture. While for the services sector, we believe ICT will continue to provide the necessary support for growth, with investment in fintech and customer acquisition in same expected to support much stronger growth in the sector in 2020. For the manufacturing sector, we stated that the CBN's push for higher credit to the private sector will result in improve activities within the manufacturing space. While we are yet to see a transmission impact over Q4, we do not rule out the possible timeframe between credit acquisition and facility expansion. As such, we retain our outlook on the sector, while noting that expected currency pressure in H2 2020 could limit access to imports of essential commodities which could weaken sector growth. Overall, while we study further development in the domestic environment and impact of global trends, we maintain our growth forecast for the year. The possible impact of the virus in China and a possible escalation cannot be estimated for now, but we think an escalation and disruption in manufacturing activities in China could affect Nigeria manufacturing sector given that China accounts for 31% of our import.

Figure 3: Shrinking, Slow-Growing or Fast-Growing

Oil Refining	Forestry
Coal Mining	Administrative & Support Services
Electricity, Gas ,Steam And Air Conditioning Supply	Construction
Quarrying And Other Minerals	Other Services
Real Estate	Other Manufacturing
Road Transport	Wood And Wood Products
Motor Vehicles & Assembly	Water Transport
Metal Ores	Accommodation And Food Services
Pulp, Paper And Paper Products	Broadcasting
Trade	Fishing
Human Health And Social Services	Crop Production
Livestock	Food, Beverage And Tobacco
Public Administration	Plastic And Rubber Products
Post And Courier Services	Publishing,
Professional, Scientific And Technical Services	Insurance
Motion Pictures, Sound Recording And Music Production	Water Supply,Sewerage, Waste Management And Remediation
Education	Transport Services
Chemical And Pharmaceutical Products	Rail Transport & Pipelines
Textile, Apparel And Footwear	Arts, Entertainment And Recreation
Electrical And Electronics	Crude Petroleum And Natural Gas
Basic Metal , Iron And Steel	Telecommunications & Information Services
Cement	Air Transport
Non-Metallic Products	Financial Institutions

**Contracting sectors are in red; slow-growing sectors are in blue and fast-growing sectors are in green (growth threshold of 3%).*

Source: NBS, NOVA Research