

Economic Commentary

Great Lockdown Necessitates Further Downgrade to GDP

In our first assessment of the impact of Covid-19 on economic growth (Published 16 March, see report: [Economic and Price Stability – Clouds Gathering, Downpour in Sight?](#)) we had assumed that the pandemic will be contained without risk of government implementing measures that will severely restrict economic activity for a sustained period of time (at the time, reported cases in Nigeria were just 3). We have decanted our assumption of in-built resilience, revised downward our GDP growth forecasts and present our new base case, which is for a contraction in economic activities. The new and old forecasts are presented in Figure 1 below. By our estimate, GDP grew by 1.6% YoY over the first quarter of 2020 compared to our estimate of 1.8% YoY last month. The downgrade to growth in the first quarter emanated from the disruption in supply chains - which we believe affected both manufacturing and trade activities, especially in the last month of the quarter – and downward revision of Q1 oil production average to 2.0mbpd (+1.16% YoY) from 2.1mbpd (+4.35 YoY).

Figure 1: NOVA Research Economic Growth Forecast (Baseline Scenario)

YoY Growth	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	FY 19	FY 20
Oil GDP										
<i>Old</i>	-1.5%	7.2%	6.5%	6.4%	5.1%	1.4%	2.4%	5.4%	4.4%	3.5%
New	-1.5%	7.2%	6.5%	6.4%	2.3%	-11.1%	-9.6%	-8.1%	4.4%	-6.7%
Non-Oil GDP										
<i>Old</i>	2.5%	1.6%	1.8%	2.3%	1.5%	0.6%	1.8%	1.1%	2.1%	1.9%
New	2.5%	1.6%	1.8%	2.3%	1.5%	-4.0%	-1.7%	-0.1%	2.1%	-1.1%
Real GDP										
<i>Old</i>	2.1%	2.1%	2.3%	2.6%	1.8%	0.6%	1.9%	1.4%	2.3%	2.0%
New	2.1%	2.1%	2.3%	2.6%	1.6%	-4.6%	-2.5%	-0.7%	2.3%	-1.6%

Source: NBS, NOVA Research Estimates

The downward adjustment to growth for the rest of the year relative to our prior estimate is due to a number of factors. Firstly, coming into the year we had expressed optimism regarding outputs from the oil and gas sector. Despite the planned OPEC cut which started in January, we stated that Nigeria's compliance to the cut would be doubtful and modelled average crude oil production of 2.1mbpd. With the sudden turn of events amidst diminishing viability of some expensive wells, we believe compliance to the recent OPEC+ agreement is necessary even if minimal. Compared to the stipulated cut of 1.41mbpd, we estimate average crude oil production of 1.57mbpd which combined with condensates should average 1.85mbpd compared to Q1 20 average of 2.03mbpd.

Second, while a large fraction of the formal sector continues to operate sub-optimally, the informal sector has been completely shut down. The Informal Sector comprises any economic activity or source of income that is not fully regulated by the government and other public authorities. This includes subsistence farmers, small scale manufacturers and service providers (e.g. hairdressers, private taxi drivers, and carpenters), etc. According to the IMF, the IS accounted for ~65% of Nigeria's 2017 GDP. Beyond actual shutdown of activities in the informal sector, the income to participants in

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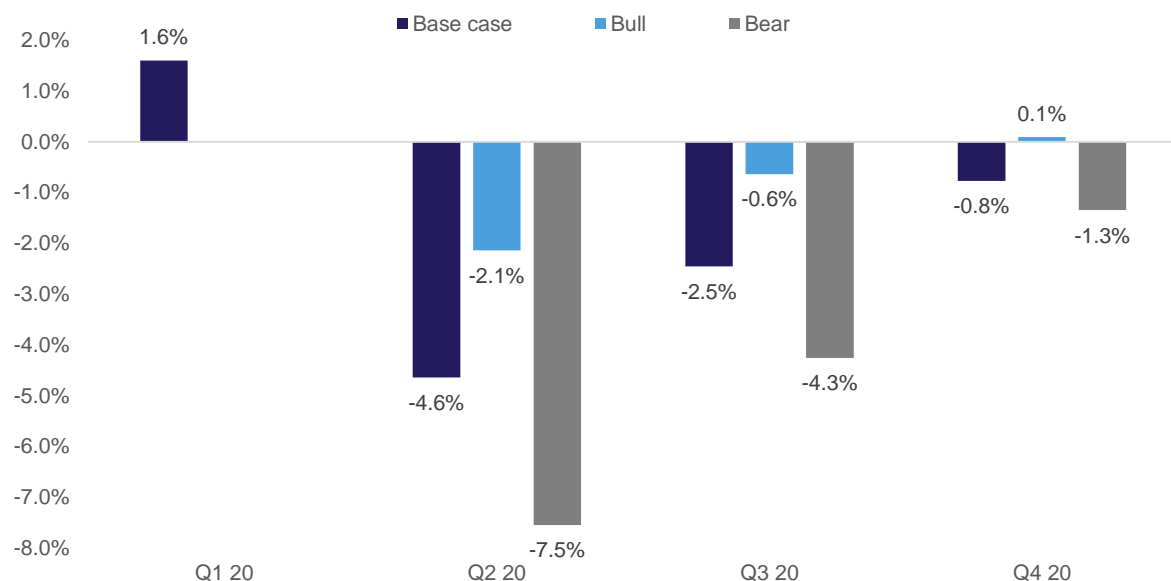
that sector has been materially hampered with a transmission to lower consumption and demand. Accordingly, we note that with the lockdown and further extension, a large proportion of the economy would have been thrown into dire straits, especially with the absence of safety nets.

Third, compared to our earlier estimate wherein we only modelled the impact of the supply chains disruptions on manufacturing activities with a translation to trade activities, we now see the lockdown having a more telling impact on actual production. Also, the extension of the lockdown by another two weeks, suggests little to no economic activities all through the month of April.

Fourth, while 3 states were announced by the federal government for official lockdown, more states have voluntarily adopted similar approaches, albeit with less impact on economic activities. Interestingly, at the time of announcing the lockdown on Sunday (29th March), Ogun state was added with just 3 cases recorded (with 111 cases in total across 11 states). As at 15th of April, the number of cases in other states e.g. Osun, Kano, Edo, Oyo, Katsina, Bauchi, Kaduna and Akwa Ibom have exceeded the level in Ogun when the first phase of the lockdown was implemented. Also, compared to the first phase of the lockdown, Nigeria now has 407 cases across 20 states. As such, with rising number of cases, the likelihood of restriction of economic activities extending beyond the month of April and lockdown being implemented in more states is not so farfetched.

Fifth, even with our expectation of the lockdown being relaxed at the end of April with strict rules on social distancing, the return to full-fledged economic activities might remain slow as complete containment without major escalation of Covid-19 could extend until the end of Q2 2020. As such, we see the second round effects of the economic disruption in the form of higher unemployment, weaker capital spending, materially lower consumption demand, corporate defaults and even more significant supply-side disruptions.

Figure 2: NOVA Research Economic Growth Forecast Scenarios



Source: NOVA Research Estimates

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In all, compared to our prior estimate of a deceleration in GDP to 2.0%, we now see the economy contracting 1.6% YoY on our baseline scenario. Particularly, we expect the economy to enter a recession by the third quarter of the year, as we see GDP contracting for the remaining quarters of the year relative to the prior year. Our most positive scenario assumes that both fiscal and monetary measures will be sufficient to provide a fast reboot to the economy, complete containment of Covid-19 by the end of May and limited compliance with the OPEC+ cut. For the negative scenario, we assume that ongoing fiscal and monetary measures will be insufficient to provide necessary jolt for a fast restart of the economy. In this scenario, we expect a more telling impact of the second round effects of the economic disruption in the form of massive layoffs in the formal sector, corporate defaults, tightening of financial conditions and weaker capital spending.