Economic Commentary

Covid-19 Hurricane Makes Landfall as GDP Contracts 6.1% YoY in Q2 2020

- Nigeria's GDP contracted by 6.10% YoY in Q2 2020 compared to 1.87% YoY growth in Q1 2020
- Services and Oil sector GDP posted declines of 2.6% and 6.6% YoY respectively in Q2.
- The oil sector contraction suggests crude oil production averaged 1.81mbpd in Q2 20, lower than average of 2.07mbpd in Q1 20 and 2.02mbpd in Q2 19.

Compared to the spate of contraction in GDP in advanced economies in the first quarter of 2020, due to Covid-19 associated lockdowns, the Nigeria Q1 2020 GDP only showed moderate deceleration. However, the Q2 2020 GDP figures released this morning, showed the impact of the Covid-19 associated disruption in economic activities. Overall GDP in Q2 2020 contracted by 6.10% YoY (just below our forecast of 6.58%) and contracted 5.04% QoQ following contraction in both oil and non-oil sectors. While the headline GDP contraction came in lower than our forecast, following much slower rate of contraction in manufacturing, and crude oil, we are however surprised about the level of contraction in construction and trade. Relative to forecast of 10% YoY and 15% YoY contraction in construction and trade, the Q2 numbers delivered a much deeper contraction of 31.8% and 16.6% respectively. On an attribution basis, Wholesale and retail trades contributed 2.67% to overall decline in Q2, followed by construction (1.41%), services (0.99%), manufacturing (0.80%) and crude oil (0.60%). On balance, Nigeria posted 2.18% YoY GDP contraction in H1 2020 compared to 2.11% growth in H1 19. Services and agriculture composition to GDP improved to 38.7% and 23.2% from 37.7% and 22.3% in H1 2019 respectively.

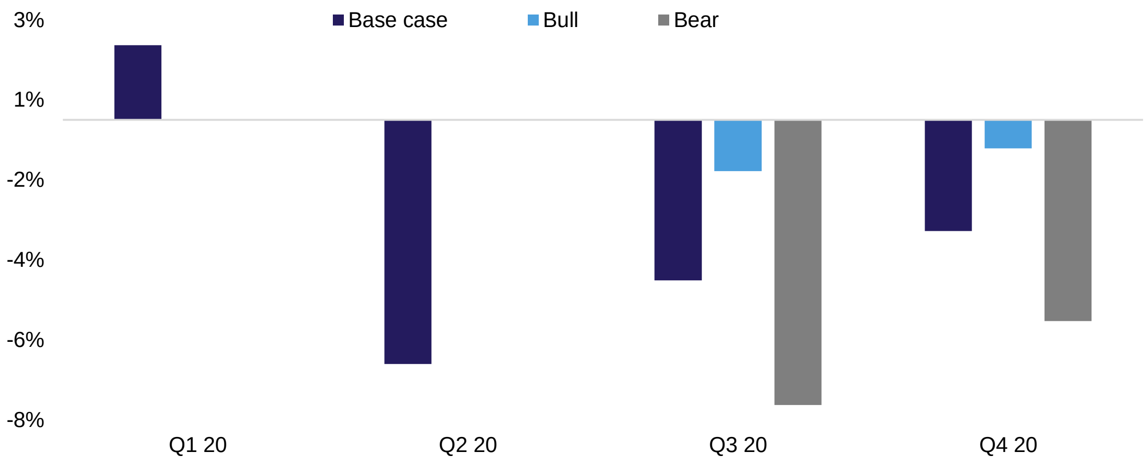
Figure 1: Real GDP Growth across segments

YoY Growth	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	FY 18	FY 19
Agriculture	**1.2%**	**1.9%**	**2.5%**	**3.2%**	**1.8%**	**2.3%**	**2.3%**	**2.2%**	**1.6%**	**2.1%**	**2.4%**
Manufacturing	**0.7%**	**1.9%**	**2.4%**	**0.8%**	**-0.1%**	**1.1%**	**1.2%**	**0.4%**	**-8.8%**	**2.1%**	**0.8%**
Services	**4.1%**	**3.4%**	**3.8%**	**3.1%**	**2.9%**	**3.5%**	**4.0%**	**3.5%**	**-2.6%**	**3.0%**	**3.4%**
Construction	**7.7%**	**0.5%**	**2.0%**	**3.2%**	**0.7%**	**2.4%**	**1.3%**	**1.7%**	**-31.8%**	**2.3%**	**1.8%**
Trade	**-2.1%**	**1.0%**	**1.0%**	**0.8%**	**-0.2%**	**-1.5%**	**-0.6%**	**-2.8%**	**-16.6%**	**-0.6%**	**-0.4%**
Mining and Quar.	**-3.8%**	**-2.8%**	**-1.2%**	**-1.4%**	**7.0%**	**6.2%**	**6.1%**	**4.6%**	**-6.6%**	**1.1%**	**4.4%**
Oil GDP	-4.0%	-2.9%	-1.6%	-1.5%	7.2%	6.5%	6.4%	5.1%	-6.6%	1.1%	4.4%
Non-Oil GDP	2.0%	2.3%	2.7%	2.5%	1.6%	1.8%	2.3%	1.5%	-6.1%	2.1%	2.1%
Real GDP	1.5%	1.8%	2.4%	2.1%	2.1%	2.3%	2.6%	1.9%	-6.1%	1.9%	2.3%

Source: NBS, NOVA Research

More broadly, the oil sector contracted by 6.6% in Q2 20, largely reflecting lower crude oil production of 1.81mbpd over Q2, relative to average production of 2.02mbpd in Q2 19. The non-oil sector contracted by 6.1% YoY, below our estimate of 6.3% contraction, following cuts across most constituents. Wholesale and Retail activities largely dominated the contraction in the non-oil sector, contributing 3% to the overall contraction, followed by building & construction, services and manufacturing of 1.6%, 1.1% and 0.9% respectively. The services sector contracted 2.6% YoY following poor outing in Transportation (-49.2% YoY), Real Estate (-22.0% YoY), professional services (-15.4% YoY) and Other services (-15.1% YoY), all of which more than outweighed strong outing in ICT (+15.1% YoY), financial services (+18.5% YoY) and public administration (+2.0% YoY). While the growth in the ICT emanated from increase in subscriber base by 12.9% YoY to 196 million as at June, the material growth in the financial services sector reflects the increase in credit creation YoY by banks to meet up with the minimum loan to deposit ratio prescribed by the Central Bank of Nigeria. Interestingly, the agriculture sector remained resilient to be the only constituent of the non-oil sector with a positive performance, which largely reflect the limited disruption to farming activities from the Covid-19 related lockdown. However, we note that the rate of distribution of farm produce was significantly affected by the restriction of movement. For the manufacturing sector (-8.8% YoY), contraction is not unconnected to the breakup in supply chains especially April, which resulted in material fall in the volume of production. Cement, food, beverage & tobacco, textile & footwear with combined weight of 79% of manufacturing recorded contractions of 5.5%, 3.0% and 14.4% YoY respectively.

Figure 2: NOVA Research Economic Growth Forecast Scenarios, Q1 and Q2 Actual



Source: NBS, Nova Research Estimates

In our H2 2020 NOVA Economic Outlook (Published 16 July, see report: [A Contraction Like Never Before]), we stated that the combined effect of modest compliance to planned OPEC+ cut with crude oil production averaging 1.85mbpd (including condensates) will constrain growth in the oil sector over the rest of the year. Also, we noted that while a large fraction of the formal sector continues to operate sub optimally, the informal sector (which accounted for 65% of Nigeria's 2017 GDP) was completely shut down for most part of the second quarter. Beyond actual shutdown of activities in the informal sector, the income to participants was materially hampered with a transmission to lower consumption and demand. Even with our expectation of the complete opening of the economy at the end of July with strict rules on social distancing over the rest of the year, we stated that 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 Q3 2020.

In all, we see the second round effects of the economic disruption in the form of higher unemployment, weaker capital spending (in both public and private sector), corporate defaults and even more significant supply side disruptions. 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 July 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.

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

Quarrying & Other Mining	Education
Oil Refining	Textile, Apparel and Footwear
Coal Mining	Motor Vehicles and Assembly
Broadcasting	Other services
Real Estate	Food, Beverage and Tobacco
Metal Ores	Basic metal and Iron
Accommodation and food services	Wood and Wood Products
Wholesale & Retail Trade	Plastic and Rubber
Electricity, Gas, Steam and A/C supply	Fishing
Admin/Support services	Art, Entertainment and Recreation
Other Manufacturing	Public administration
Electrical and Electronics	Health and Social services
Other Transport Services	Crop Production
Non-metallic,	Forestry
Post	Livestock
Professional Scientific and Technical	Chemical and Pharm
Motor Vehicles and Assembly	Fishing
Building & Construction	Water Supply and sewage
Pulp and Paper products	Motor Vehicles and Assembly
Rail Transport & Pipelines	Broadcasting
Water Transport	Coal Mining
Publishing	Telecommunications
Motion Picture	Financial Institutions
Chemical and Pharm	

**Contracting sectors are in red; slow-growing sectors are in blue and fast-growing sectors are in green (growth threshold of 3%, which approximates Nigeria's annual average population growth in recent years).*

Source: NBS, NOVA Research