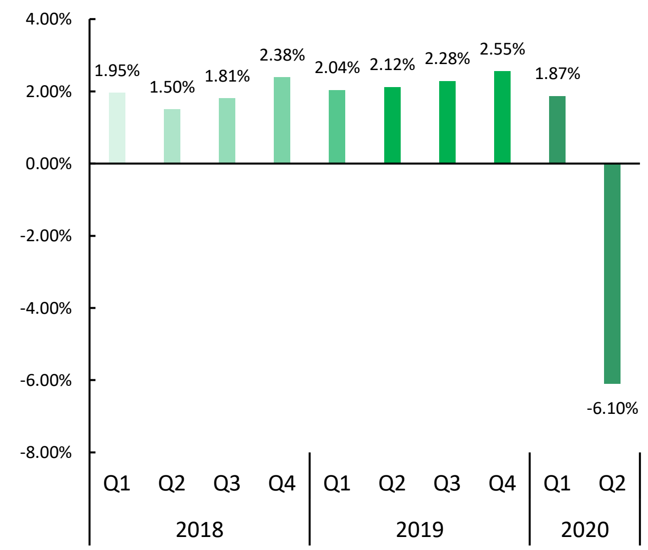
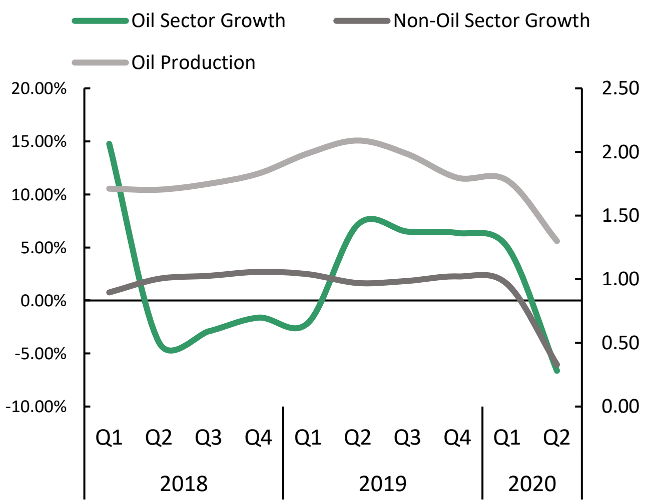
Real GDP (Q1'18 – Q2'20)



Source: NBS, Meristem Research

Sectoral Growth (2018 – 2020)



Source: NBS, Meristem Research

Real GDP Contracts by Most in over a Decade

The National Bureau of Statistics (NBS) on the 24th of August 2020, published the much anticipated Gross Domestic Product (GDP) figures for Q2:2020, which revealed that the economy contracted by 6.10% YoY and 5.04% QoQ in Q2:2020 (vs. 2.12% in Q2:2019 and 1.87% in Q1:2020). This was the steepest YoY quarterly GDP contraction in over 10 years since quarterly GDP data became available and portrayed the magnitude of the economic impact of the COVID-19 pandemic on the domestic economy. The results show a decline in both the Oil (-6.63% YoY and -10.82% QoQ) and the Non-Oil (-6.05% YoY and -4.43% QoQ) sectors of the economy. **Although the gradual reopening of the economy provides a positive boost for economic growth in the second half, the current macro conditions are not supportive of a swift economic rebound. Hence, we maintain our real GDP forecast of -3.03% YoY for 2020.**

The Oil sector, in Q2:2020, recorded a YoY contraction of -6.63% (vs. 5.15% in Q2:2019), which weakened the sector's contribution to overall GDP to 8.33% from 9.50% in Q1:2020. The magnitude of the decline was even more evident in nominal GDP figures for the period, as oil output fell sharply by 17.64% YoY and 10.86% QoQ. We ascribe this to the decline in average oil production volumes to 1.81mbpd (vs. 2.07mbpd in Q2:2020), as well as the significantly weaker oil price environment (oil prices averaged USD33.16pb in the quarter, compared with an average oil price of USD71.15pb in Q2:2019). This being an offshoot of the outbreak of the novel coronavirus which weakened global oil demand and prompted oil supply cuts from oil producers.

Similarly, the Non-Oil sector performance reflected the impact of the lockdown measures enforced in the nation's commercial hubs to curb the spread of the coronavirus. This negatively weighed on major non-oil sectors such as; transport and storage (-49.23% YoY), accommodation and food (-40.19% YoY), construction (-31.77% YoY), education (-24.12% YoY), real estate (-21.99% YoY), trade (-16.59% YoY) and manufacturing (-8.78% YoY). Only sectors like the Financial and Insurance (18.49% YoY), ICT (15.09% YoY), agriculture (1.58% YoY) and public administration (2.02% YoY) sectors pulled through, registering growth.

In the second half, we expect growth factors to remain constrained. Uncertainty continues to linger in the oil price landscape due to the persistence of COVID-19, and this will prove unsupportive of a prolonged recovery in oil prices until a vaccine is discovered. Thus, we posit that oil supply quotas enforced by OPEC and its allies will keep domestic oil output in the second half of 2020 below the average recorded in H2:2019 (*c.*2.02 mmbpd). Likewise, the performance of key non-oil sectors like trade, manufacturing and real estate will continue to be pressured by factors such as FX illiquidity, supply chain bottle necks and weak consumer demand. Nonetheless, we expect the sustained growth in the ICT, financial services, and agricultural sectors to provide support for non-oil performance in the second half.

Furthermore, we view the easing of lockdown measures across the country as a mild positive, considering that Naira devaluation risks still loom large, while high unemployment and rising inflation will weaken domestic consumption and prevent a quick rebound of economic growth.

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