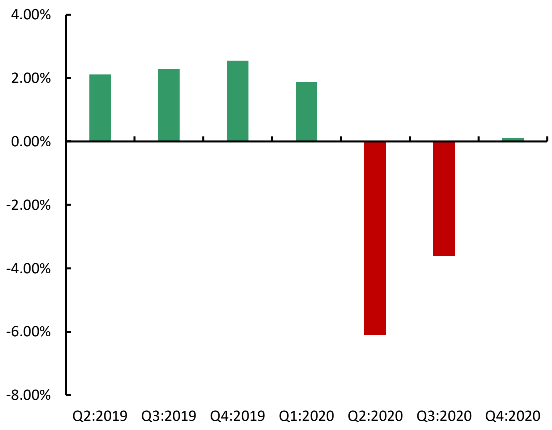
MERISTEM

Macroeconomic Update

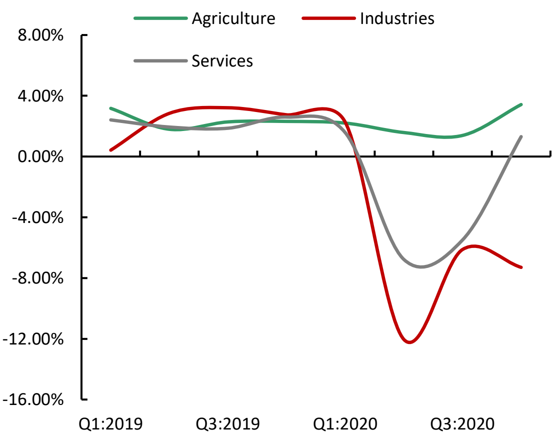
Post-GDP Report | Q4:2020

Chart 1: Real GDP Growth rate (%)



Source: NBS, Meristem Research

Chart 2: Growth rate of Major Sectors (%)



Source: NBS, Meristem Research

Economy Rebounds by 0.11% YoY in Q4:2020

The recent data released by the National Bureau of Statistics reports real GDP for the year 2020 to have contracted by -1.92% YoY. In Q4:2020, real GDP was surprisingly higher by 0.11% YoY (vs our forecast of -2.37%YoY) – marking an earlier than expected exit from the recession. However, the oil sector remained subdued as real oil GDP contracted by -19.76% YoY in Q4:2020, while the Non-oil sector grew by only 1.64% in real terms in the same period. Consequently, the oil sector's contribution to real GDP slumped to 5.87% (vs 7.32% in Q4:2019), while the Non-oil sector contributed 94.13% (vs 92.68% in Q4:2019). Notable performances in the non-oil sector were witnessed in the information and communication (+14.70%), Agriculture (+3.42%), Human, health and social services (+3.05%) and Real estate (+2.81%) sectors. Meanwhile, the oil economy continued to face pressure from lower output in compliance with OPEC quota. In Q4:2020, crude oil output stood at 1.56mbpd (vs 2.00mbpd in Q4:2019 and 1.67mpbd in Q3:2020).

Low Oil Output Subdues Oil Sector

In our Q3:2020 GDP report, we had explained how the oil sector was negatively impacted by the combined effect of dropping oil prices in the wake of the pandemic and low production output. While oil prices steadied around USD40bpd -USD50bpd between October – December 2020, the continuous decline in crude oil output remained a significant downside factor to the oil economy. We see this in the -19.76% YoY and -26.27% QoQ decline in oil GDP in Q4:2020. OPEC remains resolute on stabilizing the crude oil market amid the COVID-19 shock. Over the short term, the cartel has agreed to a gradual rollback of production cuts while its watches how market conditions unfold. At its January 5th 2021 meeting, the organization agreed on the need to gradually return 2mbpd to the market, which will bring production cuts to 7.2mbpd (vs prev. 7.7mbpd).

Over the course of Q1:2021, production cuts are expected at 7.2mbpd, 7.1mbpd and 7.05mbpd in January, February and March respectively. Under this arrangement, Nigeria's production quota was pegged at 1.5mbpd (prev. 1.4mbpd). The slight increment in production quota bodes well for growth prospect in the oil economy in Q1:2021. However, when considered alongside production level in Q1:2020 (2.07mbpd), we see that there is still some way to go for year-on-year growth to be realized in the sector. Ultimately, true respite in Nigeria's oil sector is only expected when global demand picks up to near pre-pandemic levels.

ICT Shines as Non-oil Growth Driver

Select sectors in the non-oil economy were the star performers for the quarter, paring year-on-year GDP decline to only -1.92% and ensuring a growth rate of 0.11% YoY in Q4:2020. Non-oil GDP was higher by 1.64% YoY in Q4:2020, with the most notable growth witnessed in the information and communication sector (+14.70%). This comes as no surprise following significant strides seen in the telecoms sector since the outbreak of the Corona virus.

Data from the Nigerian Communications Commission (NCC) showed that each month between May and December 2020, year-on-year growth rate of telecoms subscribers were at double digits- averaging 13%. This performance reflects the growth momentum in the telecoms industry, as widespread adoption of videoconferencing and work from home culture has triggered increased demand for telecommunication services. We observed that between Q2:2020 and Q3:2020, year-on-year growth in the information and communication sector averaged 16.33%. Hence, even a growth of 14.70% YoY in Q4:2020 reflected a weakening growth momentum, albeit higher than 10.16% recorded in Q4:2019.

The Agriculture sector also registered a growth rate of 3.42% YoY – the fastest since Q1:2019. Although we note that the agricultural sector has been on a painfully slow growth path (average of 1.93% in the past six quarters), the CBN's effort through its direct lending initiatives (such as the Anchor borrower's programme) has provided some results. This is evident in growth across crop production (+3.68% YoY), livestock (+2.38% YoY) and forestry (+1.24% YoY).

On the other hand, manufacturing activities are yet to come out of the woods. Except for cement, consumer goods, plastic and rubber and motor vehicles and assembly, the manufacturing sector remained in contraction. Cumulatively, manufacturing contracted by -1.51%YoY in Q4:2020. This is in our view is explained by underwhelming domestic demand following erosion of purchasing power due to inflationary pressures and underemployment.

For 2021FY, we maintain our expectation of 2.33% growth rate, which we anchor on the recovery narrative in the international oil market and improved levels of economic activities, following coordinated fiscal and monetary support.

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