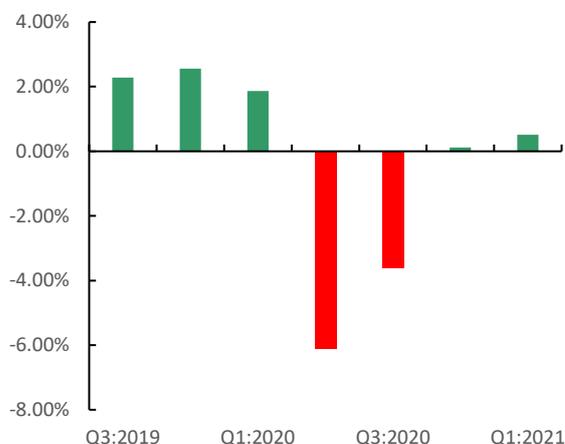


Economy Records Second Expansion

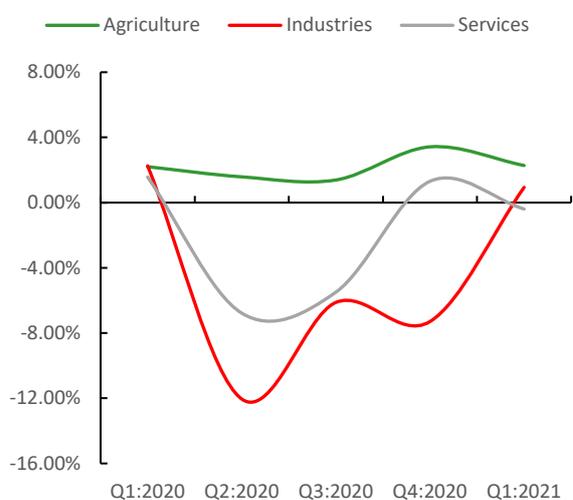
The recently released GDP figures for Q1:2020 by the National Bureau of Statistics (NBS) reports real GDP to have grown by 0.51%YoY. This marked the second quarter of growth after the exit from recession in Q4:2020. Total real GDP for the quarter stood at NGN16.83trn (vs. NGN16.74trn in Q1:2020) as non-oil GDP expanded (+0.79% YoY) while oil GDP contracted by -2.21% YoY. Majorly, the growth in the non-oil sector was driven by the Telecommunication (+6.47% YoY), manufacturing (+3.47% YoY) and agriculture (+2.28% YoY) sectors. On the other hand, reduction in average daily oil production by 0.35mbpd to 1.72 million barrels per day triggered the contraction in oil GDP.

Chart 1: Real GDP Growth Rate (%)



Source: NBS, Meristem Research

Chart 2: Growth Rate of Major Sectors (%)



Source: NBS, Meristem Research

Oil Sector Remains Subdued

While the efforts of the OPEC+ alliance has successfully kept crude oil prices firmly above USD60pb for most of the year so far, this has been at the expense of crude oil production and export. According to the Q1:2021 GDP report, average crude oil production in Nigeria slumped by 16.91% YoY to 1.72mbpd in Q1:2021. This was primarily due to a tighter production quota (1.40mbpd vs 1.81mbpd in Q1:2020) by OPEC in a bid to support the recovery and stability of the international crude oil market.

With the improvement in vaccinations and generally easier global restrictions, the outlook for the international crude oil market is largely stable. However, pockets of uncertainties persist. Of particular interest is the increasing infection rate of a new variant of the virus in India, with the attendant spike in death tolls. With India being the primary destination for Nigeria's crude oil (accounting for c.17%), export volumes might become further constrained. That notwithstanding, we expect a reversal of crude oil sector YoY growth in Q2:2021 due to the impact of a low base in Q2:2020. The outlook for the rest of the year will however depend on the rate at which Nigeria's OPEC supply quota is increased.

ICT Remains Major Growth Driver

The Information and communication sector (ICT) (+6.31% YoY), remained the major growth catalyst in the non-oil sector (vs. 0.79% YoY for non-oil GDP). We however can beam the spotlight on the telecommunications subsector which was the star performer with a growth of 7.69%YoY. This was despite the regulatory ban on new SIM card registration which extended into Q1:2021. Data from the Nigerian Communications Commission showed that total subscribers between December 2020 and March 2021 reduced by 5.82%. This notwithstanding, companies in the sector recorded increased data usage in existing SIMs which positively impacted growth in the Telecoms subsector and the ICT sector as a whole. With the lifting of this restriction in April 2021 and expansion of 4G

Post GDP | Q1:2021

network coverage by operators, our outlook for the sector is broadly positive.

Meanwhile, the manufacturing sector rebounded from a recession with a 3.40% YoY (vs -1.51% YoY in Q4:2020) for the first time since Q2:2020. Improvements in Cement (+11.20% YoY) as well as Food, beverage, and Tobacco subsectors (+7.11% YoY) were key drivers, while the oil refining subsector contracted by 57.05% YoY. Also, agricultural output grew by 2.28% YoY, supported by growth across all subsectors (crop production, forestry, fishing, and livestock). The growth in the manufacturing and agricultural sectors during the quarter is attributable to eased lockdown restrictions and sustained real sector intervention by the CBN through improved access to low-cost credit and loan forbearance by the banking sector. Although access to FX and heightened insecurity continue to challenge the real sector, the outlook for both sectors is positive. PMI data show an increase from 44.90pts in January 2021 to 49.02pts in April 2021. Similarly, the employment index edged up marginally to 46.50% from 45.60% within the same period.

With our expectation of recovery in the oil sector on the back of improving global demand, increasing prices, and production cut easing, as well as growth expectations for the agricultural and manufacturing sectors of the economy, we maintain our expectation of an advancement in the broad economic activities in 2021FY.

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