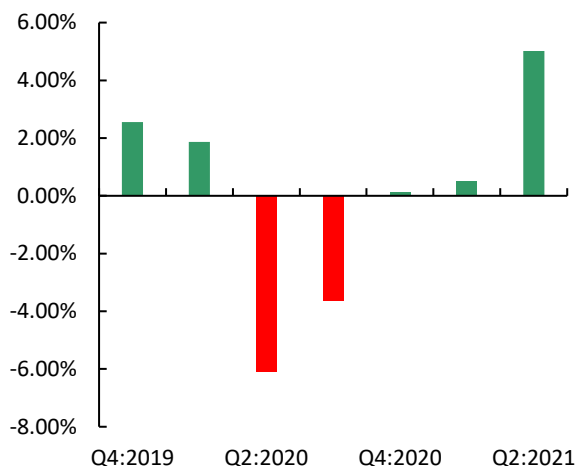
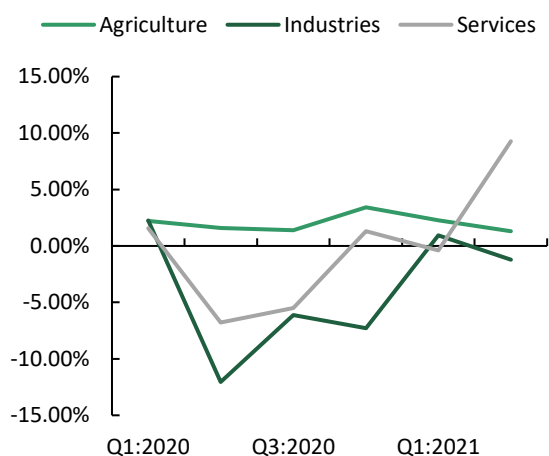


Chart 1: Real GDP Growth Rate (%)



Source: NBS, Meristem Research

Chart 2: Growth Rate of Major Sectors (%)



Source: NBS, Meristem Research

Economy Continues on Growth Path

The recently released GDP data by the National Bureau of Statistics reports an expansion of 5.01% YoY in real GDP for Q2:2021. This was mainly due to a low Q2:2020 base when real GDP contracted by 6.10% YoY. Total real GDP for the quarter stood at NGN16.69trn (vs NGN15.90trn in Q2:2020) as non-oil GDP expanded (+6.74% YoY), while oil GDP contracted (-12.65% YoY). The growth in the non-oil sector was driven by expansion in the Information & Telecommunication (+5.50% YoY), Manufacturing (+3.49% YoY), and Agriculture (+1.30% YoY) sectors, while the contraction in the oil sector was due to lower oil production in the quarter (1.61mbpd), compared to Q2:2020 (1.81mbpd).

Oil Economy Remains Depressed

The recovery witnessed so far in some advanced economies (US – 6.50%YoY, UK – 4.80%YoY, and Euro Area – 13.70%YoY in Q2:2021) and relaxed COVID restrictions have prompted OPEC+ to ease production cuts further. Although, oil prices have remained above USD60pb. Nigeria's oil production quota has thus increased to 1.54mbpd in Q2:2021 (vs. 1.52mbpd in Q1:2021). However, Oil GDP contracted by 12.65%YoY in Q2:2021 (or 20.35%QoQ) as average daily oil production (including condensates) for Q2:2021 was lower at 1.61mbpd (vs. 1.81mbpd in Q2:2020 and 1.72mbpd in Q1:2021). In our view, this contraction was due to the increased oil production losses in the quarter. Data from NNPC reveals an average daily oil production loss of 162,956 barrels in Q2:2021, showing a worse decline compared to the previous quarter by 33.35%QoQ and the corresponding period last year by 22.82%YoY. This was due to more closed oil production terminals in the period owing to maintenance activities.

OPEC+ remains committed to gradually phasing out the production restrictions effected last year, with a resolution at its last meeting to increase production by 400,000bpd monthly, starting from August 2021. Based on this, we are positive about the prospects of an expansion in the oil sector in Q3:2020. However, the spread of the delta variant of COVID-19 globally could negatively impact global oil demand. Thus, we highlight this as a significant downside risk to our outlook.

Non-Oil Sector Recovers to Pre-pandemic Level

The non-oil sector was the main driver of economic growth in the quarter, expanding by 6.74%YoY. All major sectors registered growth in the quarter, save for the Mining & Quarrying (-12.29%YoY), Financial & Insurance (-2.48%YoY), and Public Administration (-1.68%YoY). Although the advancement in the non-oil sector in Q2:2021 reflected the low 2020 base, the output in the quarter was slightly better (+0.28%) than the corresponding period in 2019. This implies a recovery to the pre-pandemic level. PMI readings for July

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(46.60pts) also point to an improvement in output levels compared to the end of Q1:2021 (March – 44.90pts).

A key highlight of the quarter is the Trade sector, which has been in contraction since Q2:2019. The sector expanded by 22.49%YoY in Q2:2021, mirroring the rebound in general economic activities and stronger demand for goods and services in the quarter compared to Q2:2020. The output in Agriculture and Manufacturing sectors continued to improve, with growth of 1.30%YoY and 3.49%YoY, respectively, in Q2:2021. In our view, the growth reflects the impact of the sustained, targeted credit interventions to these sectors. Also, the Information & Communication sector expanded by 5.50%YoY – the slowest growth in the past 13 quarters. This is attributable to the stringent regulatory requirements for new subscriber registration, which led to a 2.50%QoQ decline in the total number of active lines in the quarter.

For subsequent quarters, we expect the Federal Government's improved efforts at vaccination to temper risks posed by the Delta-variant of the Coronavirus. This should, in turn, give room for further improvement in economic activities. Thus, we maintain our expectation of a 2.30%YoY output growth for 2021FY.

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