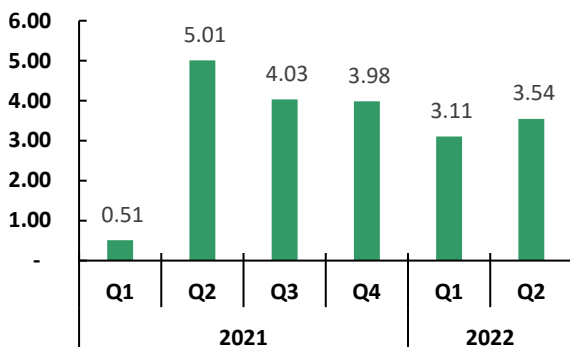
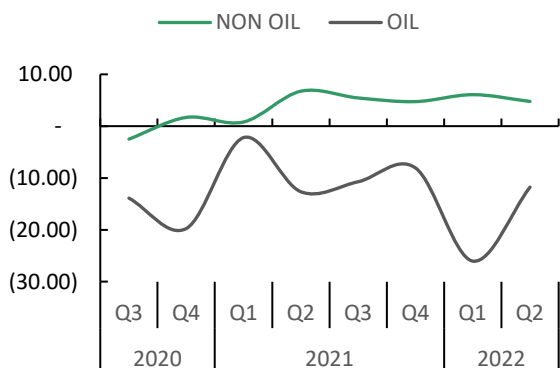


Chart 1: Real GDP Growth Rate (% YoY)



Source: NBS, Meristem Research

Chart 2: Sector Growth Rate (% YoY)



Source: NBS, Meristem Research

The recently released Gross Domestic Product (GDP) statistics by the National Bureau of Statistics (NBS) reported real GDP to have expanded by 3.54% YoY in Q2:2022. Total real GDP for the quarter stood at NGN17.29trn (vs NGN16.69trn in Q2:2021) hinged on the expansion in the non-oil sector by +4.77% YoY to NGN16.19trn. Meanwhile, the oil sector remained subdued as oil GDP contracted during the period (-11.77%YoY vs -12.65%YoY in Q2:2021). This contraction in the oil sector largely reflects the lower oil production volumes in the quarter (1.43mbpd vs 1.61mbpd in Q2:2021). The key contributors to GDP growth include Information & Telecommunication- ICT (+33.14%), Trade (+21.22%), Financial Services sector (+19.40%), and Transportation and Storage (+18.33%).

## Declining Oil Production Stifles Output

Despite Organization of the Petroleum Exporting Countries (OPEC's) move to increase Nigeria's production quota to 1.75mbpd in Q2:2022 (vs 1.70mbpd in Q1:2022), oil production continued to trend downward. Thus, the increase in crude oil price to an average of USD112pb in Q2:2022 (vs USD98pb in Q1:2022) was hardly beneficial to the oil sector. Oil output declined by c.13%QoQ, despite increased field activities (rig count) to 10 in Q1:2022 (from 8 in Q1:2022). The drop in production can be attributed to production losses (c.17million barrels) arising from the Force Majeure, repairs and maintenance of export facilities, crude theft, and pipeline vandalism. We also view the 1.5million barrels lost at the Qua Iboe terminal as a consequence of the 7-day warning strike of the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN).

We expect production volumes to improve by c.14.00% to average 1.60mbpd in H2:2022 (vs 1.40mbpd in H1:2022), hinged on increased field activities to 11 as of July 2022. Also, the potential success of the recently awarded pipeline surveillance contract would provide respite to the industry by curbing crude oil theft and pipeline vandalism. According to OPEC, the demand for crude oil remains strong with a forecast of 100.03mbpd for 2022FY (vs 96.92mbpd in 2021FY) despite lower demand from China. Hence, the widened supply gap is expected to keep oil prices elevated. Overall, we expect to see some improvements in the oil sector in the second half of the year.

## ICT Leads Non-Oil Sector Growth

The non-oil sector remained resilient as the highest contributor to GDP (at 93.67% YoY), expanding to NGN16.19trn (vs. NGN15.45trn in Q2:2021). The Information, Communication, and Telecommunications (ICT) sector was the major contributor to this growth, expanding by 6.47% in Q2:2022 (vs 5.50% in Q2:2021). This is largely attributable to the increase in subscriber base (c. 8.76%YoY) as reported by the Nigerian Communications Commission (NCC). Accordingly, we expect the recent roll-out of 5G in selected states amid regulatory improvement to further enhance growth in the sector.

**GDP | Q2:2022**

Growth in the trade sector however slowed for the first time since its recovery in Q2:2021 as it expanded by 4.51% (vs. 6.54% in Q1:2022). In our view, the challenges manufacturers face with accessing FX at the official window and the slowdown in the oil sector have contributed significantly to this decline. Also, we opine that the base effect which boosted the trade sector in 2021 has effectively bottomed out. We also note the significant expansion in the Transportation sector (+51.66%) contributing c.18% to the overall growth in the quarter. This impressive performance was mainly anchored by the expansion in the Road transport subsector (+56.38%).

Despite the monetary authority being prodigiously in favor of the real sector (as seen via the various intervention programs implemented to bolster growth in the sector), the Purchasing Managers Index (PMI) (average of 51.93pts in Q2:2022 vs average of 53.63pts in Q2:2021) indicated a weak output performance in the quarter. Sectors such as the Manufacturing and Agricultural sector grew at a slower pace of 3.00% YoY and 1.20% YoY in Q2:2022 (from 3.49% YoY and 1.30% YoY in Q2:2021 respectively). In our view, these slower growth rates reflect the prevailing headwinds such as the persisting security challenges in the food-producing regions amid low productivity, rising inflation, and lower disposable incomes. Regardless, these sectors (Manufacturing and Agriculture) remain key growth drivers of the Nigerian economy contributing 7.38% and 8.07% to GDP growth value (vs 6.14% and 6.40% respectively in Q2:2021), largely attributable to sustained CBN intervention programs.

**For 2022FY, we revised our expectation to a 3.09% growth rate in GDP from 2.51% previously estimated. This is anchored on the expectation of marginal improvement in the oil sector, continued intervention by CBN, and increased productivity. However, downside risks to this growth include heightened inflationary pressures and corresponding monetary policy rate hike to combat inflation.**

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