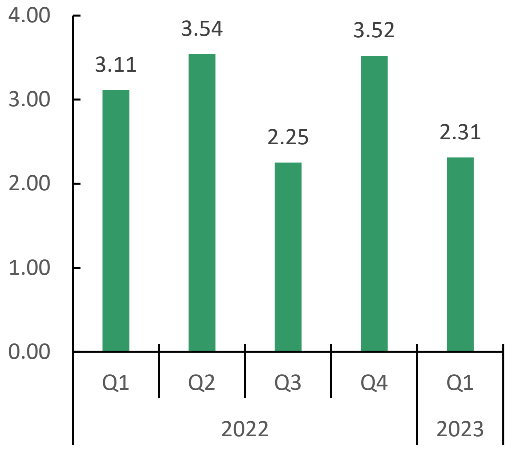
MERISTEM

Macroeconomic Update

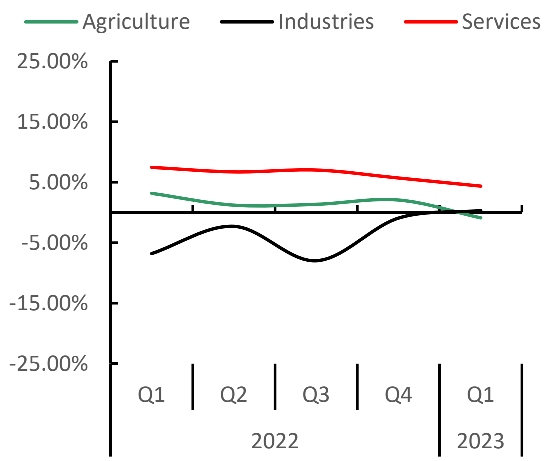
GDP | Q1:2023

Chart 1: Real GDP Growth Rate (% YoY)



Source: NBS, Meristem Research

Chart 2: Growth Rate of Major Sectors (% YoY)



Source: NBS, Meristem Research

The Gross Domestic Product (GDP) statistics recently released by the National Bureau of Statistics (NBS) reveal total real GDP to have expanded by 2.31%YoY in Q1:2023, standing at NGN17.75trn, (from NGN17.35trn in Q1:2022). This also represents a slower growth compared to the preceding and corresponding quarter last year (Q4:2022- 3.52% and Q1:2022- 3.11%), respectively. Alongside other macroeconomic difficulties (like FX scarcity and election-related uncertainties), cash scarcity in the quarter was a major factor impacting this slower growth. The non-oil sector felt the brunt of these issues the most as its growth rate declined to 2.77% (its lowest since Q2:2021). On the other hand, while the oil sector remained in contraction (-4.21%YoY), real oil GDP growth improved from -26.04% in Q1:2022 and represents the sector's best outing in 8 quarters. The key contributors to GDP growth include Information & Telecommunication sector- ICT (c.72%), financial services (c.42%), trade (c 9%), and Manufacturing (c. 7%).

Dwindling Numbers: Oil Sector's GDP Declines

The oil and gas sector remains engulfed in a myriad of issues including pipeline vandalism and oil theft which has led to a lower contribution to output growth (6.21% in Q1:2023 from 6.63% in Q1:2022). The low contribution in output growth is largely reflective of lower oil production volumes in the quarter as oil production declined to 1.28mbpd (vs 1.30mbpd Q1:2022) according to data from the Nigerian Upstream Petroleum Regulatory Commission (NUPRC). This is also despite an increase in rig count to 14 in Q1:2023 (from 8 in Q1:2022). In our view, the pipeline vandalism and illegal oil bunkering that led to an explosion of the Rumuekpe-Nkopu trunk line are major reasons for these production losses in the quarter. Similarly, oil prices averaged USD84.19/bbl in Q1:2023 vs. an average of USD100.04/bbl in Q1:2022 as the oil market slowly corrects following the uncertainties brought on by the Eastern Europe conflict. We note that there were some improvements in oil production volumes in Q1:2023 in comparison to prior quarters (Q4:2022 - 1.15mbpd, Q3:2022 – 0.99mbpd) *where production reached as low as 1.00mbpd*. However, production volumes still remain shy of about 500,00bpd from the production quota.

Despite an expectation of improved production due to the government's efforts to combat the challenges in the industry, oil production figures in April 2023 (*1.00mbpd, the lowest since July 2022*) pose a major downside for Q2:2023. We expect oil production volumes to remain relatively in the same range as Q1:2023 as the strike by the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN) in April 2023 constrained about 300,000bpd (lowest since July 2022). Hence, we expect a moderate recovery in the oil sector barring further labor actions and vandalism activities.

MERISTEM

GDP| Q1:2023

Agricultural sector records its first contraction in 36 years

The non-oil sector continues to demonstrate resilience and remains the growth enabler for the economy, accounting for 93.79% of the total GDP, Although, the sector recorded an expansion of 2.77%, it was slower compared to the 6.08% growth recorded in Q1:2022. This growth was driven by the optimal performance of the Information and telecommunication sector, financial services, trade, and manufacturing sectors.

The information and communication sector's performance soared on the back of increased adoption of electronic payments thereby generating increased data traffic. Data from the Nigerian Communications Commission (NCC) supports this as internet subscriber data increased by 8.68% YoY. However, the resultant negative effect of the cash shortages in the economy was not lost on the sector as it impacted the performance of players in the sector. In the near term, we expect growth to be maintained in the information and communications sector driven by improved financial inclusion and sustained roll-out of the 4G and 5G networks in the country.

The financial services sector also grew in the quarter recording 21.37%YoY growth. However, this comes at a slower pace compared to 23.24% in Q1:2022. The growth was primarily driven by the increased adoption of online payment platforms, resulting in enhanced revenue generation for banks and other fintech companies. Moreover, the sector benefited from the augmented interest income of banks, propelled by increased credit to the private sector which increased by 18.10% YoY as of March 2023. The insurance sector also witnessed an expansion of 8.01% (vs the 7.77% in Q1:2022) evinced by the increase in industry penetration and improved awareness in the industry.

Recording its first decline since 1988, output in the agricultural sector declined by 0.90%YoY in Q1:2023 (vs 3.16% Q1:2022). The sector's contribution to overall GDP also declined to 21.66% (from 22.36% contribution in Q1:2022). Output from the crop production sector (which accounts for c.90% of the Agric sector) was also severely impacted by the Naira scarcity, reported cases of crop diseases (tomato, cassava) in Q1:2023, and unabating insecurity challenges in food-producing areas. We also note that the several interventions by the Central Bank of Nigeria in the sector have had minimal impact due to the challenges in the sector. In the near term, we expect performance in the sector to remain sub-optimal as challenges facing the sector remain unrelenting.

Despite its resilience in the face of higher borrowing costs (due to the tightened monetary stance), a high inflationary environment, and the impact of the cash crunch, growth in the manufacturing sector slowed to 1.61% YoY, (vs 5.89% recorded in Q1:2022). Similarly, the trade sector experienced slower growth in Q1:2023, reaching its 8-quarter nadir at 1.31% (vs. 6.54% in Q1:2022) as a significant portion of transactions in the sector is settled in cash. The latest PMI readings at 51.10pts in April (vs 42.60pts in March 2023) and currency re-circulation however suggest a significant improvement in the manufacturing sector for Q2:2023.

For the rest of the year, we remain positive in our outlook and maintain our GDP forecast of 2.70% YoY growth. Additionally, the expectation of pro-growth policies by the new government would further buttress our projection.

Contact Information

Investment Research

damilareojo@meristemng.com (+234 816 890 2771)
praiseihansekhien@meristemng.com (+234 817 007 1512)
research@meristemng.com

Corporate websites: www.meristemng.comwww.meristemwealth.comwww.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: research.meristemng.com
Bloomberg: MERI <GO>
Capital IQ: www.capitaliq.com
ISI Emerging Markets: www.securities.com/ch.html?pc=NG
Reuters: www.thomsonreuters.com
FactSet: www.factset.com

IMPORTANT INFORMATION: DISCLAIMER