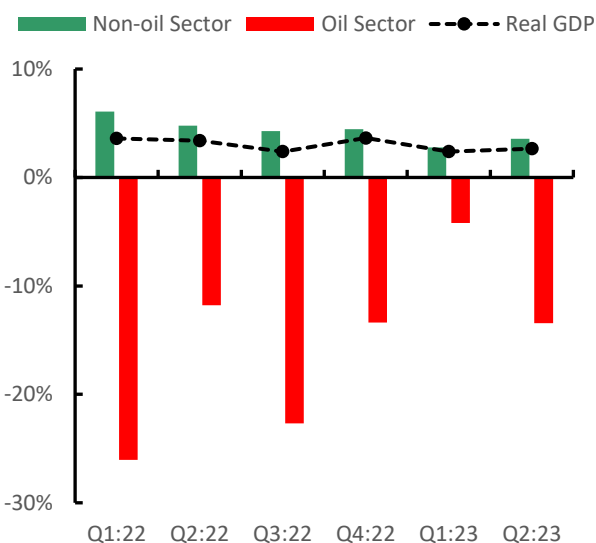


Chart 1: GDP growth, Non-oil GDP, and Oil GDP (%)



Source: NBS, Meristem Research

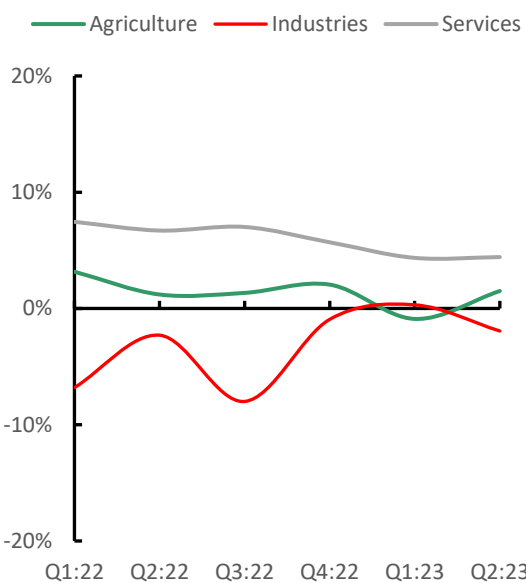
In Q2:2023, Nigeria recorded 2.51% YoY expansion in real Gross Domestic Product (GDP), according to the latest data released by the National Bureau of Statistics (NBS). Relative to the 3.54% YoY growth reported in the corresponding period in 2022, the slower output growth in Q2:2023 reflects the consequence of the country's prevalent macroeconomic challenges (FX shortage and the continuous depreciation of the Naira). Nonetheless, the recovery from the cash crunch in the year's first quarter ensured the real GDP growth rate was higher than the Q1:2023 figure (2.31% YoY). Thus, total real GDP for the quarter stood at NGN17.72trn (vs NGN17.29trn in Q2:2022), driven by growth in the non-oil sector (+3.58% YoY), while the oil sector contracted by 13.43% YoY. The decline in oil GDP directly reflects the 14.69% YoY drop in oil production volumes to 1.22mbpd (from 1.43mbpd in Q2:2022). Notable performances in the non-oil sector were witnessed in the information and telecommunication (+8.60% YoY), trade (+2.41% YoY), financial services (+26.84% YoY), and manufacturing (+2.20% YoY) sectors.

Oil Sector Remains Depressed

In our Q1:2023 GDP report, we explained how the numerous structural issues faced by the oil sector adversely impacted the sector's contribution to output growth. While oil prices rallied within USD74.98bpd - USD83.54bpd between April – June 2023, the incessant decline in crude oil production volume remained a significant drag to the sector's performance. The persistent arbitrage activities (oil theft, pipeline vandalism and illegal oil mining) and reduced oil output averaging 1.38mbpd in Q2:2023 continued to restrain the Nigerian oil sector. Marking the 13th consecutive QoQ decline in Q2:2023, the sector recorded a negative growth rate of 13.43%, a significant drop from 4.21% in Q1:2023. Additionally, the sector's contribution to GDP decreased to 5.34% compared to 6.21% in Q1:2023 and 6.33% in Q2:2022.

The International Energy Agency (IEA) has projected the likelihood of an upward trajectory in global oil prices for the rest of this year. This anticipation is rooted in the envisaged upswing in global oil demand, set to surge by 1.62 mbpd from Q2:2023 to Q3:2023. This surge is expected to culminate in an average annual demand of 102.10 mbpd. However, Nigeria's current situation presents a potential hurdle in fully capitalizing on this promising market scenario. Despite the government's persistent endeavours to bolster oil production, the continuous impact of oil theft and illegal mining poses a considerable risk to the output of the country's oil sector. As a result, we project a moderate recovery for the oil sector.

Chart 2: Growth Rate of Major Sectors (%)



Source: NBS, Meristem Research

Non-Oil Sector Sustains Momentum in Boosting GDP Growth

The non-oil sector remained resilient, growing by 3.58% YoY (compared to 4.77% YoY and 2.77% YoY in Q2:2022 and Q1:2023, respectively). As a result, total non-oil GDP expanded to NGN16.77trn (vs. NGN16.19trn in Q2:2022). This growth was primarily driven by improvement in key sectors, including information and communication, financial services, trade, agriculture, and manufacturing. Furthermore, it remained the highest contributor to GDP (94.66%).

Significantly, the growth of the information and communication sector at 8.60% YoY surpassed the 6.55% recorded in Q2:2022. This increase is owing to effective capitalization on the burgeoning user base and improved cash situation of subscribers compared to Q1:2023. This is also supported by data from the Nigerian Communications Commission (NCC), which reveals that between April and June 2023, the year-on-year growth rate of telecom subscribers averaged 8.55%. *For the rest of the year, we expect the increasing demand for internet services to remain a key growth driver in the information and communication sector.*

Remarkably, the agricultural sector rebounded from its 0.90% YoY drop recorded in Q1:2023, experiencing real GDP growth of 1.50% YoY in Q2:2023. This also marks an improvement from the corresponding period in 2022 (+1.20% YoY). The expansion can be attributed to the crop production subsector improvement, which accounted for c.90% of agricultural sector output in the quarter. Although challenges plaguing the country's agricultural sector persist, we recognize the potential (medium-term) impact of proposed initiatives by the federal government, such as the release of 200,000 metric tonnes of grains and 225,000 metric tonnes of fertilizer and the investment of NGN200.0bn to cultivate 500,000 hectares of farmland, specifically for the growth of rice, maize, wheat, and cassava to spur growth in the sector in coming quarters.

While the manufacturing sector's expansion of 2.20% YoY is an improvement compared to Q1:2023's 1.61% growth, it stays lower relative to the 3.00% YoY recorded in Q2:2022. In our opinion, the slower growth rate reflects the prevailing headwinds such as rising inflation, rapid depreciation of the Naira, elevated borrowing costs and eroding consumer purchasing power. Despite these obstacles, we anticipate the sector will maintain growth due to sustained demand for its products.

Our outlook for the rest of the year remains optimistic. While we anticipate a moderate recovery in the oil sector, we expect better performance from the non-oil sector to boost total economic output growth. Hence, we maintain our 2023FY GDP forecast of 2.94% YoY growth.

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