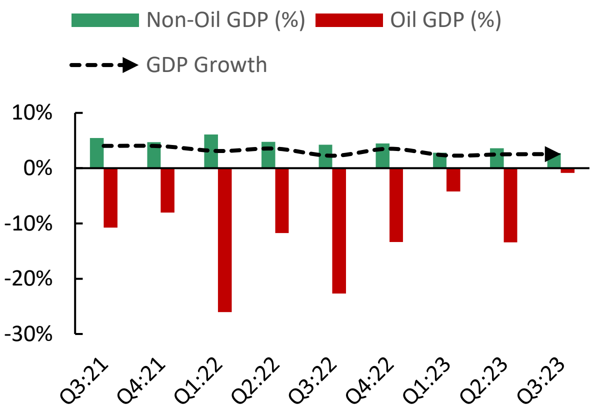
MERISTEM

Macroeconomic Update

GDP Report| Q3:2023

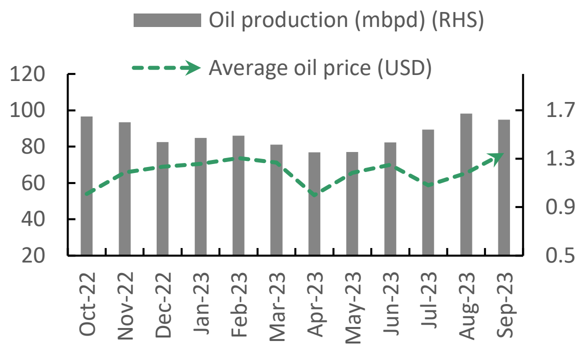
According to the National Bureau of Statistics (NBS), Nigeria's Q3:2023 Gross Domestic Product (GDP) expanded by 2.54% YoY (vs. 2.25% YoY in Q3:2023 and 2.51% YoY in Q2:2023). We attribute this to the improvement in the oil sector's GDP and non-oil GDP growth (with the enhanced performance in the financial and insurance sector). The total real GDP for the quarter reached NGN19.44trn, marking an increase from NGN18.96trn in Q3:2022. This was supported by advancements in the oil sector, (0.85% YoY vs. 22.67% in Q3:2022 and 13.43% in Q2:2023, on the back of higher oil production volumes), as well as expansions in the non-oil sector at (2.75% vs. 4.27% in Q3:2022 and 3.58% in Q2:2023). The primary contributors to GDP growth are the Information & Telecommunication sector (+6.69% YoY), Financial and Insurance (+28.21% YoY), Agriculture (+1.30% YoY), and Construction (+3.89% YoY) sectors.

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



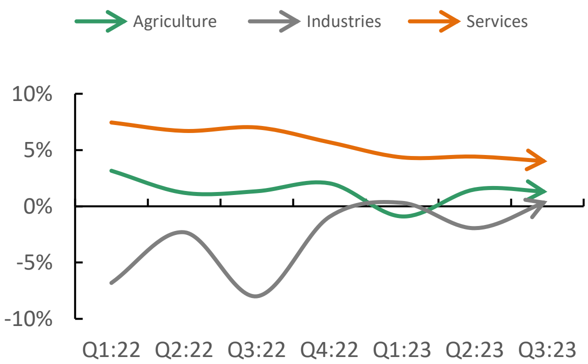
Source: *NBS, Meristem Research*

Chart 2: Oil Production and Average Oil Price



Source: *CBN, Meristem Research*

Chart 3: Growth Rate of Major Sectors (%)



Source: NBS, Meristem Research

Recovery in Sight for the Oil Sector

Contrary to what has been obtainable in previous quarters, average oil production in Q3:2023 surged by 18.17% YoY to 1.45 million barrels per day (mbpd) compared to 1.20mbpd in Q3:2022 due to the low base effect (oil production volume in Q3:2021 was 1.57mbdp). Major terminals such as Bonny (+404.95% YoY), Brass (+179.31% YoY), and Forcados (+212.45% YoY) all reported substantial increases in production levels, according to data by the Nigerian Upstream Petroleum Regulatory Commission (NUPRC). Thus, economic growth performance for the sector reported a softer contraction (0.85% YoY) compared to the significant contractions observed in previous quarters (22.67% in Q3:2022 and 13.43% in Q2:2023), reflecting the government's efforts to address security issues in oil-producing regions and enhance surveillance measures. This is also the sector's best performance since it began its decline in Q2:2020 (14 consecutive quarters). Consequently, the sector's contribution to GDP improved to 5.48% from Q2:2023 in 5.34%.

Despite these advancements, challenges such as pipeline vandalism, crude oil theft, terminal shutdowns, and illegal mining still activities persist, impacting the sector's productivity and future oil production forecasts.

Expectations surrounding the commencement of operations of Dangote oil refinery by December 2023 as well as NNPCL's resolution of the PENGASSAN strike (expected to lead to the restoration of c.275,000 bpd) are projected to influence crude oil production volumes for Q4:2023. This combined with the expected low base effect in Q4:2022, we expect the oil sector to return to positive growth. However, we note that oil production would remain shy of the country's OPEC+ production quota of 1.74mbpd, based on existing structural challenges in the sector. On a balance of factors, we envisage a slow recovery in the oil sector in 2024.

Policy Reforms Hampers Non-Oil Sector Performance

Key policy reforms, including currency devaluation, the removal of fuel subsidies, and the gradual withdrawal of the Apex Bank's interventions in developmental financing for the real sector pressured output growth in the non-oil sector in Q3:2023. The non-oil sector grew by 2.75% YoY (slower than the 4.27% and 3.58% growth recorded in Q3:2022 and Q2:2023) reaching NGN18.38trn.

The manufacturing sector grew by a lacklustre 0.48% YoY compared to the 2.20% growth recorded in the previous quarter. We note that this performance was also bolstered by a low base effect as its GDP performance of NGN1.64trn falls short of its Q3:2021 performance of NGN1.66trn. In our view, the meager growth was due to rising operational costs driven by foreign exchange (FX) volatilities, higher input, and fuel costs, as well as the inflation-driven impact on consumer pockets. Going forward we do not foresee any substantial improvement in the manufacturing sector as the issues are still very much prevalent. Similarly, growth in the agricultural sector slowed down to 1.30% YoY from 1.50% in Q2:2023, owing to the lingering issues in the food-producing regions of the country, which have led to decreased productivity in the sector. Notably, cases of heavy rainfall and flash floods across food producing regions contributed to this decline.

For Q4:2023, we expect a modest improvement in the Agric sector from post-harvest season supplies (for essential food products like yam, rice, and sorghum which began in October 2023).

Also, the information and communication (ICT) sector experienced significant lags, with sector growth declining to 6.69% YoY from 10.53% in Q3:2022 and 8.60% in Q2:2023. This slow growth is evinced by the decline in growth of technology data subscribers by 5.13% YoY as of August 2023, compared to 10.89% YoY as of August 2022 according to Nigerian Communication Commission (NCC).

The financial and insurance sector, however, recorded notable gains, expanding by 28.21% YoY (from 12.70% in Q3:2022). The growth in this sector is largely attributable to the increase in loan book during the period (average of 20.69% YoY across major financial institutions) and digital banking. We posit that the gains realized from the FX revaluation positively impacted bank’s ability to grow their financial assets. Accordingly, for Q4:2023, we expect the continued depreciation of the Naira to further drive positive performance in the financial and insurance sector.

In summary, we anticipate a rebound in the oil sector, recovering from 14 consecutive quarters of decline. However, our outlook for the non-oil sector suggests a moderate growth trajectory, as potential lags in the manufacturing sector could impede overall non-oil sector output. Thus, we revise our GDP growth forecast to 2.58% YoY for 2023FY.

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