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Nigeria | Macroeconomics

GDP Guidance Q2:2024

Meristem Research

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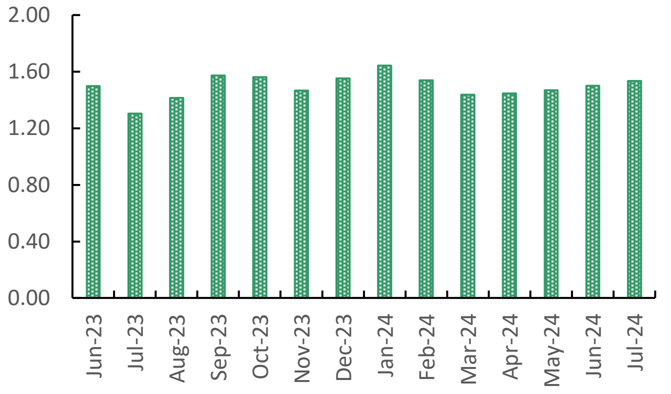
Nigeria's Economy to Sustain Expansion Trajectory in Q2:2024

In Q1:2024, Nigeria's economy grew by 2.98% YoY compared to 2.31% in Q1:2023 and 3.46% in Q4:2023. This growth was fueled by a 5.7% YoY expansion in the oil sector and a moderate 2.8% YoY growth in the non-oil sector. The increase in output in the oil sector is attributed to a slight rise in average daily oil production in Q1:2024, which increased to 1.54 million barrels per day (mbpd) from 1.53 mbpd in Q1:2023. Meanwhile, the growth in the non-oil sector was notably driven by the robust performance of the financial and insurance sector, which expanded by 31.24% YoY (compared to 21.37% in Q1:2023), while sectors like agriculture and telecommunications underperformed expectations.

Fueling Growth: Nigeria's Oil Production Records a Boost

In Q2:2024, oil production saw consistent monthly increases, reaching an average of 1.50mbpd in June 2024, up from 1.45 mbpd in April 2024 according to the Nigerian Upstream Petroleum Regulatory Commission (NUPRC). This led to an overall average production of 1.47mbpd for the quarter, compared to 1.39mbpd in Q2:2023, reflecting a 5.61% YoY growth. The increase is primarily due to higher output from major terminals like Bonny and Forcados, as well as the resumption of operations at previously inactive terminals such as Okono. Additionally, government efforts to enhance security along oil infrastructures also contributed to this rise in production.

Chart 1: Total Oil Production (mbpd)



Source: NUPRC, Meristem Research

Non-Oil Sector to Sustain Growth Trajectory

Cultivating Progress: Agriculture to Maintain Growth Momentum

The agricultural sector saw a boost in production activities in Q2:2024, with the agricultural PMI rising to an average of 49.40pts from 43.50pts in Q1:2024. Although this improvement signals progress, it still reflects subdued activity as the index remains below the 50pts threshold. The uptick in output is largely due to enhanced fiscal support through policies such as the adoption of year-round cropping for staple foods like maize, rice, and wheat.

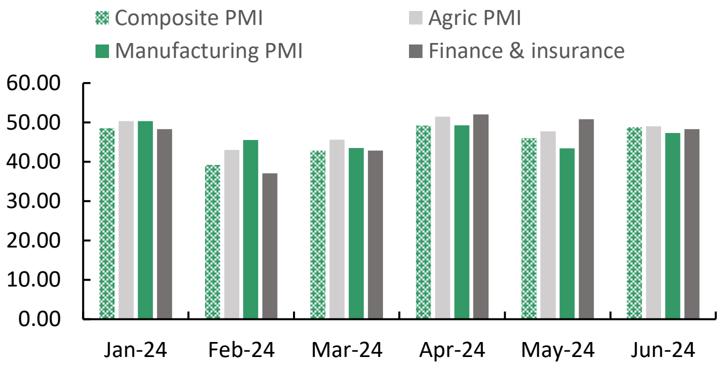
Although, structural challenges, including ongoing insecurity in key food-producing regions and inadequate storage facilities, amongst other issues, continue to constrain output in the sector. Additionally, the tightened monetary policy, leading to a high-interest rate environment, has increased borrowing costs and limited farmers' access to credit, ultimately reducing farming inputs and affecting overall farm yields.

A Fragile Rebound: Cautious Optimism for Manufacturing

Macroeconomic challenges, such as the high-interest rate environment, persistent Naira depreciation, and inflationary pressures, have significantly hampered output in the manufacturing sector. These factors have resulted in increased energy and production costs, higher interest expenses, and heavier debt burdens, deterring investment activities within the sector.

Despite these challenges, PMI data from the CBN indicates that manufacturing PMI improved to 49.40pts in Q2:2024, up from an average of 46.30pts in the previous quarter. This improvement is attributed to the relative stability of the exchange rate in Q2:2024 which allows for better planning of importation alongside a less aggressive monetary policy stance compared to Q1:2024.

Chart 2: PMI Data (pts)

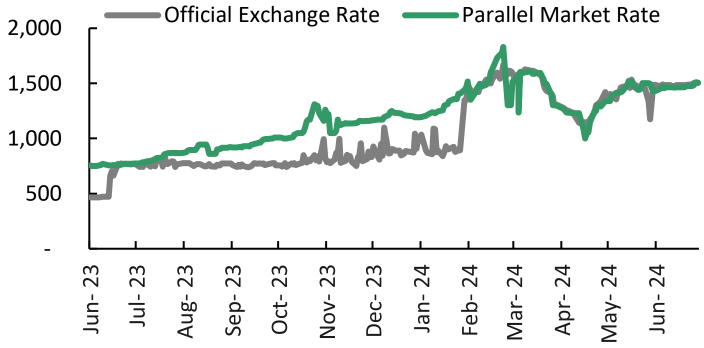


Source: CBN, Meristem Research

Against the Tide: Financial Services Sector Shines Amidst Economic Headwinds

Despite ongoing macroeconomic challenges, particularly high inflation driving up operational costs, the financial services sector has managed to find opportunities in the current environment. The sector has benefited from the high-interest rate landscape, which has resulted in increased interest and trading incomes. Moreover, the ongoing depreciation of the Naira has led to revaluation gains on foreign currency-denominated financial assets. Additionally, the sector's growth trajectory has been supported by improved technological leverage, with the PMI averaging 50.27pts in Q2:2024, up from 42.74pts in Q1:2024.

Chart 3: Exchange Rate in the Official and Parallel Market (NGN/USD)



Source: CBN, Meristem Research

Overall, our projection is for higher oil output and a modest uptick in the non-oil sector's growth.

Thus, we forecast a **3.42% YoY** expansion in Nigeria's economy in Q2:2024.

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