MERISTEM

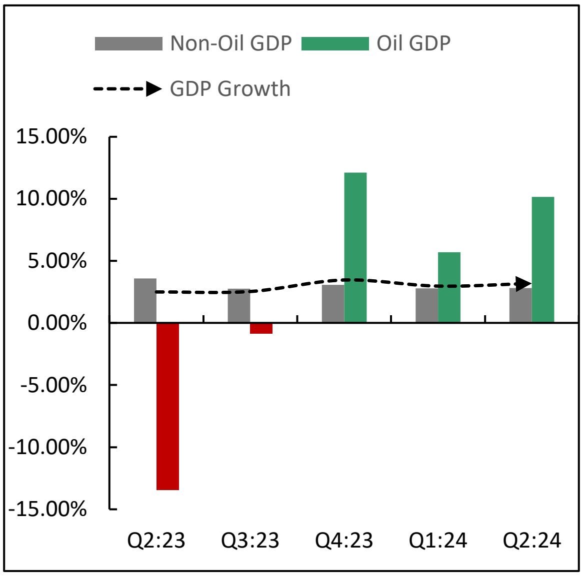
Macroeconomic Update | Nigeria

GDP Report

Q2:2024

September 2024

Chart 1: Real GDP Growth (%)



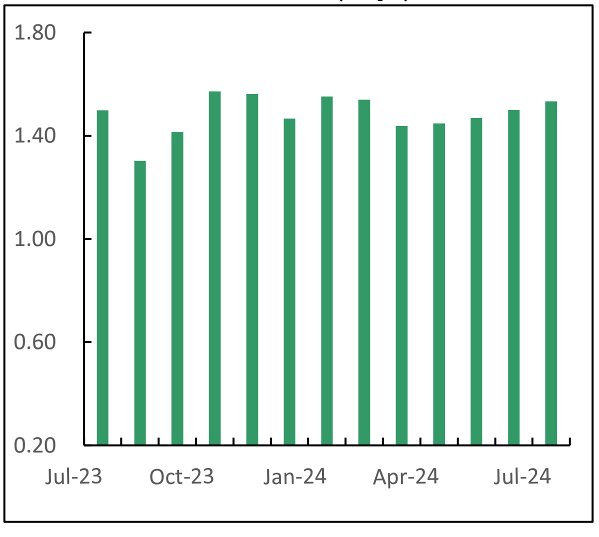
Source: NBS, Meristem Research

The National Bureau of Statistics (NBS) reported that the real Gross Domestic Product (GDP) of Nigeria grew by 3.19% YoY in Q2:2024 to NGN18.29trn (23bps lower than our forecast of 3.42% YoY), relative to 2.51% YoY in Q2:2023 and 2.98% YoY in Q1:2024. This growth was majorly driven by the oil sector which expanded by 10.15% during the period (vs -13.43% in Q2:2023 and 5.70% in Q1:2024) as well as the non-oil sector as it grew by 2.80% (vs 3.58% in Q2:2023 and 2.80% in Q1:2024). The increase in the oil sector is owed to higher crude oil production volume of 1.41mbpd (vs 1.22mbpd in Q2:2023) and the low base of Q2:2023. The growth in the non-oil sector can be attributed to performance of the financial and insurance sector (28.79% vs 26.84% in Q2:2023). The oil sector's contribution to GDP rose to 5.70% (vs 5.34% in the corresponding period). Notable sectors with strong real GDP contributions include Agriculture (+22.61%), Trade (+16.39%), Information & Communication (+19.78%), Manufacturing (+8.46%), Financial and Insurance (+6.57%), Real Estate (+5.17%).

Oil Sector Sustains Growth for the Third Consecutive Quarter

The oil sector posted growth of 10.15% YoY in Q2:2024, marking its third consecutive quarter of expansion, compared to 5.70% in Q1:2024 and a contraction of 13.43% in Q2:2023, according to NBS estimates. This is mainly attributable to higher crude oil production volumes in the quarter –*1.41 million barrels per day (mbpd)* vs 1.22mbpd in Q2:2023. However, this is lower than Q1:2024's 1.57mbpd and Q2:2022's 1.43mbpd, highlighting the base effect impact on the growth recorded in Q2:2024. This growth in Q2:2024 was largely driven by enhanced security measures around oil infrastructure, which have helped boost production volumes. Significant output increases from key terminals like Bonny (+40.13%), Qua Iboe (+17.12%), Forcados (+3.87%), and Tulja-Okwuibome (+39.09%), as well as the resumption of operations at previously inactive terminals such as Okono and Awoba, also contributed to the sector's performance.

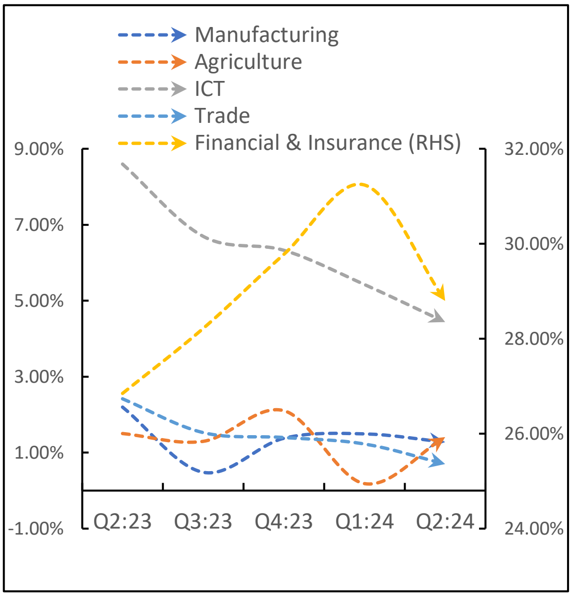
Chart 2: Total Oil Production (mbpd)



Source: NUPRC, Meristem Research

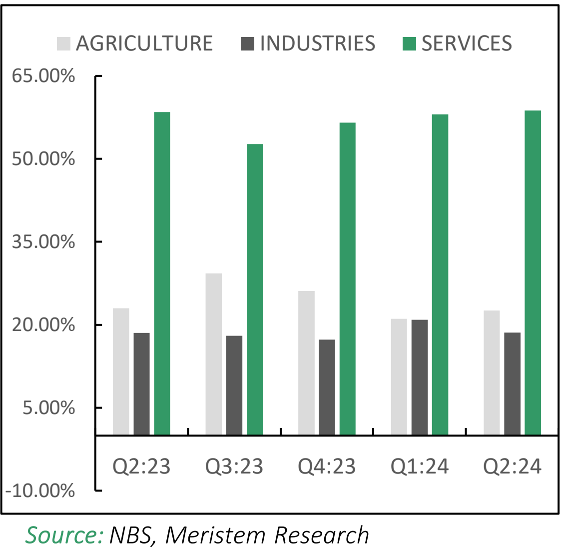
Despite ongoing challenges, including the sub-optimal state of oil infrastructure that has led to frequent leakages, we anticipate an improvement in oil production in the near term. This positive outlook is supported by several key factors. Firstly, the commencement of production from the new Madu Field, alongside the resumed operations on the Trans-Niger pipeline—previously halted for maintenance—should drive a significant increase in output. Additionally, the government's sustained efforts to enhance security in oil-producing regions, coupled with the recent auctioning of oil blocks to new operators, are expected to spur exploration activities and further boost overall production.

Chart 3: Real GDP Growth rate According to Sectors (%)



Source: NBS, Meristem Research

Chart 4: Contribution to GDP by Sector (%)



Source: NBS, Meristem Research

Non-Oil Sector Remains Subdued for the Second Consecutive Quarter

The challenging macroeconomic conditions, marked by rising inflation and higher interest rates, have driven up operational costs and borrowing expenses (thereby limiting access to credit), have strained businesses and impacted overall productivity. However, the moderation in foreign exchange (FX) volatility during the period has helped mitigate these adverse effects, leading to improved productivity later in the quarter. Consequently, the non-oil GDP's growth slowed for the second consecutive quarter to 2.80% YoY in Q2:2024, compared to 3.58% recorded in Q2:2023. Furthermore, the sector's contribution to total real GDP declined to 94.30% (vs 94.66% in Q2:2023).

The agricultural sector faced continued challenges, posting a modest 1.41% YoY growth in Q2:2024, slightly down from 1.50% recorded in the same period last year, but an improvement from the 0.81% in Q1:2024. This quarterly uptick can be attributed to the slight improvement in the crop production sub-sector (+1.65%), which contributed c.90% to the sector's output. Despite these positive steps, the sector's productivity remains hampered by persistent issues such as insecurity, inadequate storage facilities, and transportation challenges. However, the upcoming harvest season for crops like maize, rice, and yam, as well as the introduction of the year-cropping for staples like maize, wheat, and rice are expected to bolster output and provide some relief to the sector.

The manufacturing sector experienced a deceleration in growth of 1.28% YoY from 2.20% in Q2:2023. The manufacturing sector's growth decelerated to 1.28% YoY, down from 2.20% in Q2:2023, with a notable slowdown in the food, beverage, and tobacco sub-sector (2.29% vs 4.33% in Q2:2023). This decline was driven by inflationary pressures, a high-interest rate environment, and continued Naira depreciation, which collectively raised operational costs, increased debt burdens, and hindered new investments. Looking ahead, the sector's growth is likely to remain constrained by elevated input and operating costs, along with higher debt burdens. However, potential moderation in inflation, reduced FX volatility, and a more accommodative monetary policy could offer some relief, leading us to maintain a cautious outlook on the sector.

The financial and insurance sector sustained its robust growth trajectory, expanding by 28.79% YoY during the period, up from 26.84% in Q2:2023, though slightly below the 31.24% growth recorded in Q1:2024. This strong performance was owed to the higher interest environment, which led to increased interest and premium income. Also, advancements in digital and technological tools supported the sector's growth. While we remain optimistic about the sector's prospects due to these positive factors, regulatory constraints that could impact future growth remains a downside.

Activity in the information and communication (ICT) sector remained subdued for the fifth consecutive quarter at 4.44% YoY (vs 8.60% YoY in Q2:2023), hindered by reduced investments, FX losses from Naira depreciation, and rising borrowing costs negatively impacted growth. Despite rising digital demand, we expect continued sluggish performance due to challenging economic conditions and negative impact of the deactivation of customer lines due to the NIN-SIM linkage policy.

Our outlook for the rest of the year remains cautious. While we maintain a cautious outlook on the non-oil sector, we expect moderate growth in the oil sector to support overall output growth. Thus, we forecast a 2.81% YoY growth for 2024FY.

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