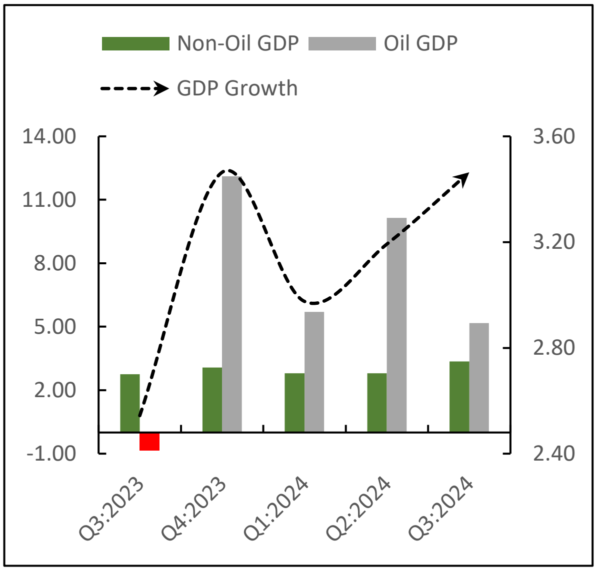
GDP Report

Q3:2024

November 2024

Chart 1: Real GDP Growth (%)

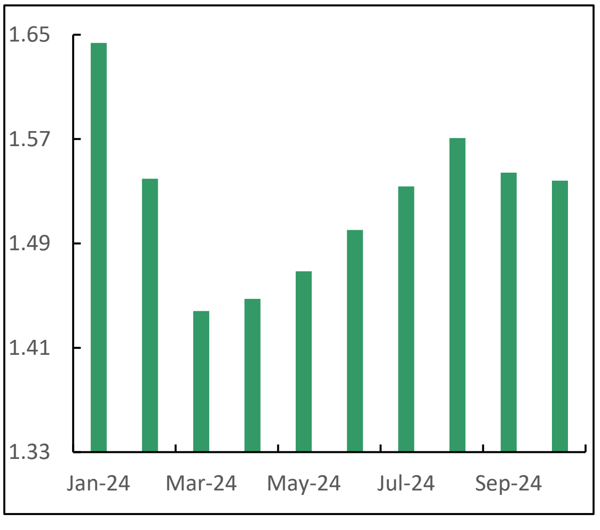


Source: NBS, Meristem Research

The National Bureau of Statistics (NBS) reported that Nigeria's real GDP growth was 3.46% YoY in Q3:2024, marking a 27bps increase from 3.19% recorded in Q2:2024, and a 92bps rise from 2.54% recorded in Q3:2023. This growth was driven by expansions in both the oil and non-oil sectors. The oil sector recorded a 5.17% YoY growth (compared to 10.15% in Q2:2024 and 0.85% in Q3:2023), supported by an increase in crude oil production to 1.47 million barrels per day (mbpd) from 1.41mbpd in Q2:2024 and 1.45mbpd in Q3:2023. Similarly, the non-oil sector grew by 3.37% (vs 2.80% in Q2:2024 and 2.75% in Q3:2023), with its growth largely attributed to the strong performance of the financial and insurance sector, which expanded by 30.83% (vs. 28.21% in Q3:2023). In terms of contribution to GDP, the Agriculture (28.65%), Trade (14.78%), and the Information & Communication sectors (16.55%) were the largest contributors to the overall real GDP.

Enhanced Production Fuels the Oil Sector's Recovery

Chart 2: Total Oil Production (mbpd)



Source: NUPRC, Meristem Research

The oil sector recorded a 5.17% YoY growth in Q3:2024. This performance, although below the 10.15% YoY growth recorded in Q2:2024, is a significant rebound from the 0.85% contraction in the same period last year. This growth was primarily driven by higher crude oil production volumes, which averaged 1.47mbpd during the period, compared to 1.41mbpd in Q2:2024 and 1.45mbpd in Q3:2023. The sector's improvement reflects efforts at ramping up production volumes and enhancing security measures around oil infrastructure. Notably, key terminals such as Bonny (+63.51% YoY), Forcados (+52.78% YoY), and Tulja-Okwuibome (+43.20% YoY) saw notable production increases. Additionally, the discovery of a new crude oil blend at the Utapate terminal significantly contributed to the sector's output growth.

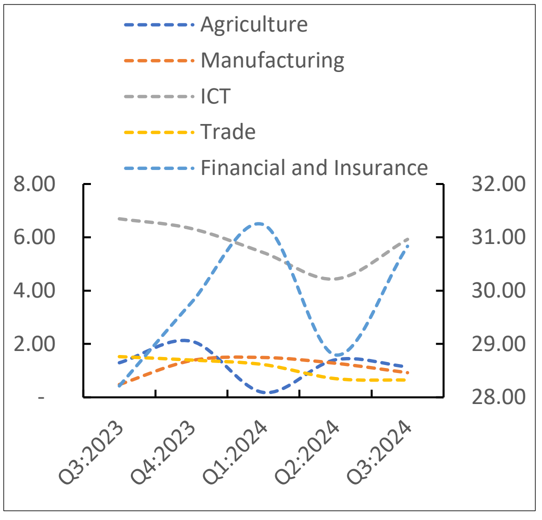
However, we note that Q3:2024's slower growth reflects the higher base effect from Q3:2023, as oil production volume rose to 1.45mbpd in Q3:2023 vs. 1.20mbpd in Q3:2022. Furthermore, the sector's contribution to total GDP increased marginally to 5.57% (up from 5.48% in Q3:2023).

We expect the oil sector to sustain growth in Q4:2024, supported by an expected increase in production volumes from key terminals and improved security across oil infrastructure. Additionally, favourable fiscal measures, including deep offshore tax reliefs and VAT waivers aimed at attracting investments towards the sector, are expected to further bolster growth.

MERISTEM

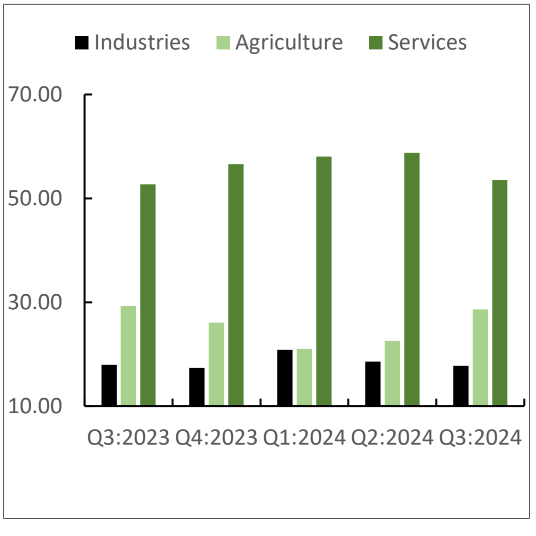
Resilience Despite Economic Pressures

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



Source: *NBS, Meristem Research*

Chart 4: Contribution to GDP by Sectors (%)



Source: *NBS, Meristem Research*

In Q3:2024, the non-oil sector grew by 3.37% YoY (vs. 2.75%YoY in Q3:2023), signifying the strongest quarterly increase since Q2:2023. This growth was driven by mild adjustments in key macroeconomic indicators like inflation during the period – inflation declined for two consecutive months, bringing the quarterly average to 32.75% (vs. 33.95% in Q2:2024). The financial and insurance sector was a major propeller of the expansion growing by 30.83% YoY within the period. Notably, the non-oil sector's contribution to total GDP increased marginally to 94.43% from 94.30% in Q2:2024. Conversely, growth in the manufacturing and agricultural sector slowed to 0.92% YoY and 1.14% YoY respectively (vs. 1.28% and 1.41% in Q2:2024) on the back of existing structural challenges and the consistent depreciation of the Naira during the period. For context, the Naira depreciated by 11.76% Q0Q to NGN1,578.06/USD from NGN1,392.41/USD in Q2:2024.

The Financial and Insurance Sector grew by a faster pace of 30.83% YoY (vs. 28.21% in Q3:2023 and 28.79% in Q2:2024. This strong performance can be attributed to increased investment activities, growth in loan portfolios, higher asset yields driven by the elevated interest rate environment, and the sector's focus on enhancing service integration and digitization.

Our outlook for the financial services sector remains optimistic, driven by expectations of sustained earnings growth through loan portfolio expansion and favorable interest rate conditions. Furthermore, digital innovation and diversification strategies aimed at fostering sustainable growth are expected to bolster the sector's performance.

The Information and Communication (ICT) sector achieved its strongest quarterly growth of the year, expanding by 5.92% YoY in Q3:2024 (up from 4.44% in Q2:2024). This growth was primarily driven by the telecommunications sector (+6.67% YoY), reflecting increasing demand for data services and ongoing efforts to enhance network coverage.

Looking ahead, we expect moderate growth in the ICT sector, supported by continued investments aimed at expanding data traffic, improving network infrastructure, and the drive to broaden the adoption of 4G & 5G technologies within the telecommunications segment. However, macroeconomic challenges such as the persistent depreciation of the Naira, elevated inflation, and rising borrowing costs could hinder the sector's overall performance.

The agricultural sector faced sustained challenges in Q3:2024, growing by 1.14% (vs. 1.41% in Q2:2024 and 1.30% in Q3:2023). This slowdown, which falls below the 5-year average for third quarters at 1.41%, was primarily attributed to lower-than-expected harvest yield during the quarter. Flooding in key food-producing regions, including Adamawa, Jigawa, Kano, and Borno, which significantly disrupted the harvest of staple crops such as rice, wheat, and sorghum in September, led to lower supply of these food items, impacting total output for the sector. Despite these challenges, the sector's contribution to total GDP rose to 28.65%, its highest level since Q3:2023

We anticipate moderate growth in the agricultural sector in the near term, as the lingering effects of the flooding and existing infrastructure challenges may constrain output in the coming quarters. However, government initiatives such as the African Development Bank's loan to support year-round farming and the ongoing harvest of crops like yam could provide some relief.

The manufacturing sector experienced its second consecutive quarter of deceleration, expanding by 0.92% YoY in Q3:2024 (down from 1.28% in Q2:2024). Persistent macroeconomic challenges, including the ongoing Naira depreciation, elevated inflation, and the 850bps hike in the Monetary Policy Rate this year, contributed to higher import bills, foreign exchange losses, increased borrowing costs, and rising raw material expenses, all of which weighed on output and hindered expansion plans.

Looking ahead, the sector is expected to face continued pressure from high input costs, increasing operational expenses, and rising debt obligations. However, potential tailwinds, such as reduced foreign exchange volatility and favourable fiscal measures such as tariff waivers, could offer gradual relief over time.

Overall, our growth outlook for the economy remains modest. While we envisage robust performances by sectors like financial & insurance, mining and construction, rom sectors such as financial services, insurance, mining, and construction, this growth is likely to be offset by slower expansion in sectors like manufacturing and agriculture, as persistent macroeconomic challenges continue to impact performance.

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