Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Economic Newsletter

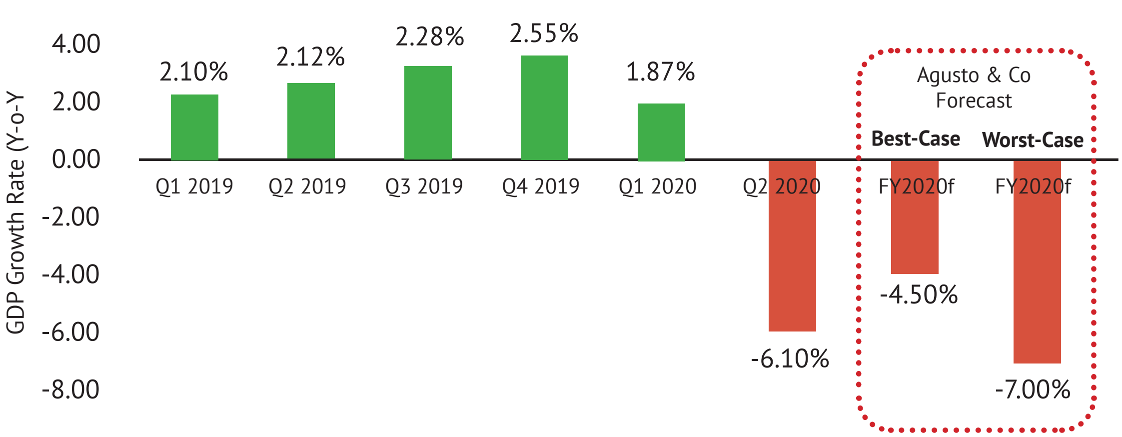
August 2020 Edition

Agusto & Co. Economic Newsletter: The Nigerian Q2 GDP COVID Contraction & 2020 Forecasts

The COVID-19 Quarter

The National Bureau of Statistics (NBS) recently released Nigeria's GDP growth numbers for the second quarter (Q2) of 2020. Expectedly, real GDP contracted by 6.10% year-on-year in Q2, a sharp drop in output from the 1.87% year-on-year growth rate recorded in Q1. This represents the worst contraction since the Nigerian economy exited recession in Q2 2017. The sharp contraction was driven by the distortions in economic activities and the collapse in oil prices during the second quarter as a result of lockdown measures implemented both domestically and internationally owing to the COVID-19 pandemic.

Figure 1: Quarterly Trend in GDP Growth Rate in % (Y-o-Y)



Source: NBS, Agusto & Co

Source: Shutterstock

Oil GDP: Nigeria Records Average Oil Production of 1.81 million barrels per day in Q2 2020

The oil sector GDP contracted by 6.63% year-on-year in Q2 2020, a sharp fall compared to the preceding quarter in which the oil sector grew by 5.06% year-on-year. The contraction in oil GDP was due to the dual decline in production volumes and crude oil prices recorded during the quarter. Notably, oil production dipped by 0.26mbpd from an average of 2.07mbpd recorded in Q1 2020 to 1.81mbpd in Q2 2020, representing a decline in production volume of circa 14%. The global oil market was pushed to the doldrums at the onset of Q2, with Brent crude price, a major global benchmark averaging $29.7 per barrel over the quarter as compared to the $50.3 per barrel average price recorded in Q1[1].

In terms of contribution to overall GDP, the oil sector accounted for 8.93%. This is a decline compared to the 9.50% contribution recorded in Q1 2020 and 8.82% in Q2 2019.

Figure 2: 2020 YTD Trend in Brent Crude Oil Prices

Source: Macrotrends

1 *Macrotrends*

Non-Oil GDP: First Decline since Q3 2017

The non-oil sector witnessed a 6.05% contraction in Q2 2020, the first negative growth experienced in the non-oil segment of the GDP since Q3 2017. The non-oil sector accounted for 91.07% of overall GDP in Q2 2020, a slight increase compared to the share recorded in Q1 2020 of 90.5%.The largest contractions were witnessed in Transport and Storage, with a negative growth of 49.23%, Accommodation and Food services at -40.2%, Construction at -31.77% and Real Estate at -21.99% year-on-year. The contractions in these sectors were largely driven by the effects of the lockdown measures especially with the ban on interstate travel (road and air) which affected local commute, travel and hotel lodging services.

Sectors that remained resilient over the quarter include Information and Communication Technology (ICT), which recorded a growth rate of 15.09% year-on-year, driven by the Telecoms and Broadcast sub-segments with growth rates of 18.1% and 8.78% respectively; Finance and Insurance also expanded by 18.49% year-on-year and Agriculture recorded a positive but tepid growth rate of 1.58%. The ICT sector has emerged the brightest spot in this pandemic as the lockdown of Nigeria's largest cities– Lagos and Abuja led to the adoption of remote work and virtual engagements for large sections of corporates in these cities. This led to increased consumption of broadband data services by the labour force for these virtual engagements. We believe this trend will subsist for the rest of 2020 as the work-from-home trend still remains increasingly popular even after the easing of lockdown measures.

Outlook: Q2 2020 – Is the Worst It Gets For the Year?

We note that for the greater part of Q2 2020, restrictions were in place limiting economic activities and movement of goods and people both within and outside the country. The first phase of the lockdown, which began on March 30, lasted five weeks with the President enacting a shutdown of all but essential activities in the nation's economic powerhouses including the commercial capital of Lagos, the neighbouring state of Ogun, and the Federal Capital Territory[2]. Subsequently, the key commercial hub in the north – Kano State was added to the list on account of rising infection and mortality rates. Interstate travel was suspended, and some State governments also enacted lockdown measures within their states including Kaduna, and Rivers State. The global oil market was equally pushed to the doldrums at the onset of Q2, with oil prices descending to unprecedented lows in April 2020. Consequently, we opine that Q2 GDP numbers capture the full magnitude of the pandemic-induced downturn in the Nigerian economy.

Although some reprieve is expected as economic activities pick up with the gradual phasing out of lockdowns and the improvement in the global oil

[2] *https://www.aljazeera.com/news/2020/03/nigeria-announces-lockdown-major-cities-curb-coronavirus-200330095100706.html (assessed August 24, 2020).*

market, significant downside risks remain. While we note that Nigeria's oil production is limited by the 1.4mbpd cap (exclusive of condensates) as part of the OPEC+ alliance agreement, we expect the gradual recovery in crude oil prices from their lows in Q2 to provide some respite to oil GDP in subsequent quarters. Similarly, measures such as the easing of lockdowns and opening up of the country for travel are expected to support non-oil GDP.

The outlook remains tapered in view of Nigeria's persistent foreign exchange shortages, amidst the fragile oil market and reform inertia on the part of the government. There's an estimated $7 billion of unmet dollar demand – with the backlog comprising of a $2 billion demand by manufacturers and $5 billion by foreign investors seeking to exit the Nigerian market.[3] The reluctance to push ahead with tough reforms such as unifying the exchange rates is weighing heavily on sentiment, with the Wold Bank delaying its approval of Nigeria's $1.5 billion loan request until October[4]. Our view is that foreign exchange shortages will persist throughout the second half of the year, inhibiting growth as manufacturers increasingly struggle to source sufficient dollars to pay for imports – even as activities pick up.

We are cautiously optimistic that Q2-2020 could turn out to be the worst it gets for the year, and also note the relative resilience of the Nigerian economy during the quarter, compared to several economies: The US suffered a downturn of 9.5% year-on-year in Q2[5], while the UK economy plunged by 21.7% year-on-year in Q2[6] and the Euro Area printed a -15% growth year-on-year in Q2[7]. We believe that Nigeria's growth rate reflects the relatively lax implementation of lockdown measures across the country, especially in States outside of the nation's economic powerhouses. Avoiding the worst of the pandemic in terms of infections and mortality has also helped mitigate the contractions while buoying consumer confidence ahead of the second half.

Overall, the -6.10% growth rate recorded in Q2 brings half year 2020 GDP growth rate to -2.18%. At Agusto & Co., we maintain our forecast scenarios of -4.5% in the best-case and -7% in the worst-case for full year 2020.

3 *https://businessday.ng/exclusives/article/nigerias-fx-demand-backlog-near-2016-crisis-levels-of-7bn/*

4 *https://www.reuters.com/article/us-nigeria-worldbank-exclusive/exclusive-nigerias-1-5-billion-world-bank-loan-delayed-over-reforms-say-sources-idUSKCN25D1V6*

5 *US Department of Commerce https://www.bea.gov/sites/default/files/2020-07/gdp2q20_adv.pdf*

6 *UK Office for National Statistics: https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/apriltojune2020*

7 *https://ec.europa.eu/eurostat/documents/2995521/11156775/2-31072020-BP-EN.pdf/cbe7522c-ebfa-ef08-be60-b1c9d1bd385b*

Agusto & Co. Limited

Agusto & Co. is the foremost credit rating agency in Nigeria, specializing in financial institutions, corporate and bond ratings. We are also a research organization providing business information for our various clients.

As business information service providers, we publish industry reports containing unbiased expert analysis of various industries in the Nigerian Economy. We gather information about the market size and potential of an industry, its key players, competitors, products and financial condition amongst others. In providing a broad overview of the industry and its key players, our analysts interpret data collected and assign each industry a risk rating, taking into cognisance Nigeria's risk profile.

We also conduct client specific detailed research.

UBA House (5th Floor)
57 Marina Lagos
P.O. Box 56136, Ikoyi
Tel: (234) 270 7222—3
E-mail: info@agusto.com
Website: www.agusto.com

Disclaimer

 The information contained in this document has been obtained from sources which we consider to be reliable but do not guarantee as such. The opinions expressed in this document do not represent investment or other advice and should therefore not be construed as such.

The circulation of this document is restricted to whom it has been addressed. Any unauthorized disclosure or use of the information contained herein is prohibited.