Strengthened recovery: The Oil sector saves the day

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Nigeria's real gross domestic product (GDP) improves by 1.40% year-on-year in 3Q'17. In the third quarter to September 2017, the output of Nigeria's economic activities as measured by real GDP expanded by 1.40% compared with 0.72% in the second quarter of the year and -2.34% in the corresponding quarter of 2016. This is the second consecutive quarter that recorded positive growth since the emergence of the nation's economy from recession. In the review quarter, aggregate nominal GDP stood at ₦29.45 trillion, higher by 10.98% compared with ₦26.54 trillion in the corresponding quarter of the previous year. However, twenty-five out of the forty-six economic activities in the nation's GDP basket recorded positive real growth rate, while the remaining twenty-one economic activities recorded a decline.

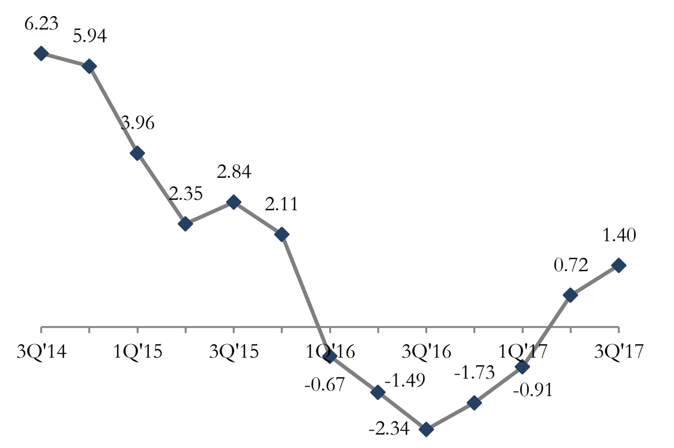
The improvement in the real GDP growth rate of the overall economy in the period was mainly attributed to the robust growth rate recorded in the oil sector. The oil sector recorded strong real GDP growth rate of 25.89% y/y compared with 3.53% in the preceding quarter of the year and -23.04% in the third quarter of 2016. Further analysis revealed that the strong growth rate recorded by the oil sector was due majorly to the improvement in crude oil production in the quarter. Average daily crude oil production in the review period stood at 2.03 million barrel per day (mbpd), i.e. an increase of 26.09% compared with 1.61 mbpd in the third quarter of 2016 and an increase of 8.56% compared with average daily production of 1.87 mbpd in the second quarter of 2017. On the other hand, Brent crude oil traded at an average price of US$52.32 per barrel in the review quarter, i.e. a marginal increase of 0.44% compared with US$52.09 per barrel in the corresponding quarter of the previous year and a marginal increase of 0.68% compared with an average price of US$51.97 in the second quarter of the year.

Table 1: Oil sector and non-oil sector – quarterly real GDP growth rates

	3Q'16	4Q'16	1Q'17	2Q'17	3Q'17
Oil sector	-23.04%	-17.70%	-15.60%	+3.53%	+25.89%
Non-oil sector	+0.03%	-0.33%	+0.72%	+0.45%	-0.76%

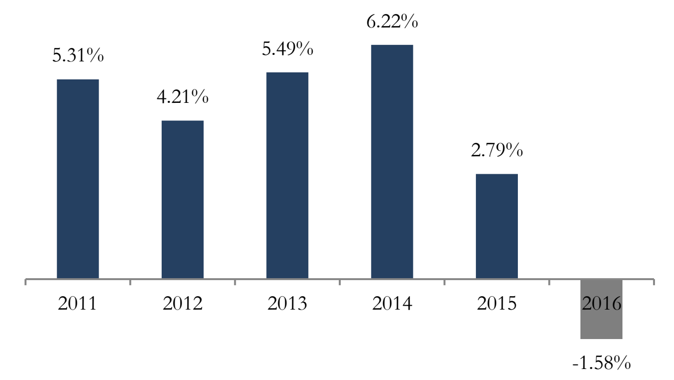
Source: NBS, PAC Research

Fig. 1: Quarterly real GDP growth rates (%)



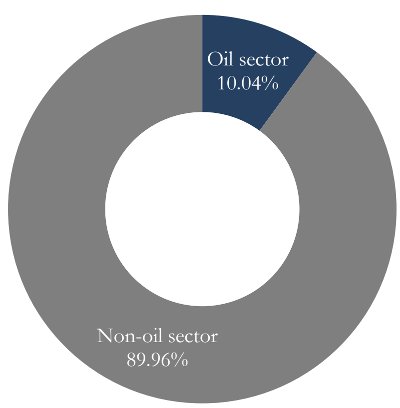
Source: NBS, PAC Research

Fig. 2: Yearly GDP real growth rates (%)



Source: NBS, PAC Research

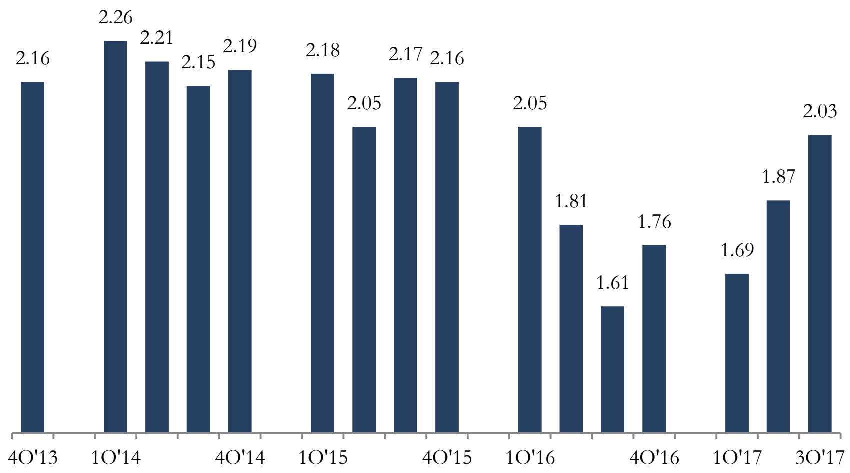
Fig. 3: Contribution to GDP in 3Q'17 – oil sector and non-oil sector



Source: NBS, PAC Research

It is worthy of note to state that the contribution of the oil sector to the overall real GDP has increased to 10.04% relative to 8.90% in the second quarter of the year on the back of improvement in crude oil production. The understanding and rapprochement between Federal Government and stakeholders in the oil producing region which resulted in peaceful atmosphere in the region led to the improvement in production. As long as the peaceful atmosphere in the oil producing region can be maintained, the high production and relatively high crude oil prices will sustain the growth in the oil sector in the short to medium term.

Fig. 4: Crude oil production (mbpd)



Source: NBS, PAC Research

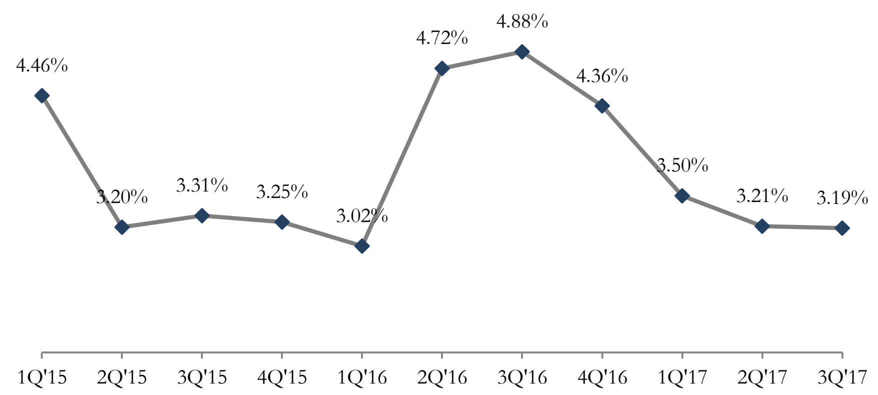
Fig. 5: Prices of Brent crude oil (US$/barrel)

Source: NBS, PAC Research

Non-oil sector reverses with real growth rate of -0.76%. In the review quarter, the resilience of the non-oil sector displayed in the previous quarters could not be sustained as the sector slide back into negative trajectory with real GDP growth rate of -0.76% compared with 0.45% in 2Q'17 and 0.03% in 3Q'16.

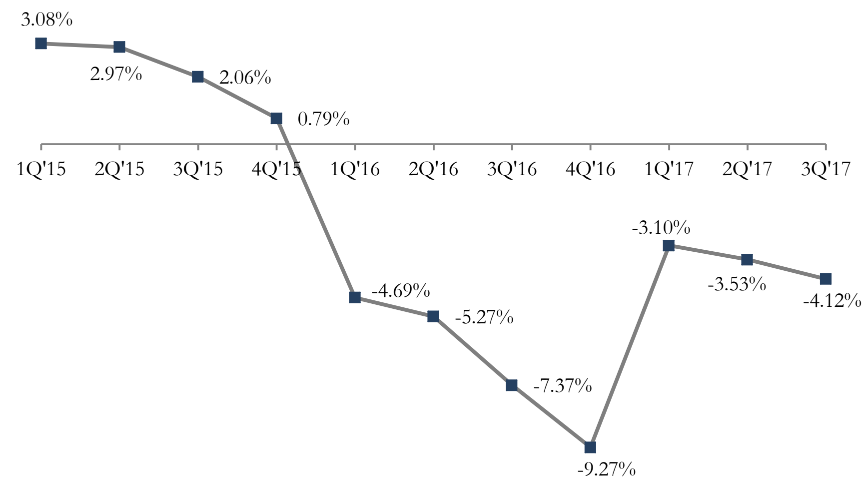
The weak performance of the sector in the period was driven by the weakness in the activities of real estate sector and telecommunications sector which declined by 4.12% and 5.68% respectively compared with a contraction of 3.53% and 1.92% in the second quarter of the year. On the other hand, the weak performance of the non-oil sector was mitigated by the performance of crop production which recorded real GDP growth rate of 3.19%, although this was slightly lower than 3.21% recorded in the second quarter. Furthermore, crop production accounted for 26.90% of the total real GDP relative to 20.3% in the second quarter and 26.43% in the third quarter of 2016.

Fig. 6: Crop production – quarterly real GDP growth rate



Source: NBS, PAC Research

Fig. 7: Real estate – quarterly real GDP growth rate



Source: NBS, PAC Research

Moreover, Nigerian economy was broadly classified into three major sectors; agriculture, industries and services. While agriculture expanded its contribution to real GDP to 29.15% compared with 22.97% in the second quarter aided by crop production, industries declined marginally to 22.56% whereas services shrunk to 48.28% from 53.73% in the second quarter.

In addition, agriculture recorded real growth rate of 3.06% in the period compared with 3.01% in the second quarter of the year and 4.54% in the third quarter of 2016, industries recorded very strong growth rate of 8.83% relative to 1.4% and -12.66% in the second quarter of 2017 and the third quarter of 2017 respectively. On the contrary, services recorded a decline of -2.66% compared with -0.85% in the second quarter of the year and -1.17% in the third quarter of the previous year.

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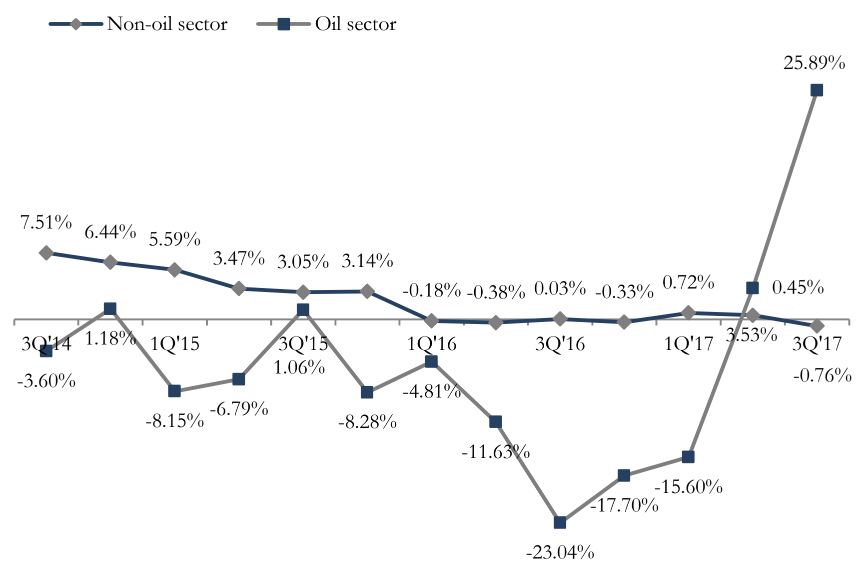
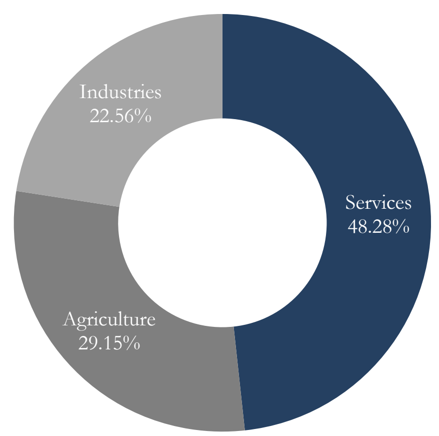
Fig. 8: Oil sector and non-oil sector – quarterly real GDP growth rates



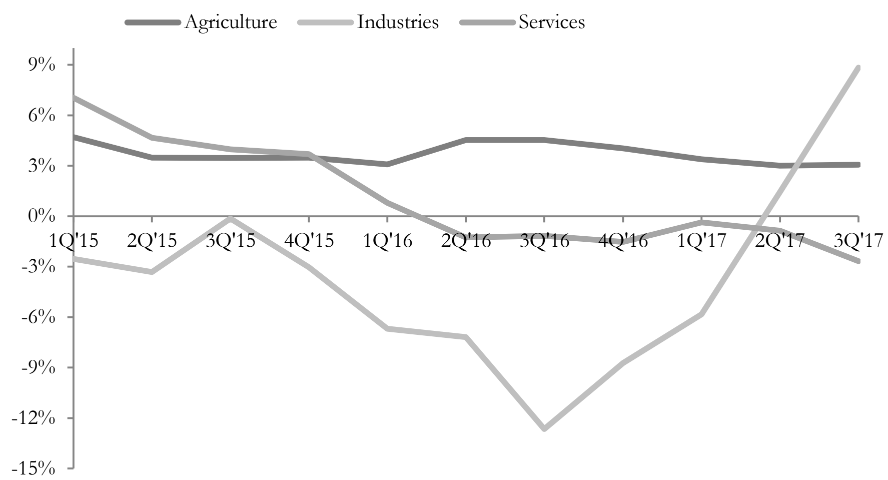
Source: NBS, PAC Research

Fig. 9: Sectoral contribution to real GDP in 3Q'17



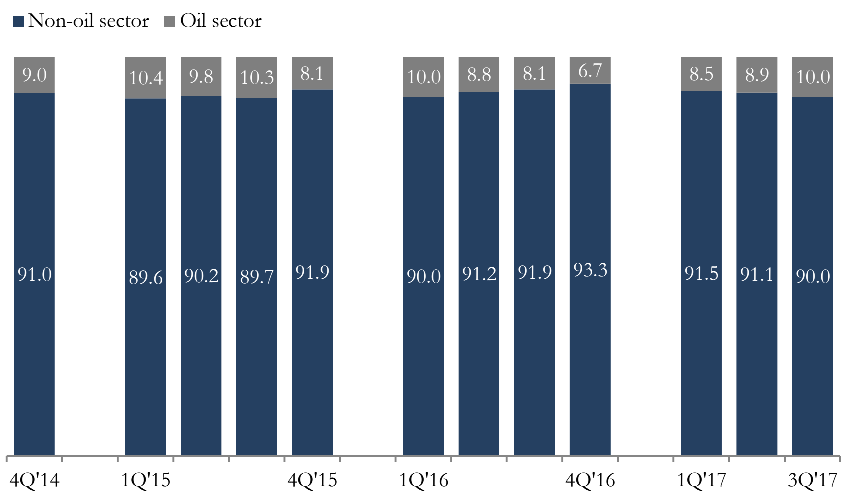
Source: NBS, PAC Research

Fig. 10: Quarterly sectoral real GDP growth rate (%)



Source: NBS, PAC Research

Fig. 11: Contribution to real GDP (%)



Source: NBS, PAC Research

Manufacturing sector weakened by real GDP growth rate of 2.85% year-on-year. In the review period, manufacturing sector could not sustain the growth resilience witnessed in the previous two consecutive quarters. The sector recorded real GDP growth rate of -2.85% compared with 0.64% in the second quarter of 2017 and -4.38% in the third quarter of the previous year. The weak performance of the sector was driven by the poor performance of some economic activities in the sector, for example oil refining recorded a weak real growth rate of -45.40% y/y, motor vehicle & assembly (-21.26% y/y), other manufacturing (-9.72%) and cement recorded -4.56% y/y. It is worthy of note to state that the real growth rate of all the economic activities listed above declined in an increasing rate except other manufacturing that recorded a decline of 9.72% relative to a decline of 10.88% in the second quarter of the year. The overall weakness of the sector in the period was due to the myriads challenges facing the real sector such as inadequate infrastructures among others.

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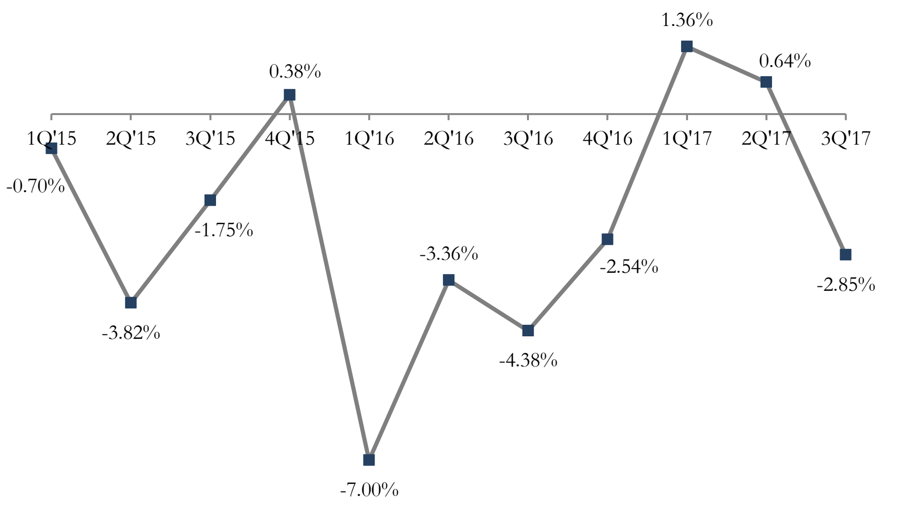
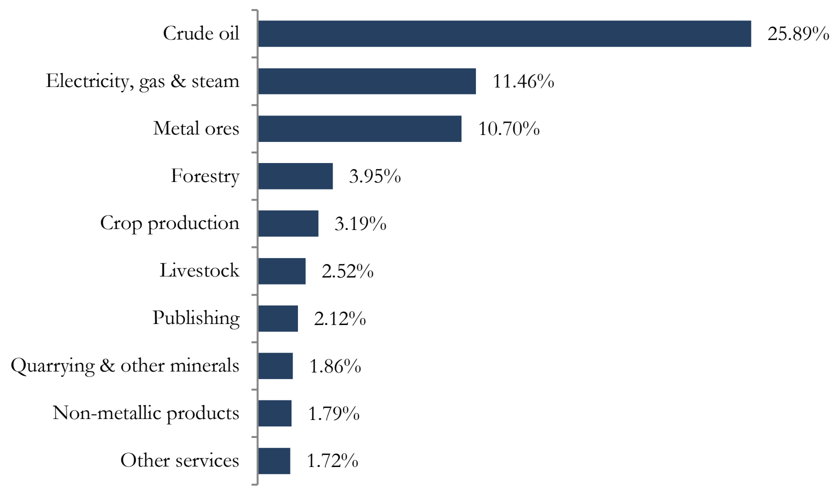
Furthermore, construction sector contracted by 0.46% compared with real growth rate of 0.13% in the second quarter and -6.13% in the corresponding quarter of the previous year. The downward reversal in the performance of the sector may be due to the muted activities of Federal Government's contractors in the various construction sites within the period. Also, trade sector continued with the contraction trend in the review quarter, the sector further declined by 1.74% in the period compared with -1.62% in 2Q'17 and -1.38% in 3Q'16.

Fig. 12: Manufacturing sector - quarterly real GDP growth rates



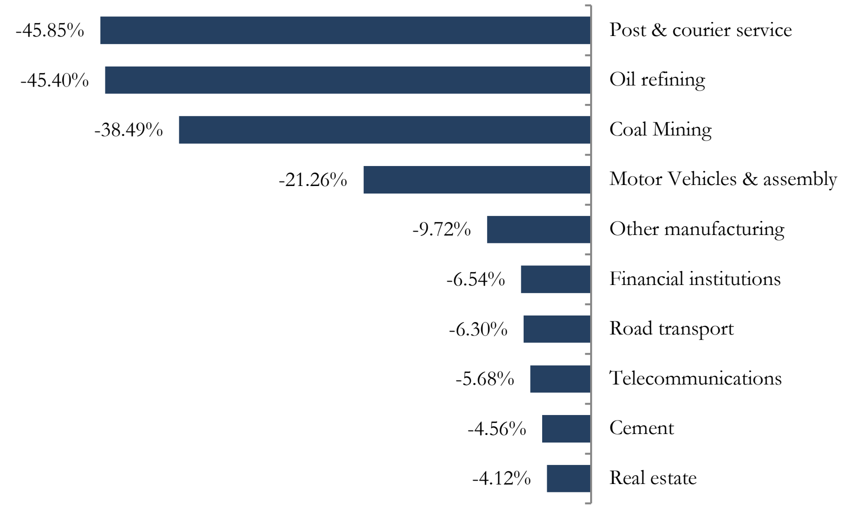
Source: NBS, PAC Research

Fig. 13: Economic activities: Top ten increase in real GDP growth rate in 3Q'17



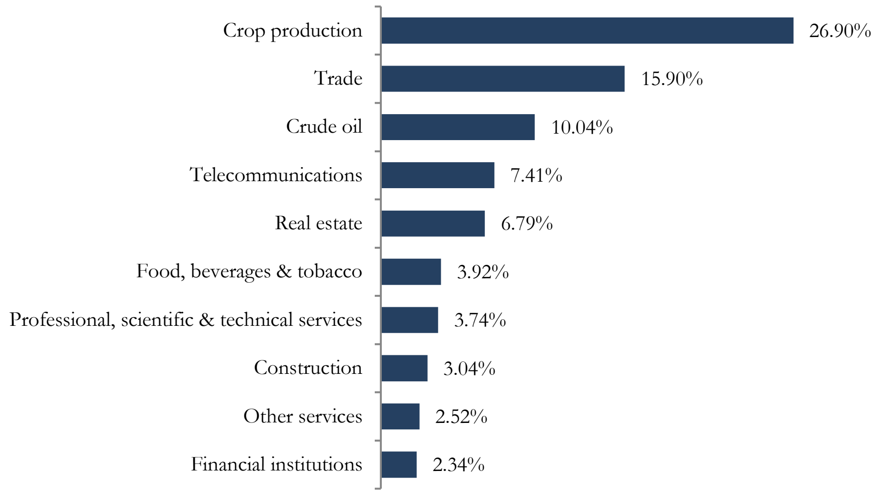
Source: NBS, PAC Research

Fig. 14: Economic activities: Top ten decline in real GDP growth rate in 3Q'17



Source: NBS, PAC Research

Fig. 15: Economic activities: Top ten contributors to real GDP in 3Q'17



Source: NBS, PAC Research

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