

## Economic Update - GDP

### *2020 GDP: Economic growth to slow to 0.5%*

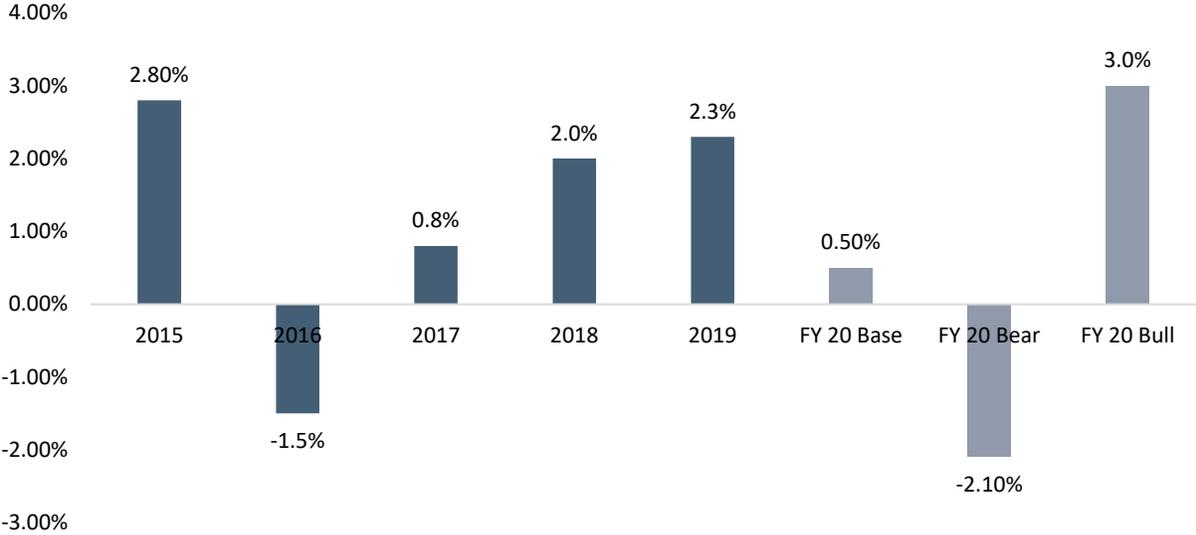
The rapid spread of the corona virus led to a slowdown and in some cases a halt to economic activities, both globally and domestically. In light of this, we have made some adjustment to our growth estimate over 2020. To track back, 2019 was a good year for the Nigerian economy with growth at 2.3% YoY with key sectors such as ICT, financial services, oil and Agric sectors driving expansion in the overall economy. Sadly, we see no repeat of this expansion this year due to the lockdown of key states in the country. Also, Nigeria's crude oil production is not spared, as the reduction in global demand restrained the country's ability to export its crude at prevailing discounted price.

**Oil sector to contract:** To begin, we expect the oil sector to contract by 14.8% YoY over FY 20 (previous estimate: +4% YoY) with our FY production estimate at 1.73 mbpd (previously: 2.1mbpd). For us, reduced global demand for crude coupled with the need for full compliance with the agreed OPEC cut of 0.42mbpd to 1.41 mbpd (excludes: 200kpd condensates). On that note we expect, production over Q2 and Q3 to average at 1.55mbpd before picking up in Q4 where we believe the virus will have been fully contained.

**Positive on ICT, however, non-oil sector growth will slow:** For the non-oil sector, we expect growth to slow to 1.6% YoY (previous estimate: 2.1%) stemming from an anticipated slowdown across key sectors, save for the Agric sector. On the Agric sector, we believe the defensive nature of the sector coupled with the fact that northern states are not affected by the lockdown will support a sector growth of 3%. For services, contrary to our expectation at the start of the year for a pick-up in financial services and real estate services, the recent outturn of events has changed that, as we struggle to see any loan growth by banks. Also, with increased uncertainty and anticipated strain on consumer income, we foresee little to no investment in real estate services. Albeit, we are more positive on output in the ICT space given the increased use of internet services during the lockdown period. Therefore, we expect services to grow by 3% YoY over FY 20 (Previous est: 3.6%). Meanwhile, given the halt in production activities for non-essential services, we now expect the manufacturing sector to grow by 1% YoY (previously: 2.1%). Finally, the travel restrictions as well as the boarder closure is expected to sustain the contraction in the trade sector.

Overall, our expectation for the oil and non-oil sectors informed a cut to our FY 20 growth estimate to 0.5% YoY (previously: 2.3% YoY). Specifically, we expect the economy to contract in Q2 and Q3 20, but foresee a pick up in Q4 20 as we are positive on the full containment of the virus by then. Having said that, we believe the companies that will still be able to weather the storm in these tough times will be the telecoms providers and some agro-allied producers – barring any external shock to commodity prices.

**Figure 1: Trend in annual economic growth (%)**



Source: NBS, ARM Research

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