

Economic Report | GDP

GDP growth plumbs to new depths on oil sector woes

Economic Snapshot

January 2016 Inflation Data/Indices

	MoM	YoY	Prev YoY
Headline	0.9%	9.6%	9.6%
Food	0.9%	10.6%	10.6%
All Items Less Farm	0.8%	8.8%	8.7%
Imported food	1.0%	11.3%	11.0%
Energy	0.9%	10.1%	9.9%

Currency Markets

	Latest	Daily Chg	YTD
USDNGN	198.50	0.40%	0.40%
EURNGN	218.57	0.30%	-1.00%
GBPNGN	282.19	0.60%	3.90%
JPYNGN	176.25	-0.40%	-6.30%

Monetary Aggregates January 2016

	(N'bn)	MoM	YoY
M2	19,687	-1.7%	17.1%
CPS	18,885	0.9%	3.9%
NCG	3,338	15.4%	15.4%
NFA	5,392	-4.6%	-16.2%
NDC	22,223	2.8%	28.6%

External Position

	Latest	QoQ	YoY
Trade Balance (\$'mn)	-859	-73%	-55%
External Reserves (\$'mn)	27,880	-4.1%	-9.4%
Foreign Debt (\$'mn)	10,718	0.9%	10.4%

Growth Data – Q4 2015

	(N'bn)	%of total	YoY
Real GDP	18,534	100%	2.1%
Agriculture	4,481	24.18%	3.5%
Oil	1,493	8.21%	-8.3%
Services	6,974	37.63%	3.2%
Wholesale and Trade	3,091	16.68%	4.7%
Manufacturing	1,803	9.73%	0.6%

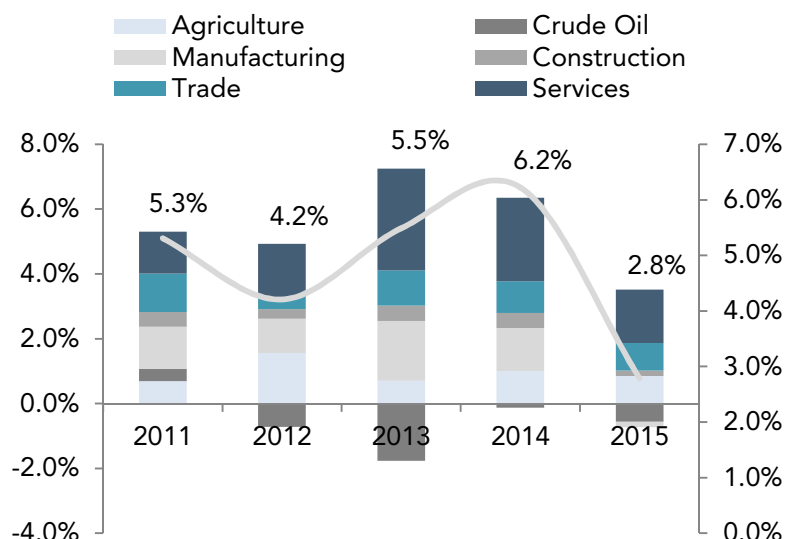
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Annual GDP growth at sixteen year low

Yesterday evening the National Bureau of Statistics (NBS) reported that real GDP growth slumped to a fresh trough of 2.11% YoY in Q4 15 – 73bps and 383bps below the corresponding reading in Q3 15 and Q4 14 respectively. The dip over Q4 brings mean output growth over 2015 to a post rebasing low of 2.89% YoY. Extending comparisons to pre-rebasing era, the 2015 reading implies the Nigerian economy expanded at its slowest pace since 1999.

Figure 1: Trends in Annual GDP growth



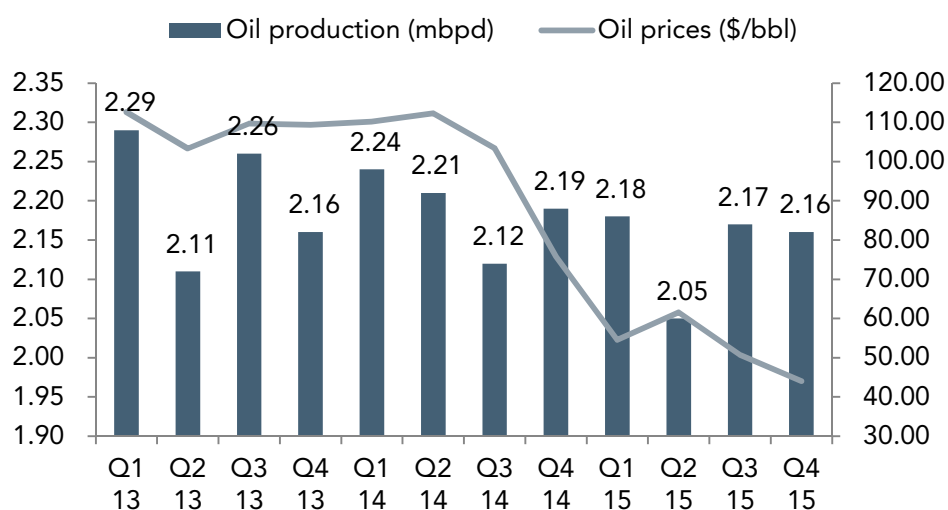
Source: NBS

In the breakdowns provided by the NBS, after posting an expansion in Q3 15 (+1.1% YoY) oil GDP reverted to negative growth trends (-8.1% YoY) over the quarter, while non-oil held flat at 3.1% YoY from prior quarter.

Disruptions to oil pipelines swing oil GDP negative

In contrast to Q3 15, when on-streaming fields helped swing production to 2.17mbpd (Q3 14: 2.12mbpd), NBS reports that oil production declined to 2.16mbpd in Q4 15 which relative to 2.19mbpd in the corresponding period in 2014 largely accounts for the contraction recorded in the sector. Adducing drivers, we link the negative growth to impact of several disruptions along the Trans Niger, Nembe Creek and Forcados pipelines over Q4 15. Furthermore, we note that sustained decline in crude oil prices which has induced industry-wide cutbacks on oil exploratory activity continued to weigh on domestic production.

Figure 2: Oil prices and production



Source: CBN, ARM Research

Manufacturing exits three quarter recession

Bucking the three quarter negative trend, manufacturing exited recession with a +0.6% YoY rise in Q4 15. Disaggregating the sub-components, positive performance in manufacturing stems from the impact of a 2.8% YoY expansion in Textiles, Apparel and Footwear (TAF) and a softer contraction (Q4: -5.6% YoY, Q3: -8.9% YoY) in Food, beverage and Tobacco (FBT).¹

In a related development, agriculture GDP held flat at 3.5% YoY for the third

¹ The two segments account for 61% of manufacturing – FBT (40.2%) and TAF (21%)

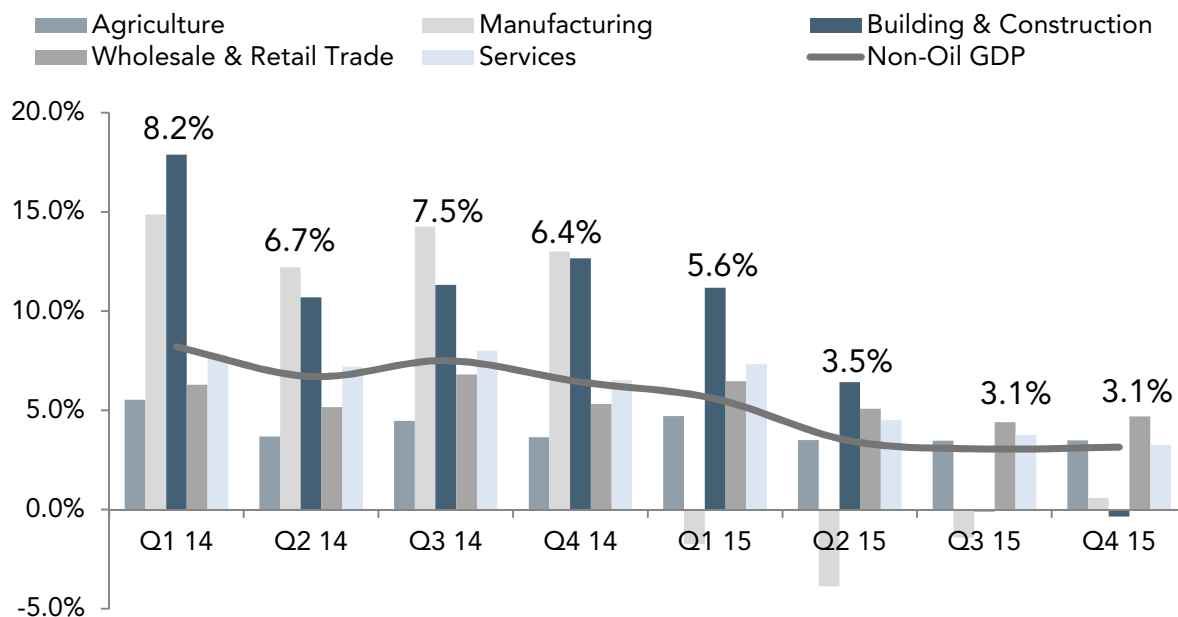
consecutive quarter with FEWSNET noting a mixed bag for harvest with declining cereal production (maize:-3%, sorghum: -6%, and millet-3%) being offset by rising rice (+15%) and cash crops production (Sesame: +21%, soybean: 13%, cowpea: +7% and groundnut: +4%).

Elsewhere continued moderation in construction activity, as the impact of dwindling oil prices curtailed the ability of FGN and state governments to embark on capital projects, was evident in further compression in Building and Construction which officially entered into recession (Q3: -0.11% YoY, Q4: -0.4% YoY)².

In a similar vein, Services GDP maintained the downward trajectory over 2015 (Q1: 7.3% YoY, Q2: 4.5% YoY, Q3: 3.8% YoY, Q4: 3.2% YoY) as slowdown heightened across its two key segments – Telecommunications and Real Estate. Deceleration in the former is in line with our views about impact of recent regulatory activism on MTN, which resulted in the disconnection of 5.1million lines, impacting subscriber growth. On the latter, weakness reflects continued restraint on demand for luxury real estate following the anti-corruption thrust of the Buhari government and bulging oversupply in the office space which pressured rental yields in 2015.

² In 2015, 54,000 capital projects and 6,525 sq. km of roads have been abandoned - North Court

Figure 3: Trends in components of Non-oil GDP



Source: NBS, ARM Research

Delayed progress on fiscal stimulus and renewed oil production headaches to weigh on GDP growth

Going into 2016, our 3.5% forecast for YoY GDP growth was primarily hinged on the anticipated multiplier effects of increased fiscal expenditure (capex and welfare) on non-oil GDP and a largely dour outlook for oil GDP. On the non-oil side, discovery of significant errors in the submitted budget has resulted in delayed legislative assent to the 2016 budget. Similarly, the executive appears to have backtracked on the ₦500 billion planned welfare package going by recent comments by President Buhari. Thus, lack of progress on the fiscal stimulus plan is crystallizing a key risk we highlighted to our forecasts.

Scanning across the key non-oil sectors, the ripple effects from fiscal delays should keep the recessionary status quo in building & construction, as construction companies place financing arrangements on hold pending clarity over passage of the 2016 appropriation bill. For manufacturing, the uncertainty over the ₦5000 monthly welfare stipends should combine with continuing salary payment struggles at the state level and rising tide of private sector retrenchments in curbing consumption demand. Furthermore, amid stagnant wage growth, impact of rising

inflation should curtail purchasing power for FMCGs leaving sector outlook largely negative.

Also, for agriculture GDP, the suspension of the planned welfare program which had a sizable agriculture related component tempers our previous optimism about the sector. Furthermore, fresh outbreak of avian flu virus in January, (which has resulted in the death of 2.5 million chicken and destruction of 350k eggs) and suspension of FGN re-imbursement payments to farmers should drive cutback in poultry production. Elsewhere, telecommunications GDP growth should remain subdued as the sector struggles to meet raised subscriber registration standards even as the sector approaches maturation with tele-density at 108%.

For oil GDP, where we were less constructive on outlook, whilst crude prices have rebounded to four-month-highs of late, YTD average remains 36% lower than 2015 mean which in lock-step with a largely bearish outlook over 2016 should continue to act as a disincentive against exploratory activity. For evidence, Shell delayed final investment decision on the 225ktpd \$12billion Bonga South West/Aparo oil field citing the unfavourable oil price assumptions. Exacerbating outlook is the renewed uptick in pipelines disruptions with the recent *force majeure* on the Forcados oil field announced in February 2016. Though the FGN continues with its raft of reforms with several announcements about splitting the NNPC into more manageable units, lack of legislative progress on the two oil reform bills submitted in 2015 retains cloudy outlook for the sector. In summary, the foregoing speaks to continued struggles for the oil sector over 2016.

On balance of all the factors considered, delayed progress on fiscal plans to stem the slide in GDP growth and fresh headwinds to oil production results in a downward revision to our 2016 mean growth forecasts. Incorporating the aforementioned points into our forecasts and adjusting for the loss of one quarter of the planned increase in fiscal spending, with delayed budget passage, leads to a 60bps moderation in our 2016 growth estimate to 2.9% YoY (+/-50bps).

For policy makers, the implication of the Q4 15 GDP reading is that the need for greater haste in execution of policy accommodation plans is pertinent. Thus, we expect increased urgency by the fiscal side in scaling the legislative hurdle for

budget passage. On the monetary policy angle, as with the weaker Q3 15 GDP readings which crystallized the onset of an easing stance in Q4 15, the latest tame reading amid delays on the fiscal side, should drive impetus for more policy accommodation. This assumes greater import following publication of recent report on the CBN website which discredits inflation targeting for emerging markets citing incompatibility with exchange rate volatility. Put together with the no-devaluation currency stance and weak growth picture, we see prospects for further policy easing moves at the March 2016 MPC.

In all, the tame growth readings should induce greater deployment of political capital to speed up budget approval process and closure on external financing agreements to fund the fiscal deficit as continued delays in injecting stimulus measures risk adding further downside to 2016 growth forecasts.

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