

Macro Economic Report | Monthly Update

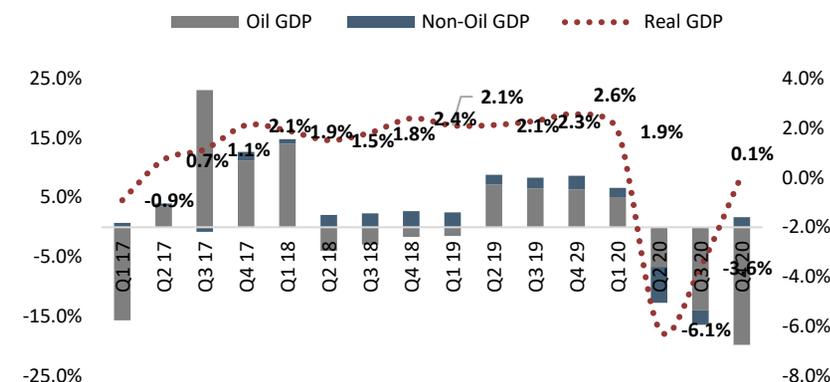
Macro Economic Update – February 2021

Q4 2020 GDP: Non-oil Sector saves the day

The Nigerian economy exited recession in Q4 2020, recording a growth of 0.11% YoY due to a rebound in the non-oil sector, resulting in full year 2020 GDP contraction of 1.94%. This was contrary to our expectation of a 1.98% contraction in Q4 2020 and -2.46% contraction over full year 2020. Precisely, the deviation from our forecast stemmed from better-than-expected outturn in the Agric and Services sector, while Trade sector contracted at a much slower pace than anticipated. As earlier mentioned, the non-oil sector spurred the growth in GDP, expanding by 1.7% YoY in Q4 2020 (Q3 2020: -2.5% YoY), while the Oil sector witnessed its steepest contraction since 2015, declining by 19.8% YoY in Q4 2020 (Q3 2020: -13.9% YoY). On the oil sector, the contraction reflects a moderation in crude oil production which printed at 1.56mbpd - lowest in over 9 years (vs Q3 20: 1.67mbpd), mirroring higher level of compliance by Nigeria to the required OPEC production cut.

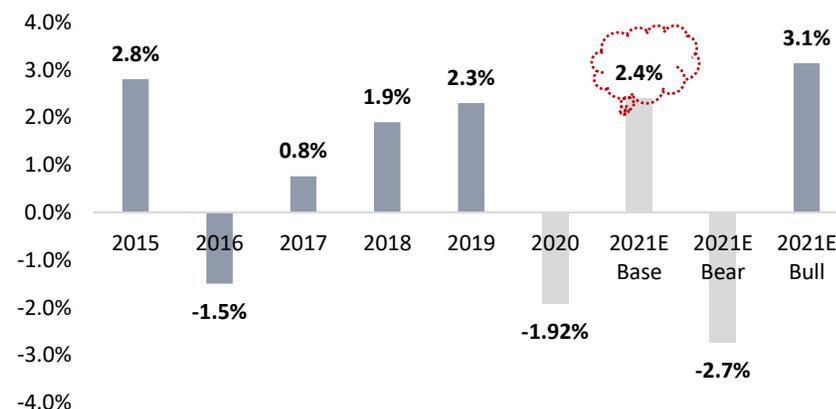
Dissecting the components in the non-oil sector revealed growth across Agric (+3.42% YoY), Services (+3.2% YoY) and Construction (+1.21% YoY), while Manufacturing and Trade sectors contracted during the period by 1.5% and 3.2% respectively. On Agric, despite flooding activities which began in September 2020 as well as lower average harvest due to the impact of the pandemic according to FEWSNET, we witnessed growth in crop production, livestock, and forestry, which spurred growth in the Agric sector. Meanwhile, services sector rebounded in Q4 2020 reflecting lower contraction in the transport (Q4 2020: -6% vs Q3 2020: -43% YoY), pickup in Real estate sector (Q4 20: 2.8% YoY vs Q3 20: -13.4% YoY), continuous growth in ICT (Q4 20: 14.9% YoY vs Q3 20: 14.6%) and health sector (Q4 20: +3.0% YoY vs Q3 20: 2.8% YoY). However, Finance sector witnessed a contraction of 2.5% YoY in Q4 2020, which we believe reflects the high base effect from the previous period (Q4 19: +22.3% YoY). While activities in

Figure 1: Historical movement in Real, Oil and Non oil GDP



Source: NBS, ARM Research

Figure 2: Historical movement in Annual Real GDP & Forecast



Source: NBS, ARM Research

the manufacturing and trade sectors improved relative to the prior quarter due to an improvement in economic activities, we believe the impact of the devaluation of the Naira weighed heavily across these sectors.

Going further into 2021, we expect a rebound in economic activities, bulk of which should stem from the Non-oil sector. Starting off with the oil sector, over the first quarter of the year, we expect the negative trend to persist owing to the continuous compliance to OPEC plus production cuts, as well as higher base from the prior year. Precisely, we project a crude oil production level of 1.75mbpd in Q1 21 (Q1 20: 2.07mbpd), which translates into a 15% YoY contraction in the oil sector. On the non-oil leg, we expect continuous growth in the Agric, Services, Building and construction and a marginal growth in Manufacturing sector to drive a 1.9% YoY growth in the non-oil sector. For the Agric sector, we expect continuous intervention by the government in addition to ongoing farming activities to drive growth numbers.

Meanwhile, in the manufacturing sector, while vulnerability of the sector to foreign exchange poses a threat to the growth numbers, we believe continuous revival in sectoral activities would drive a marginal growth rate of 0.2% YoY. On the services front, we expect growth in the transport sector, ICT, and health sector to be the major driver for growth. For the transport sector, continuous improvement in economic activities should take the sector out of the negative territory. Meanwhile, on ICT, we foresee a slower growth on the back of the Ministry of Communication's directive to halt new sim registrations. Hence, in Q1 21, we estimate an average growth of 14% YoY in data subscription (Q4 20: 24% YoY), and 6.76% YoY in voice subscription (Q4 20: 13% YoY). Elsewhere, we expect the weakness in the finance sector to persist owing to the high base from the prior year (Q1 2020: the sector grew by 24% YoY). Hence, we expect the services sector to grow by 2.8% YoY. Overall, we revise our Q1 21 GDP expectation upwards to a 0.3% YoY growth (previously: -1.76% YoY) and our FY 21 to 2.4% YoY (previously: 1.5% YoY).

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