

Economic Report | GDP

Higher oil production sparks GDP resurgence

Economic Snapshot			
July 2017 Inflation Data/Indices			
	MoM	YoY	Prev YoY
Headline	1.2%	16.1%	16.1%
Food	1.5%	20.3%	19.9%
All Items Less Farm	1.0%	12.2%	12.0%
Imported food	1.1%	14.1%	14.2%
Energy	0.3%	11.6%	14.2%
Currency Markets			
	Latest	Daily Chg	YTD
USDNGN	360.6	-0.8%	15%
EURNGN	434.0	0.8%	30%
GBPNGN	472.8	0.4%	21%
JPYNGN	334.0	1.2%	22%
Monetary Aggregates – July 2017			
	(₦'bn)	MoM	YoY
M2	22,200	2.4%	-1.5%
CPS	22,172	0.8%	-1.1%
NCG	4,987	12.7%	66.0%
NFA	8,743	3.3%	15.6%
NDC	27,160	2.9%	6.8%
External Position			
	Latest	QoQ	YoY
Trade Balance (\$'mn)	84.76	-9.6%	N/A
External Reserves (\$'mn)	31,812	25%	4.8%
Foreign Debt (\$'mn)	13,808	21.1%	23.3%
Growth Data – Q2 2017			
	(₦'bn)	%of total	YoY
Real GDP	16,307	100%	0.5%
Agriculture	3,745	23.0%	3.4%
Oil	1,449	8.9%	1.6%
Services	5,974	36.6%	-0.5%
Wholesale and Trade	2,787	17.1%	-1.6%
Manufacturing	1,529	9.4%	0.6%

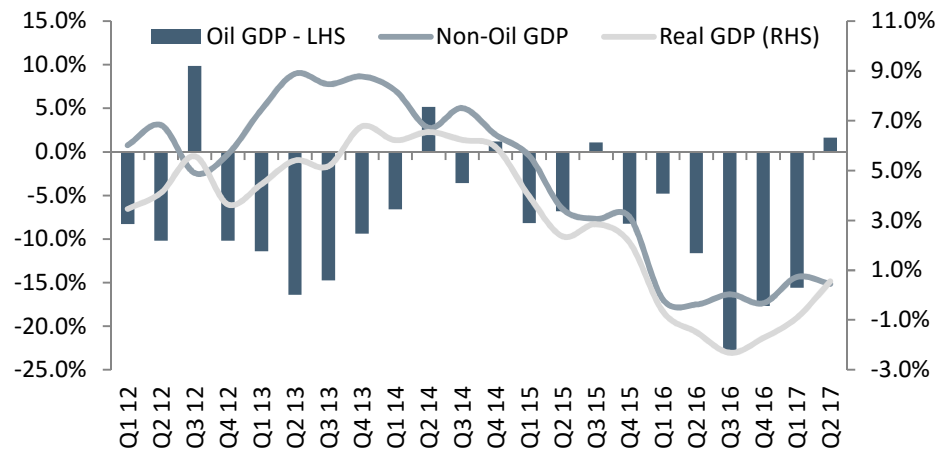
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Data released by the NBS showed that Nigeria's economy posted a year-over-year growth of 0.55% in Q2 2017, following five consecutive quarters of economic contraction. Most of the recovery came through a rebound in the oil sector (YoY: Q2 17: +1.6%; Q1 17: -11.6%) and resilience in Agriculture output which kept non-oil GDP in the positive territory (Q2 17: 0.4% YoY, Q1 17: 0.7% YoY). The rebound in the oil sector is perhaps the best news from the Q2 release as this shows that oil production has recovered from 2016 battered levels. However, not all data in this release was positive. The slower pace of expansion in non-oil sector reflected rapid growth in Agriculture and Manufacturing even as Services sector contracted.

Real GDP growth has topped expectations, largely on the back of the rebound in the oil sector. July's OPEC data indicates Nigeria's production of 1.75mbpd. Thus, using an average 28-month spread between NNPC and OPEC production data, we think production printed around 1.93mbpd in July – closer to 1.96mbpd (excl. condensate) stated by the Petroleum minister and in sync with our H2 17 estimate of 1.9mbpd. Consequently, using our production estimate, we now expect oil GDP growth of 18% and 8% YoY for Q3 and Q4 17 respectively – bolstered by the weak base in the corresponding period of 2016. However, the contraction in ICT, as the sector appears to have touch its peak, guides to sustained contraction in Services. Juxtaposing that with our earlier view on

Agriculture and Manufacturing, we now look for non-oil GDP growth of 0.3% and 0.4% YoY in Q3 and Q4 17 respectively. Consequently, we forecast real GDP growth for Q3 17 and Q4 17 of 1.7% and 0.9% YoY accordingly. On this basis, we revise our 2017 real GDP forecast slightly lower to 0.6% YoY (previous: 0.8% YoY).

Figure 1: Trend in oil, non-oil, and real GDP

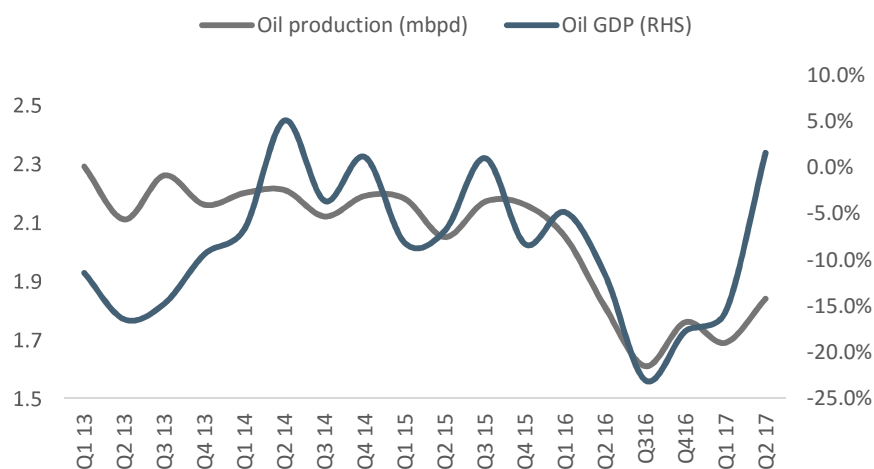


Source: NBS, ARM Research

FG strides for production stability proves fruitful

The rebound in oil GDP achieved in Q2 17 reflects the 1.65% QoQ (8.9% YoY) recovery in oil production to 1.84mbpd on the back of resumption on Forcados terminal. Also, we think the continuous effort of the federal government to ensure peace in the Niger Delta region yielded positive results as the number of vandalized points contracted significantly (-69% YoY).

Figure 2: Trend in Oil Production (mbpd) and oil GDP



Source: NBS, ARM Research

Disappointing non-oil GDP growth in Q2 2017

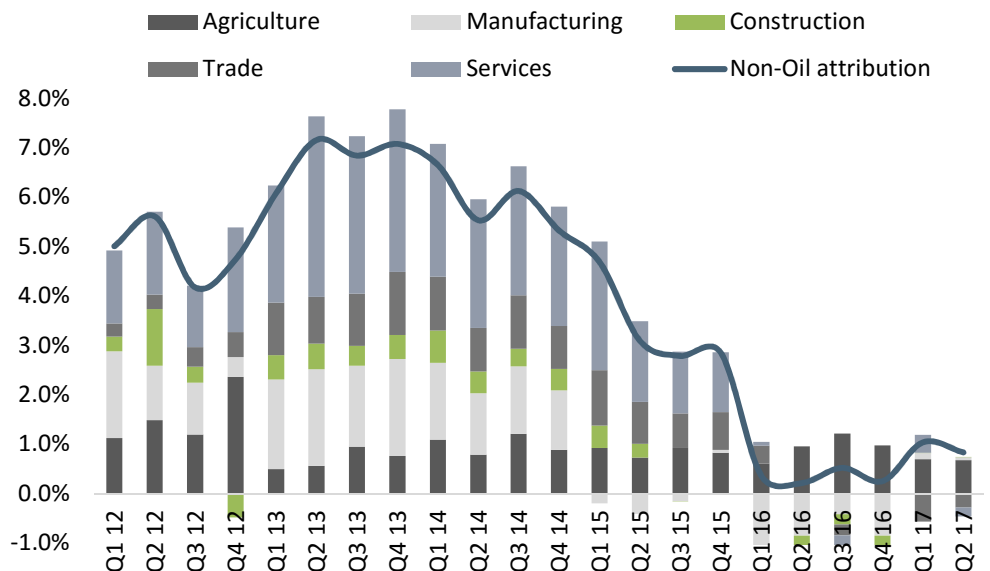
On the surface, non-oil GDP remained upbeat albeit at a slower pace, sustaining its expansion at 0.4% YoY (Q1 17: 0.7% YoY). However, considering the weak base of 2016 wherein Q2 16 non-oil GDP was at the trough of the downturn, the 0.4% YoY growth is disappointing and points to a slower recovery than expected.

A breakdown of the non-oil GDP data into its underlying components showed that the growth deceleration in Q2 was led by Services, the largest component of non-oil GDP, which reverted to negative growth (-0.5% YoY), after coming out of recession in the prior quarter (YoY: Q1 17: +1%; Q2 16: -1.8%). The descent was due to weaker output in the ICT sub-sector (-1.2% YoY) – the first time in 21 quarters— coupled with a further contraction in the real estate sub sector (YoY: Q2 17: -3.5%; Q1 17: -3.1%). The contraction in ICT largely reflected activities in the Telecommunications sub-sector where active lines declined (-4.7% YoY to 143 million), which we believe lowered the revenues of telecoms companies. Meanwhile subdued activities in luxury real estate segment extended the pressures for the sixth straight quarter in the real estate sector printing at -3.5% YoY (vs Q1 17: -3.1%). Given the heavy weighting of ICT and Real estate divisions to the Services GDP (54%), contraction in these two sectors trumped growth in the finance and insurance sector (9% of Services), which

printed at a 17-quarter high of 10.5% YoY in Q2 17. In our view, the elevated interest rate environment which drove asset yields higher underpinned improvement in the financial services sub-sector.

Elsewhere, tamer growth was recorded in the Agriculture (3% YoY) – the second largest component of the non-oil GDP– and Manufacturing (0.6% YoY) sectors. Further analysis of the former reveals suppressed growth in crop production (89% of agriculture GDP). According to FEWNET, flooding activities in 16 states led to the pressures seen in crop production. That said, the expansion in livestock farming and forestry held up growth in agricultural sector. On manufacturing, while improved FX liquidity and increased diversion to locally sourced raw materials were able to sustain the growth in the manufacturing sector (0.6% YoY), tamer growth in food beverage & tobacco Q2 17: +2.7% (Q1 17: +4.1%), textiles, apparel & footwear Q2 17: 0.2% (Q1 17: 1.2%) and declines in the cement Q2 17: 1.8% (Q1 17: 4.2%) sub sectors contributed to the performance in this sector. In our view, increased dollar supply, commencing in February 2017, resulted in front-loaded activities– however, increasing confidence in the currency market normalised growth in the review quarter.

Figure 3: Attribution analysis for non-oil GDP Growth



Source: NBS, ARM Research

Oil powered growth underway

As previously noted, the relative stability in the Niger delta region coupled with the re-opening of the Forcados pipeline supported oil production in the period under review. Extrapolating oil production for July using an average 28-month spread between NNPC and OPEC production data, we think production printed around 1.93mbpd in July, closer to our 1.9mbpd estimate for H2 17. Consequently, we now expect oil GDP of 18% and 8% YoY for Q3 and Q4 17 respectively – bolstered by the weak base in the corresponding period of 2016.

On the non-oil leg, we expect sustained pressures in the Services sector as we believe the largest sub sector (telecommunications) appears to be at the peak which should leave growth at current or even lower levels. Elsewhere, irrespective of the high interest rate environment and the decline in consumer purchasing power which should remain a drag on output, improved FX liquidity coupled with continued efforts by the federal government to ease the business environment should still sustain the expansion in manufacturing sector. On other front, subdued demand from the high-end users should leave construction GDP relatively stable while the end of the lean season, improved access to inputs, continued government support and cheap financing should sustain the growth in the Agriculture sector. On balance, we now look for non-oil GDP growth of 0.3% and 0.4% YoY in Q3 and Q4 17 respectively. Subsequently, we forecast real GDP growth for Q3 17 and Q4 17 of 1.7% and 0.9% YoY accordingly. On this basis, we revise our 2017 real GDP forecast slightly lower to 0.6% YoY (previous: 0.8% YoY).

Given the expected pickup in Nigeria's economic activities, we believe the apex bank would focus its efforts on ensuring currency and price stability. On inflation, flooding in key agricultural producing regions should create fresh pressures on food inflation in coming months. Hence, we expect concerns over inflation and subsisting worries on the currency front to sustain CBN's contractionary monetary policy. That said, cessation of the one-year OMO paper and gradual reduction in clearing rates suggest that the country may be close to the peak of a tight monetary regime.

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