



Q2 2020 GDP: As expected, Nigeria's economy takes a hit

- Data released by the NBS earlier today, showed Nigeria's economy took a hit reflecting the adverse impact of the pandemic. Precisely, Nigeria's economy recorded the steepest contraction in over 9 years with Q2 2020 GDP printing at -6.10% YoY relative to our estimate of -3.87% YoY. The deviation stemmed from a worse than expected performance in the Services and Trade sectors. Notably, contractions were seen in both oil and non-oil sector. While the oil sector contracted by 6.6% YoY relative to 5.1% growth in Q1 2020, the non-oil sector declined by 6.1% YoY (vs Q1 2020: 1.5% YoY).

Higher level of compliance sends oil sector on a downward spiral

- To begin, the oil sector contracted 6.6% YoY in Q2 2020 owing to a moderation in crude oil production which printed at 1.81mbpd, in line with our estimate. We believe the lower crude oil production reflects some level of compliance from Nigeria to OPEC+ crude oil production cuts. For context, according to OPEC's latest numbers, Nigeria recorded a higher level of compliance, particularly in the months of May (86%) and June (80%) excluding condensates.

COVID-19 pandemic anchored contraction in the Non-oil sector

- The non-oil sector contracted sharply to 6.1% YoY mirroring declines across all sectors save the Agric sector. In line with our estimate, the Agric sector expanded by 1.58% YoY, albeit at a slower pace when compared to Q1 20 outturn of 2.2% YoY. This reflects moderate growth in crop production (+1.4% YoY vs Q1 2020: 2.4% YoY) and Livestock (+2.6% YoY vs 2.26% YoY). We believe movement restrictions and below-average access to inputs, amongst other factors curtailed growth in Agricultural activities during the period under review.
- On the other hand, disruption in production value chain - a fall out of the pandemic - weighed heavily across the manufacturing subsectors. Specifically, contraction was seen in FBT¹ (-3% YoY), TAF² (-14.4% YoY), Cement (-5.5% YoY), Oil refining (-67.7% YoY) amongst other sub-indices. Notably, chemical and pharmaceutical subsector grew by 3.8% YoY – the highest growth since Q4 17, as the subsector took the central stage in the fight against the COVID-19 pandemic. Overall,

¹ Food, Beverage and Tobacco

² Textile, Apparel and Footwear

the manufacturing sector contracted by 8.8% YoY in line with our estimate of -9.0% YoY in Q2 2020. Similarly, we witnessed a steeper contraction in Trade sector by 16.6% YoY (vs Q1 2020: -2.8% YoY), above our estimate of -10% YoY in Q2 2020. We believe the confluence of the border closure, naira devaluation at both the parallel market and the IEW as well as forex scarcity led to the contraction in Trade sector. For context, the Naira in the parallel market depreciated to an average of ₦143/\$ in Q2 2020 (vs ₦369/\$ in Q1 2020). Similarly, at the IEW, Naira depreciated to ₦386/\$ in Q2 2020 relative to ₦367/\$ in Q1 2020. In addition, the CBN paused the sales of dollar to the BDCs³ since March 2020, resulting in foreign exchange scarcity.

- Elsewhere, services sector contracted by 2.61% YoY for the first time since Q4 17 as declines in Transport (-49.2% YoY), Real Estate (-22% YoY) and other services subsectors more than outweighed growth in ICT (+18.1% YoY), Finance (+18.5% YoY) and Health (+1.9 YoY) subsectors. This was contrary to our growth estimate of 0.5% YoY. On ICT, we believe increased use of internet services during and after the lockdown spurred growth, as voice subscriptions grew by 11% YoY to 193 million subscribers, while data subscriptions grew by 16% YoY to 140 million subscribers. In addition, we believe growth in finance sector reflects stimulus package as well as low base in the first two quarters of 2019. Meanwhile, the halt in construction activities over Q2 2020 resulted in a 31.8% contraction during the period (vs Q1 2020: 1.7% YoY).

Figure 1: Trend in the real sector growth (YoY)

	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 2020	Q2 2020	FY 18	FY 19
Agriculture	2.5%	3.2%	1.8%	2.3%	2.3%	2.2%	1.6%	2.1%	2.4%
Manufacturing	2.4%	0.8%	-0.1%	1.1%	1.2%	0.4%	-8.8%	2.1%	0.8%
Services	3.8%	3.1%	2.9%	3.5%	4.0%	3.5%	-2.6%	3.0%	3.4%
Construction	2.0%	3.2%	0.7%	2.4%	1.3%	1.7%	-31.8%	2.2%	1.9%
Trade	1.0%	0.8%	-0.2%	-1.5%	0.6%	-2.8%	-16.6%	-0.7%	-0.4%
Oil GDP	-1.6%	-1.5%	7.2%	6.5%	6.4%	5.1%	-6.6%	1.4%	4.6%
Non-Oil GDP	2.7%	2.5%	1.6%	1.8%	2.3%	1.5%	-6.1%	2.0%	2.1%
Real GDP	2.4%	2.1%	2.1%	2.3%	2.6%	1.9%	-6.10%	1.9%	2.3%

Source: NBS, ARM Research

More analysis to follow.

³ Bureau De change