

Q3 19 GDP: Financial services steps out of recession

- Data released by NBS revealed the Nigerian economy expanded by 2.28% YoY for the third quarter of 2019, coming ahead of our estimate and revised Q2 19 number of 2.2% and 2.12% respectively. The improvement relative to the prior quarter stemmed largely from sturdy output in services and recovery in agric sector from its downbeat levels. Relative to the prior year, services and agric sectors spearheaded the growth with oil, manufacturing and construction sectors further supporting the growth picture. On a broad breakdown, both oil and non-oil expanded YoY by 6.5% and 1.8% respectively.
- In the services sector, growth flatlined at 3.5% YoY anchored on ICT, financial services and transport sub-sectors. Growth in the ICT sector persisted this quarter, due to expansion in the subscriber base by 9.5% YoY to 177 million subscribers. The major positive for the services sector over Q3 19 is the exit of the financial services sub-sector from recession. Notably, we believe CBN's directive to DMBs to increase LDR to 65% supported activities in this space. Also, road transport was not left out, expanding by 20.2% YoY. However the contraction in the real estate persisted for the second consecutive quarter, declining by 2.3% YoY. Elsewhere, the Agric sector recovered from the downbeat level, expanding by 2.3% YoY, a fallout of improved crop production borne out of mitigated conflict in the northern region.
- Furthermore, contrary to the dour activities seen in the first half of 2019, the manufacturing sector expanded by 1.1% YoY this quarter. Clearly increased output in the cement space stemming from improved capacity as well as a pick-up in food, beverage and tobacco supported growth in the sector. On the flipside, despite improved production in the overall economy and relative currency stability, activities in the trade sector (which accounts for 16% of economic output) remains disappointing, contracting by 1.45% YoY.
- On other front, the oil sector expanded by 6.5% YoY, following improved crude oil production during the period. Crude oil production over the review period printed at 2.04mbpd (+5.2% higher than the prior year), augmented by additional production from the Egina Oil field which resumed operations this year. Also, there was an upward revision to Q2 19 crude production to 2.02mbpd (Previously: 1.98mbpd).

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

	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	FY 18	FY 19E
Agriculture	3.0%	1.2%	1.9%	2.5%	3.2%	1.8%	2.3%	2.1%	2.7%
Manufacturing	3.4%	0.7%	1.9%	2.4%	0.8%	-0.1%	1.1%	2.1%	1.0%
Services	0.5%	4.1%	3.4%	3.8%	3.1%	2.9%	3.5%	3.0%	2.6%
Construction	-1.5%	7.7%	0.5%	2.0%	3.2%	0.7%	2.4%	2.2%	2.1%
Trade	-2.6%	-2.1%	1.0%	1.0%	0.8%	-0.2%	-1.5%	-0.7%	-0.1%
Oil GDP	14.0%	-4.0%	-2.9%	-1.6%	-1.5%	7.2%	6.5%	1.4%	5.4%
Non-Oil GDP	0.8%	2.0%	2.3%	2.7%	2.5%	1.6%	1.8%	2.0%	2.0%
Real GDP	1.9%	1.5%	1.8%	2.4%	2.0%	2.1%	2.3%	1.9%	2.2%

Source: NBS, ARM Research

- For us, while the growth number is positive, we do not expect significant reaction in the equities market given the current investor bias to the Nigerian market as a whole. However, we believe companies in telecoms sector are key players to look out for over the rest of the year and 2020 as there might be some interest following the sector's ability to deliver sturdy growth over the last 7 quarters. On that, we retain our growth forecast of 2.2% YoY over FY 19 with support from both oil and non-oil sectors.
- Disclosure & Disclaimer – [Click here](#)