



Q3 2020 GDP: A recession is confirmed

- Data released by the NBS over the weekend showed a contraction in Q3 2020 GDP of 3.62% YoY, taking Nigeria's economy into a recession. This came in better than our estimate of -5.42% YoY owing to a better than expected performance in the manufacturing and construction sectors. Notably, contractions were seen in both oil and non-oil sector. While the oil sector saw a steeper contraction of 13.9% YoY relative to the prior quarter (Q2 2020: -6.6% YoY), the non-oil sector declined by 2.5% YoY (vs Q2 2020: -6.1% YoY).

Again, a higher level of compliance sends oil sector to the deeps

- To begin, the oil sector contracted 13.9% YoY in Q3 2020 owing to a moderation in crude oil production which printed at 1.67mbpd, in line with our estimate. We believe the lower crude oil production reflects a higher level of compliance from Nigeria to OPEC+ crude oil production cuts. While the agreed production cut was eased to 7.7mbpd in August 2020, from 9.7mbpd in May 2020, Nigeria was expected to compensate for lack of full compliance with the precious limit. Consequently, Nigeria recorded a higher level of compliance with crude oil production (excluding condensates) printing at 1.463mbpd in Q3 2020, relative to 1.617mbpd in Q2 2020, according to OPEC latest numbers.

The rubbles of the pandemic remain in the non-oil sector

- The non-oil sector contracted by 2.5% YoY reflecting contractions across all sectors save the Agric and construction sectors. As we anticipated, the Agric sector expanded by 1.39% YoY, albeit at a slower pace relative to Q2 2020 outturn of 1.58% YoY. For context, the slower growth reflects a contraction of 2.1% YoY in the fishing subsector relative to a growth of 5.7% YoY in Q2 2020. Meanwhile, growth in other subsectors including crop production (Q3 2020: +1.4% YoY) and livestock (Q3 2020: +2.3% YoY) remained flat compared to the prior quarter. We believe below-average access to inputs, amongst other factors curtailed growth in Agricultural activities during the period under review.
- Elsewhere, the manufacturing sector contracted at a slower pace by 1.5% YoY in Q3 2020 (vs Q2 2020: -8.8% YoY) owing to a pickup in production activities compared to H1 2020. To buttress,

recoveries were seen across the cement (+12% YoY vs Q2 2020: -5.6% YoY) and FBT¹ (+5.6% YoY vs Q2 2020: +5.6% YoY), while chemical and pharmaceutical subsector recorded a sturdy growth of 6.6% YoY – the highest growth since Q1 16 as the subsector remains the focus in the fight against the COVID-19 pandemic. However, contractions across other subsectors including TAF² (-12.1% YoY), Oil refining (-68.3% YoY), Non-metallic (-12.2% YoY) amongst other subsectors dragged the manufacturing sector southwards. Unsurprisingly, trade sector contracted by 12.1% in line with our estimate of -13% YoY in Q3 2020, as the confluence of border closure and devaluation in Naira adversely affected the sector.

- On the other hand, services sector contracted by 2.47% as declines in Transport (-43% YoY), Real Estate (-13% YoY) and other services subsectors more than outweighed growth in ICT (+17.36% YoY), Finance (+3.2% YoY) and Health (+2.8 YoY) subsectors. On ICT, we believe increased use of internet services spurred growth, as voice subscriptions grew by 15% YoY to 202.6 million subscribers, while data subscriptions grew by 21.7% YoY to 149.5 million subscribers. Meanwhile, the base effect which led to the double-digit growth in the finance sector since Q4 2019, filtered out of GDP numbers, leading to a slower growth. Elsewhere, resumption in construction activities in Q3 2020 resulted in a 2.8% YoY growth during the period (vs Q3 2020: -31.8% YoY).

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

	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	FY 18	FY 19
Agriculture	2.5%	3.2%	1.8%	2.3%	2.3%	2.2%	1.6%	1.4%	2.1%	2.4%
Manufacturing	2.4%	0.8%	-0.1%	1.1%	1.2%	0.4%	-8.8%	-1.5%	2.1%	0.8%
Services	3.8%	3.1%	2.9%	3.5%	4.0%	3.5%	-2.6%	-2.5%	3.0%	3.4%
Construction	2.0%	3.2%	0.7%	2.4%	1.3%	1.7%	31.8%	2.8%	2.2%	1.9%
Trade	1.0%	0.8%	-0.2%	1.5%	-0.6%	-2.8%	16.6%	-12.1%	-0.7%	-0.4%
Oil GDP	-1.6%	-1.5%	7.2%	6.5%	6.4%	5.1%	-6.6%	-13.9%	1.4%	4.6%
Non-Oil GDP	2.7%	2.5%	1.6%	1.8%	2.3%	1.5%	-6.1%	-2.5%	2.0%	2.1%
Real GDP	2.4%	2.1%	2.1%	2.3%	2.6%	1.9%	-6.1%	-3.62%	1.9%	2.3%

Source: NBS, ARM Research

More analysis to follow.

¹ Food, Beverages and Tobacco

² Textile, Apparel and Footwear.