



Q2:2021 Growth Expansionary, but Calls for Caution

The National Bureau of Statistics (NBS) recently released the GDP numbers for the second quarter of 2021 which showed impressive YoY growth of 5.01% in the economy, marking a third consecutive quarter of output expansion. The remarkable growth registered in Q2:2021 came in much stronger than growth recorded in the previous quarter (Q1:2021, +0.51%), and the growth recorded in the corresponding period in the previous year (Q2:2020, -6.10%). However, it is important to note that the marked growth recorded in Q2:2021 is likely to be short-lived, considering the fact that the effect of the low base from Q2:2020 was a key driver of Q2:2021 growth numbers. Furthermore, on a quarter-on-quarter basis, real GDP contracted by 0.79% in Q2:2021 compared to Q1:2021, reflecting slower economic activity than was witnessed in the first quarter. Consequently, similar growth levels should not be anticipated in subsequent quarters in 2021. The growth witnessed in the second quarter was championed by a rebound in economic activities as the non-oil sector grew by 6.74% YoY in Q2:2021, while a decline in crude production numbers to 1.61mbpd induced a contraction of 12.65% YoY in the oil sector, in the second quarter.

Oil Sector Still Lagging

- In Q2:2021, the Oil sector contracted further by a whopping 12.65% YoY, and on a quarterly basis, the contraction in the sector came in even deeper at -20.35%. We believe the contraction witnessed in the sector was premised on lower production numbers (1.61mbpd vs. 1.72mbpd in Q1:2021 and 1.82mbpd in Q2:2020), despite an uptick in oil prices. In terms of contribution to GDP, we note the decline in the contribution of the oil sector to 7.42% from 9.25% in Q1:2021, despite the uptick in prices and global activities. The drag in production numbers remains a key impediment to the expected growth in the sector and its contribution to GDP.

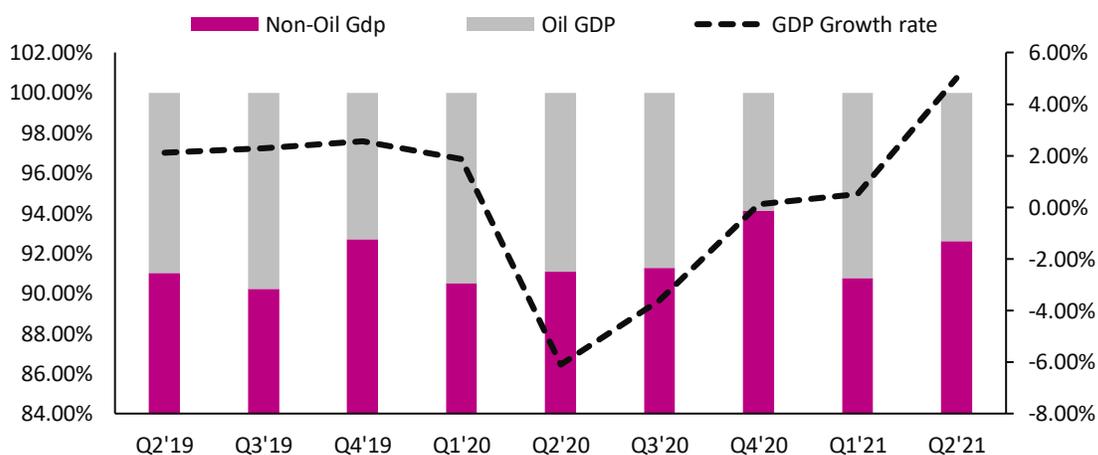
Non-Oil Sector Set for Stronger Growth

- The non-oil sector grew by 6.74% YoY in Q2:2021 and in comparison to Q1:2021, the non-oil sector expanded by 1.21%. The growth recorded in the non-oil sector reflected the slower spread of the COVID-19 virus and an ease in lockdown measures which kicked off a strong rebound in economic activities. The non-oil sector accounted for 92.58% of GDP in the quarter,

marginally higher than its contribution of 90.75% in the preceding quarter and its contribution of 91.07% in Q2:2020.

- The growth in the non-oil sector was primarily driven by upticks in leading drivers of growth, specifically in the area of Trade (+22.49%), Telecommunications and Information services (+5.90%) and Crop Production (+1.38%). We note the resilience of these sectors to continue to deliver strong returns, despite policy changes and regulations which slowed down activity in the sector.
- The Agricultural sector, Trade sector and Telecommunication and Information services sector remained the three largest contributors to GDP with a total contribution of 52.28% to GDP, with respective compositions of 21.21%, 16.66% and 14.42% accordingly. In comparison with Q2:2020, the contribution of all three sectors to GDP improved, as economic activities returned to status quo.
- On a quarterly basis, the Telecommunication and Information services sector was the primary driver of growth, expanding by 22.73%. We believe the strong growth enjoyed in the quarter came on the back of a relaxation of the directive to ban the registration of Sim Cards which proved a major drag to growth in that sector in Q1:2021. We therefore expect the uptick witnessed in the sector to persist in coming periods as the strong drive for data and ICT services.
- Going into the second quarter, we expect to see growth numbers come in at a slower pace than seen in the second quarter. Our expectation is hinged on the absence of a low base like was witnessed in Q2:2021 and a bleak expectation for oil numbers. The case is worsened by insecurity challenges facing crop producers in the food producing regions amidst the supply side challenges in the agricultural sector.

Chart 1: Quarterly GDP Growth rate Trend, Oil and Non-Oil Contributions to GDP



Source: NBS, ARM research