



Q2:2023 GDP Report

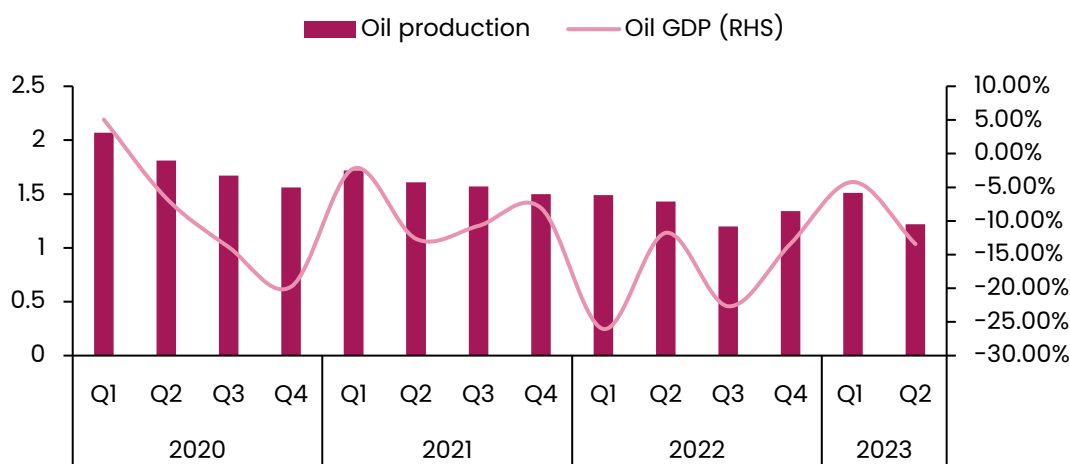
Dismal Oil Sector Suppressed Economic Growth

The National Bureau of Statistics (NBS) recently published its Gross Domestic Product (GDP) report for Q2:2023. Despite economic headwinds, the economy sustained its positive momentum for the eleventh (11th) consecutive quarter since the pandemic-induced recession in H2:2020. GDP printed at 2.51% YoY (vs. 2.31% in Q1:2023; 3.54% YoY in Q2:2022).

Oil Sector: Still in the Abyss

The oil sector remained in the woods for the fourteenth (14th) consecutive quarter (since Q2:2020) with a 13.43% YoY contraction in Q2:2023. We note the sustained plunge in production volume, courtesy of the woes (theft, pipeline vandalism and weak infrastructure) plaguing the oil sector. Specifically, oil production in Q2:2023 plunged by 12.30% to an average of 1.22MMbpd when compared to Q2:2022 and 15.57% when compared to Q1:2023.

Figure 1: Trend in Oil Production vs Oil GDP



Source: NBS, ARM Research

Non-Oil Sector: A Gradual Recovery

On the other hand, the non-oil sector sustained its positive trajectory, growing by 3.58% YoY in Q2:2023 (vs. 2.77% YoY in Q1:2023; 4.77% YoY in Q2:2022). The sector's growth was spurred by improvements in Information and Communication, Financial and Insurance, Trade, Agriculture, Manufacturing, Construction, and Real Estate sectors.

The agriculture sector rebounded in Q2:2023, growing by 1.50% YoY, following a contraction of 0.90% YoY in Q1:2023 which is an offshoot of the cash crunch crisis in the period. This resurgence in the sector was driven by growth in two of its sub-sectors, Forestry (1.88% YoY) and Fishing (0.29% YoY).

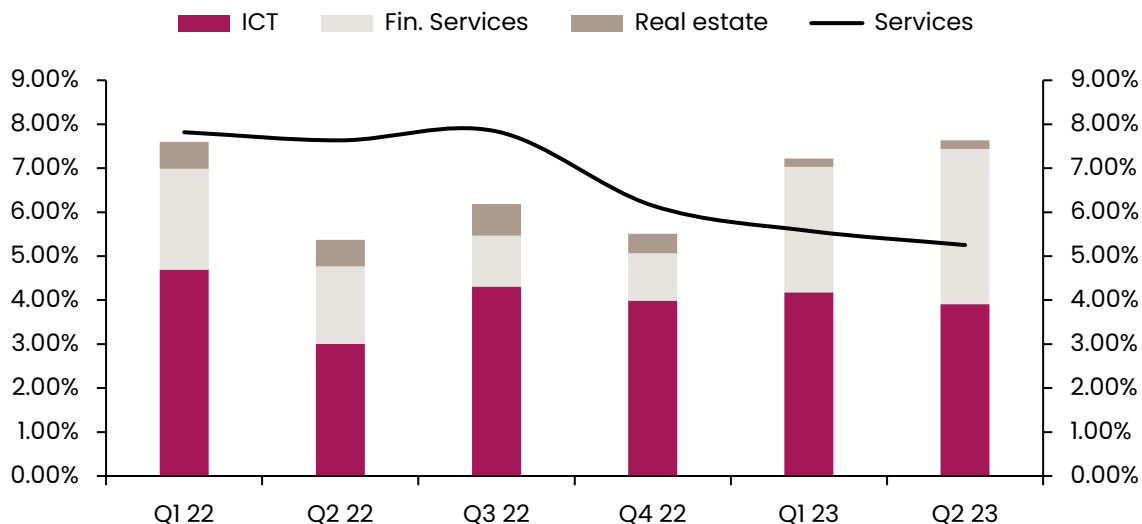
Furthermore, the Manufacturing sector grew by 2.20% in Q2:2023 (vs. 1.61% in Q1:2023). This was buoyed by growth in Food, Beverage, and Tobacco (+4.33% YoY), as well as Cement (+3.34% YoY). The growth in the Manufacturing sector is further depicted by the increase in the average Stanbic Purchasing Managers' Index (PMI) for Q2:2023, which increased to 53.67 points from 46.83 points in Q1:2023. This represents improved performance following the cash scarcity that permeated Q1:2023.

In addition, the Information and Technology sector maintained its upward trajectory, as it expanded by 8.60% YoY, slightly slower than the 10.32% YoY growth recorded in Q1:2023. This was on the back of a slowdown in the sector's major contributor, Telecommunications, and Information Services sub-sector, which grew by 9.74% YoY (vs. 11.71% YoY in Q1:2023). We allude this to a fall in subscriber base in Q2:2023 (an average of 221.67mn vs 226.52mn in Q1:2023).

In the Financial and Insurance sector, we observed improved growth of 26.84% YoY in Q2:2023 (vs. 21.37% YoY in Q1:2023). Similarly, the Trade sector grew by 2.41% YoY in Q2:2023 (vs. 1.31% YoY growth in Q1:2023) owing to increased use of e-commerce channels and improved trading activities, post-cash scarcity.

The Construction and Real Estate sectors grew by 3.42% YoY and 1.87% YoY respectively, in contrast to the 3.27% YoY and 1.70% YoY each recorded in Q1:2023. These improved growth rates underscore increased activity and investments within these sectors.

Figure 2: Attribution Analysis of Services GDP Sector Growth and Key Sub-Components



Source: NBS, ARM Research

Outlook: Government Policies May Hinder Growth

In Q3:2023, we expect GDP to witness a slowdown given the impact of the removal of Premium Motor Spirit (PMS) subsidy and the FX liberalization on economic activities. We expect that elevated energy prices, interest rates and recent FX pressures will negatively impact manufacturers in the non-oil sector. Furthermore, we opine that persistent inflationary pressures would affect consumers' purchasing power and ultimately the growth of the trade sector. In this light, we expect growth to range between 1.51% to 2.95%.

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