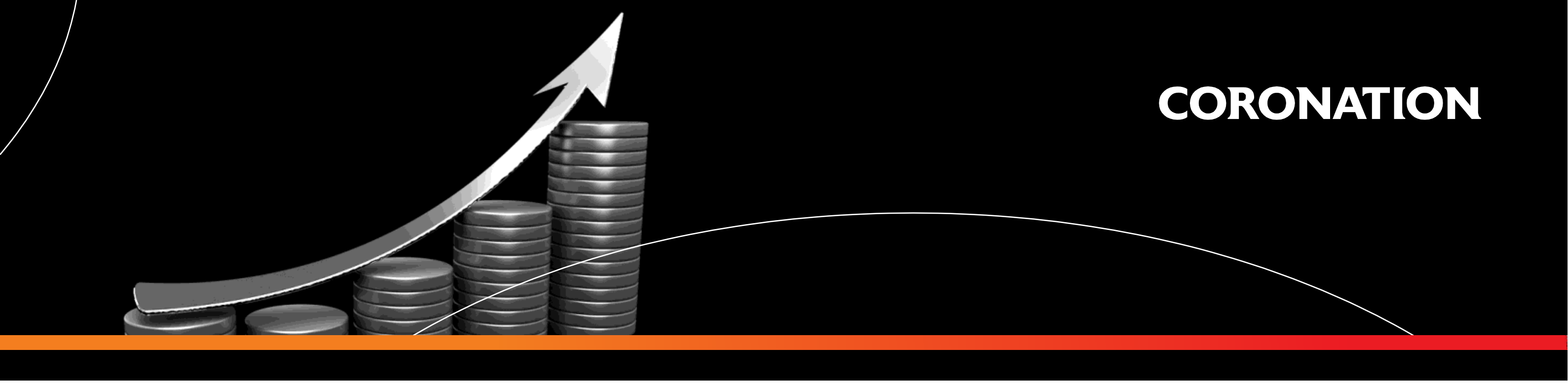


Coronation Economic Note

27 May '22

Q1 GDP figures in focus

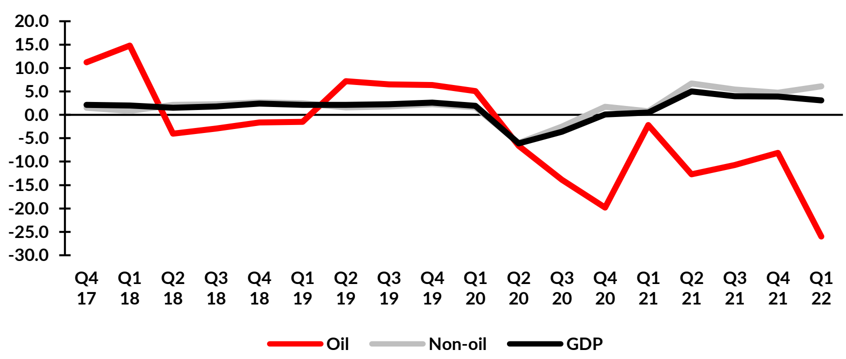
The latest national accounts released by the National Bureau of Statistics (NBS) show that GDP grew by 3.1% y/y in Q1 '22 compared with 3.9% y/y in Q4 '21. This growth can be partly attributed to positive base effects (GDP grew by 0.51% y/y in Q1 '21) and CBN interventions in key sectors. On a q/q basis, it contracted by -14.7%, reflecting slower economic activity compared with the preceding quarter. The oil economy contracted by -26.0% y/y in Q1, compared with -8.1% y/y recorded in Q4. Meanwhile, the non-oil economy grew 6.1% y/y in Q1 '22 compared with 4.7% y/y in Q4 '21.

Over the past eight quarters, the oil economy has contracted by an average of -12.5% y/y. Bonny light increased by 46.2% from USD76.3/b at end-December '21 to close at USD11.5/b at end-March '22. Oil prices continue to be influenced by the relatively healthy demand, the Russia-Ukraine crisis, and supply constraints as OPEC+ struggle to meet production targets. According to the latest monthly OPEC report, production in April '22 averaged 37.7mb/d. This is below the 41.3mb/d target. Brent and Bonny Light stood at US116/b and USD121.7/b respectively at 24 May '22.

Based on data from the NBS, average crude oil production (condensates inclusive) in Q1 was 1.49mbpd compared with 1.50mbpd in the previous quarter and 1.72mbpd in Q1 '21. As at end-March, the OPEC production quota for Nigeria was 1.7mbpd. Meanwhile, the revised FGN oil production benchmark is 1.6mbpd. The sector has suffered from production shut-ins as a result of massive theft of crude oil between production platforms and terminals over the past months. The performance of this sector also reflects the impact of low investment, poor infrastructure, and divestments by international oil companies of their onshore assets.

According to data from the Nigerian Upstream Petroleum Regulatory Commission (NUPRC), in Q1 '22, crude oil production (condensates inclusive) declined across the Bonny (-49.0% y/y), Brass (-21.7% y/y), Qua Iboe (-13.3% y/y), Escravos (-18.9% y/y), Agbami (-13.8% y/y), Egina (-2.5% y/y), Bonga (-7.3% y/y), and Forcados (-3.5% y/y) production terminals. These terminals jointly contributed 68% to total crude oil production in Q1 '22. Overall, the oil sector contributed 6.6% to the total GDP in Q1 '22.

Real GDP, non-oil and oil growth (% change y/y)



Source: NBS, Coronation Merchant Bank Research

Indicators	NG
Inflation rate (April '22, %)	16.82
GDP (Q1 '22, %)	3.11
Gross Official Reserves (26 May '22, USD bn)	38.6
UK Brent (26 May '22, USD)	117.4

Source: Bloomberg, CBN, NBS, Coronation MB Research

T-bill yields (27 May '22, %)			
14-Jul-22	13-Oct-22	09-Mar-23	11-May-23
3.02	3.50	4.67	4.92

FGN bond yields (27 May '22, %)			
14.20%	13.98%	12.15%	12.40%
Mar-24	Feb-28	Jul-34	Mar-36
7.63	11.05	12.33	12.75

Source: FMDQ, Coronation MB Research

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Q1 GDP figures in focus

Within the non-oil economy, agriculture grew by 3.2% y/y in Q1 compared with the 3.6% y/y recorded in the preceding quarter. Agriculture accounted for 22.4% of total GDP in Q1 ‘22. The sector's performance can be partly hinged upon CBN-led interventions within the sector. The CBN has disbursed a total of N1.0trn under the Anchor Borrowers Program (ABP) for the cultivation of rice, wheat, and maize. Crop production is the primary beneficiary of the interventions and the driver of growth within the agriculture sector. The segment accounted for 87% of agriculture GDP and grew by 2.9% y/y.

The livestock, forestry, and fisheries segments also grew by 5.6% y/y, 1.4% y/y, and 3.1% y/y respectively. We note that N136.1bn has been disbursed under the Agri-Business Small and Medium Enterprises Investment Scheme (AgSMEIS) for activities in fish, poultry, livestock, rice, and wheat farming among others. Under the Commercial Agriculture Credit Scheme (CACS), a total of N741.1bn has been disbursed for the establishment of ranches, and the purchase of medication for livestock/dairy production. However, the agriculture sector is still challenged by insecurity in major food-producing areas as well as storage and logistics difficulties, among others.

For fisheries, the Federal Department of Fisheries & Aquaculture in collaboration with state governments is set to begin the registration and categorisation of fish farms across the country to encourage export, inspection and data collection. On a separate note, according to Norwegian customs, Nigeria can now export fish into Norway at zero duty provided the products meet standards and quality in terms of chemicals used during the breeding process and packaging. However, fish exporters in Nigeria can only benefit from the zero-duty when the ban on fish imports from Nigeria is lifted by the European Union.

As for livestock, smallholders and nomadic herders are dominant. Formal private players are relatively limited but growing, particularly in the poultry sub-sector. The significant rise in demand for animal-source foods presents business opportunities across the livestock value chain. However, this segment faces challenges such as low breed quality, poor animal husbandry practices, limited access to quality input and finance, weak animal health and extension service delivery, livestock herder and crop farmer conflicts, cattle rustling, banditry, and other security challenges. The national livestock transformation plan (2019-2028) provides a roadmap for modernizing livestock production, (dairy and beef processing).

Returning to the national accounts, manufacturing posted a y/y growth of 5.9% y/y in Q1 compared with 2.3% y/y recorded in Q4 ‘21. Within the sector, the food, beverages, and tobacco segment which accounts for 50% of total manufacturing GDP, grew by 9.8% y/y in Q1 '22. From the recently released FY ‘21 results, we note that most of the consumer goods companies recorded impressive revenue growth driven by price increases. Food staple producers were able to implement more robust price increases due to the inelastic nature of the demand for their products. As for brewers, healthy revenue growth was also recorded across listed companies. However, FMCGs remain challenged by elevated inflation affecting operating costs and consumer wallets.

The cement segment grew by 9.6% y/y for Q1 '22. We note that listed cement companies recorded revenue increases in Q1 ’22. Meanwhile the textile, apparel, and footwear segment contracted by - 1.2% y/y for Q1 '22. To support the manufacturing sector, the CBN has disbursed a total of N2.1trn to greenfield and brownfield projects under the N1trn Real Sector Support Facility (RSSF).

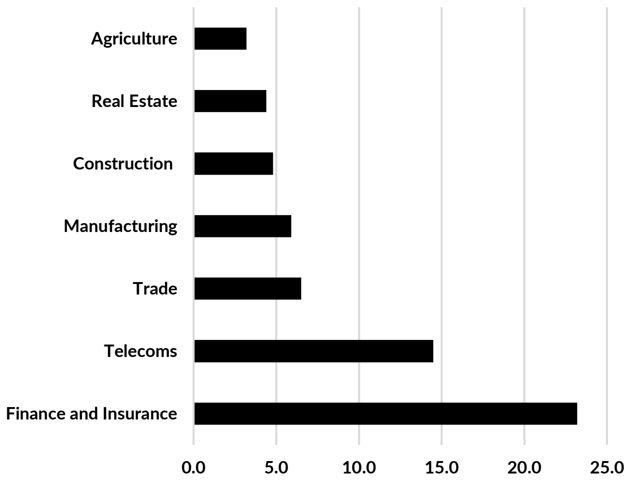
The telecommunications segment grew by 14.5% y/y in Q1 '22, compared with 5.3% y/y recorded in Q4 ‘21. The segment continues to benefit from modest growth in subscriptions and increased usage from existing subscribers. As businesses adjust to the new hybrid work structure, there has been increased demand for data which has supported the significant boost. Fintech and digital services have also contributed to growth in this segment. Data from the industry regulator show that the number of telephone service subscriptions and internet (via mobile) subscribers increased by 2.1% y/y and 2.7% respectively in Q1 ’22.

Trade grew by 6.5% y/y in Q1 '22, compared with 5.3% y/y recorded in Q4 ‘21. Trade accounted for 16.1% to total GDP in Q2 ‘22. The successful implementation of the AfCFTA should boost intra-African trade, but this is hinged upon successfully tackling supply-side constraints such as poor infrastructure and closing trade financing gaps, among others. We note that the CBN has released N21bn under the Export Facilitation Initiative (EFI), for three projects in domestic production and value addition of cocoa and sesame seed. This intervention is targeted at expanding the non-oil export basket and improving fx revenue earnings.

Based on the broad contributions to total GDP, agriculture, industry, and services accounted for 22.4%, 21.5%, and 56.2%, respectively of total GDP in Q1 ‘22. The positive y/y growth recorded across sectors, which accounted for at least 1% of total GDP was mostly within services. The services category remains a core growth driver.

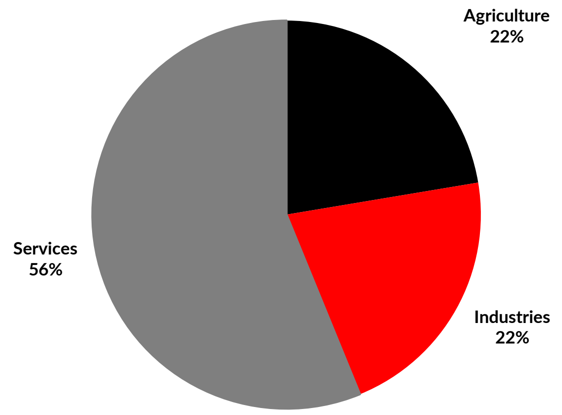
Looking ahead, the CBN expects steady GDP growth but at a subdued pace, due to headwinds associated with unfolding domestic and external shocks to the economy. These headwinds include the effects of the ongoing Russia-Ukraine crisis as well as persisting supply chain disruptions in major trading routes. Furthermore, China is confronted with the spread of COVID-19, and its zero-covid policy is leading to the total lockdown of manufacturing hubs/cities.

Non-oil sectors, Q1 '22 (% change; y/y)



Sources: NBS, Coronation Merchant Bank Research

Broad contribution to total GDP, Q1 '22



Sources: NBS, Coronation Merchant Bank Research

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