

Nigeria's Q3 2021 GDP Performance

a look at what matters

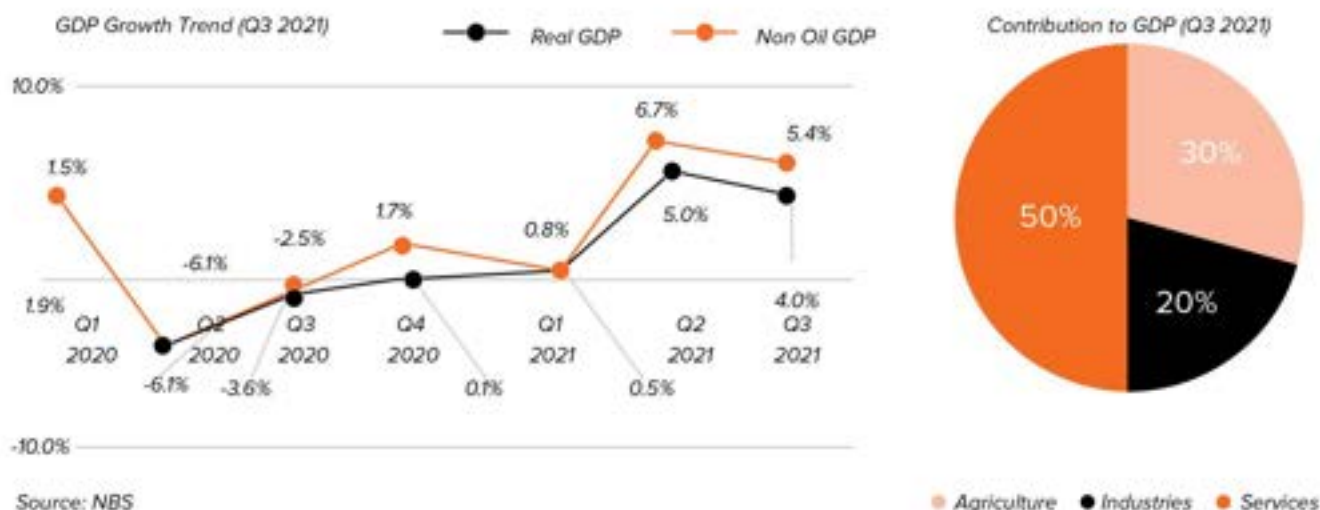
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Highlights:

- Nigeria's real GDP grew by 4.0% YoY and 11.1% QoQ in the third quarter of 2021. This is the fourth successive positive quarterly growth since Q4 2020.
- Economic output for the quarter stood at N45 trillion, compared to N39 trillion in Q3 2020; a 15.4% nominal YoY growth.
- The top six most resilient economic sectors accounted for approximately 60% of Nigeria's GDP in Q3 2021. This has important policy and business implications.
- Our model forecasts approximately N179 trillion (\$435billion) nominal GDP for the full year 2021; and a c.1.5% real growth.

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Twenty-one months since the COVID-19 pandemic hit the Nigerian economy, the Q3 2021 Gross Domestic Product (GDP) data from the National Bureau of Statistics (NBS) suggest very impressive recovery trend. Real GDP reportedly grew by 4.0% year-on-year (YoY), compared to -3.6% in Q3 2020. The nominal GDP for Q3 2021 was also up 15.4% (YoY), compared to 3.9% in Q3 2020. On quarter-on-quarter (QoQ) basis, the real GDP grew by 11.1% (compared to -0.3% in Q2 2021), whilst nominal GDP also grew by 15.7% QoQ, better than the -2.2% recorded in Q2 2021. These are reflective of higher economic activity and sustained recovery. This report reviews the Q3 2021 GDP performance with a view to highlighting economic sectors that have remained resilient in the past four quarters, and implications for businesses and policy makers



The oil sector which now accounts for 7.5% of the GDP declined by 10.7% YoY (12.1% growth QoQ) in Q3 2021. The performance of the Nigerian oil and gas sector has remained sub-optimal, recording consistent decline (11.0% on the average) in the last six quarters. Average crude oil production in Q3 2021 was 1.57 million barrels per day (mbpd), 6.0% below the average production in Q3 2020 and 0.27mbpd below 2021 budget assumption. On the flip side, average Brent crude oil price increased 76.0% from 43\$pb in Q3 2020 to 76\$pb in Q3 2021, partly responsible for the \$6billion year-to-date growth in the foreign reserves to \$41.4billion. Nonetheless, capital importation to the sector increased from \$47.3million in H1 2019 to \$68.6million in H1 2021 as the fate of the sector continues to hang on the smooth implementation of the new Petroleum Industry Act, 2021.

The non-oil sector accounts for 92.5% of the GDP and has shown impressive resilience (3.7% average growth) in the last four quarters, offering greatest sustainable growth potential. The sector grew by 5.4% YoY in real terms (6.7% in Q2 2021) and driven by activities in the trade, ICT, manufacturing, finance & insurance, amongst others. Despite value chain dislocations that came with the pandemic, a few non-oil economic sub-sectors performed relatively well and are forecast to sustain positive growth trend in the mid to long-term.

The top six non-oil economic sectors that have shown best resilience in the last four quarters account for approximately 60% of Nigeria's GDP. Amongst these sectors were Agriculture, Construction, ICT Services, Real Estate, Food, Beverage & Tobacco and Cement. These sectors collectively have the capacity to deliver superior economic diversification outcomes for the country and should ideally form the core of mid to long-term economic policy. Businesses that operate in these resilient sectors also have great potentials for non-linear sustainable growth. These sectors must be supported with policies that ease market frictions, attract private capital and promote entrepreneurial capabilities.

Top resilient economic sectors in Nigeria (real YoY growth)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	2021e (N'tn)
Agriculture	2.2%	1.6%	1.4%	3.4%	2.3%	1.3%	1.2%	38.95
Construction	1.7%	-5.5%	12.0%	6.6%	11.2%	3.9%	5.7%	15.55
ICT Services	1.1%	-3.0%	5.6%	2.1%	7.1%	4.9%	6.1%	13.57
Real Estate	0.6%	3.8%	6.6%	-0.8%	3.9%	9.2%	10.0%	8.49
Food, Beverage & Tobacco	1.0%	6.9%	7.0%	2.0%	3.3%	4.8%	5.0%	8.40
Cement	1.7%	31.8%	2.8%	1.2%	1.4%	3.7%	4.1%	5.49
Professional, Sci. & Tech. Services	9.7%	18.1%	17.4%	17.6%	7.7%	5.9%	10.9%	4.55
Human Health & Social Services	-4.8%	22.0%	13.4%	2.8%	1.8%	3.8%	2.3%	1.03
Real GDP	1.9%	-6.1%	-3.6%	0.1%	0.5%	5.0%	4.0%	
Non-Oil GDP	1.5%	-6.1%	-2.5%	1.7%	0.8%	6.7%	5.4%	

Note: Green shades indicate periods when sector growth exceeds real economic growth rate

Source: NBS

The Agriculture sector



+7.9%

The Agriculture sector grew by 7.9% YoY in nominal terms in Q3 2021 (compared to 13.5% recorded in Q3 2020).

The Agriculture sector grew by 7.9% YoY in nominal terms in Q3 2021 (compared to 13.5% recorded in Q3 2020). Real growth in the sector has declined progressively from 3.4% in Q4 2020 to 1.2% by Q3 2021. Understandably, quarterly growth in crop production (which accounts for 89% of agriculture output) has declined from a recent peak of 22.5% in 2020 Q1 to 7.6% in Q3 2021. Agriculture accounts for 35% of employment in the country and dominant source of livelihood for 99 million rural population in Nigeria. Major policy interventions are necessary to revive the Nigerian agricultural sector and avert possible food crisis. Policy objectives must be targeted at reducing chronic vulnerabilities and risks in the food producing zones, whilst supporting new technologies and innovation across the entire value chain.

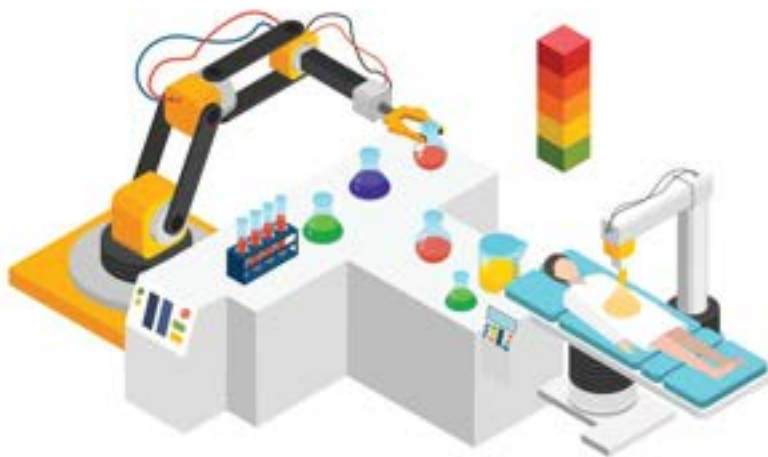


The Construction sector



The Construction sector grew by 47.7% YoY in nominal terms, with a 7% average real growth in the last four quarters. Its contribution to total real GDP was 3.22% (3.21% in Q3:2020). Estimated at about N16trillion Naira, the sector has recorded a 6.9% average real growth in the last four quarters. Major drivers of recent growth have been the increase in private infrastructure projects in the country, annual increases in capital expenditure by the President Buhari led administration amongst other factors. Opportunities in the Nigerian construction sector abound, as stakeholders make efforts to address the USD1.5trillion infrastructure gap in the country, from insufficient road network to housing for low-income earners. Given the proven linkages between the construction sector and other economic sectors, policy makers must promote increased public and private investment in infrastructure. A good start will be a religious implementation of the Integrated Infrastructure Master Plan (2020-2043) which targets a USD150 billion annual investment in infrastructure projects over the mid-term (2021 -2025).

The ICT Sector



+ 6.1%

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The ICT Sector recorded 6.1% YoY real growth in Q3 2021; and 11.2% in nominal terms. Valued at N13.3trillion (14.0% of the GDP), the sector has shown impressive resilience in the last four quarters with an average real growth of 5.1%. As of September 2021, Nigeria has approximately 191 million active telephony subscribers and a teledensity of 99.9%. Broadband penetration stands at 40%, with 76 million active subscriptions. The opportunities in the Nigerian ICT sector are enormous. Technology is a necessary input in the production process across virtually all economic sectors and offers great potential for the country's economic growth. The country has outlined a 10-year National Digital Economy Policy and Strategy (NDEPS), targeted at leveraging the opportunities ICT offers to drive growth. This is a good start.

The Real Estate sector



The Real Estate sector expanded by 10% YoY in Q3 2021 and has sustained a positive quarterly YoY growth trend since Q1 2021, save for Q4 2020 when it declined by 0.8%. Real quarterly growth in 2021 has averaged 7.7%, following increased activities in the residential, construction, and Industrial segments of real estate market as the pandemic restrictions ease. The Nigerian real estate sector is valued at N8.5 trillion and forecast to sustain a growth trajectory as stakeholders scale private and public investment to address the 20 million housing gap in Nigeria. The country must now review the Land Use Act 1978 with emphasis on housing delivery as opposed to land ownership. This should be accompanied by the elimination of institutionalized bureaucracies involved in land acquisition and perfection of land title. Commercial banks, mortgage finance institutions and regulators need to urgently work out a framework to reduce and keep effective mortgage finance interest rate to sub 10%.

Food, Beverage & Tobacco



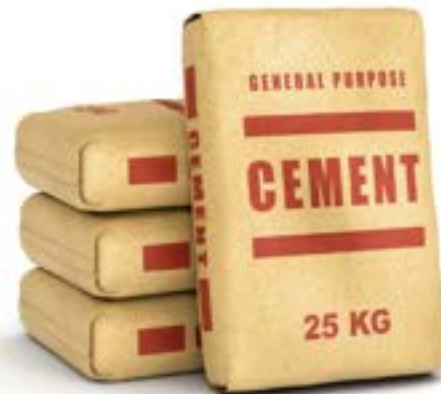
+5.0%

The sector expanded by 5.0% YoY and 14.6% QoQ respectively in Q3 2021, with 4.3% average growth every quarter since Q1 2020.

Food, Beverage & Tobacco sub-sector accounts for 37% of the total manufacturing sector output in Nigeria, and 5% of the country's GDP. The sector expanded by 5.0% YoY and 14.6% QoQ respectively in Q3 2021, with 4.3% average growth every quarter since Q1 2020. Driven largely by the country's favourable demographics and the consumption behaviours of Nigerians, the sector holds great potential for the country's manufacturing output and employment creation. We believe that the African Continental Free Trade Area (AfCFTA) also offers great prospects for the Nigerian Food, Beverage & Tobacco sector as the coming open borders sets new page for Intra-African trade. However, policy makers must urgently address the challenges of poor infrastructure (especially power and transport), access to credit (especially for SMEs), access to foreign exchange and complex bureaucracy.

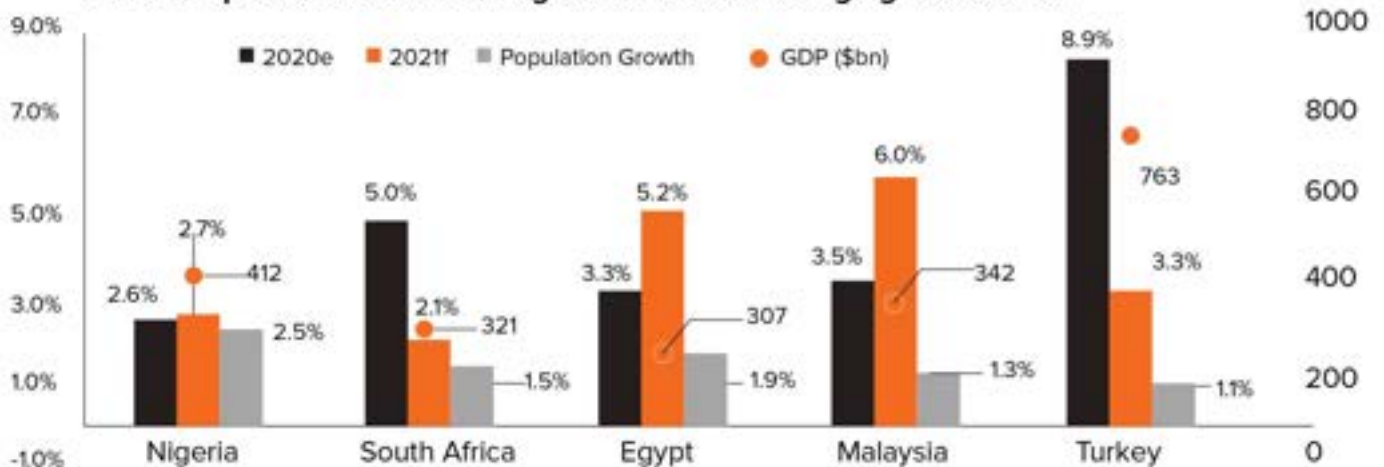
Cement

Cement is another sector the country must pay a close attention to. The sector accounts for 18.0% of manufacturing output in Nigeria and 2.0% of the country's GDP. It grew by 4.1% YoY in Q3 2021 and has sustained a positive (3.1% average) quarterly growth in 2021. The impressive performance in Q2 and Q3 2021 is connected to the reopening of economic activities in Nigeria and other west African markets. This is also evident in the financial performance of the three major players in the cement industry, Dangote Cement, Lafarge and BUA Cement which grew 9-months 2021 sales revenue by 34.2%, 21.9% and 19.0% respectively. Looking ahead, the sector remains promising as government spending on capital projects continues, amidst increased demand from the real estate sector. Policy must position the sector for healthy competition through elimination of entry barriers, whilst allowing market forces to achieve cost reflective (lower) equilibrium price, and output. The Nigerian economy is forecast to attain 2.6% and 2.7% respective growth in 2021 and 2022 respectively by the International Monetary Fund



(IMF). With a population of approximately 206 million people growing at of 2.5% (fertility rate of 5.32 births per woman), the country would require a >5% GDP growth over a 5-year period to lay a foundation for notable economic development. Amongst the three largest economies in Africa (Nigeria, South Africa, Egypt), Nigeria has the lowest 2020 estimated growth, and the lowest per capita income estimated at \$2,000 (South Africa: \$6,040; Egypt: \$3,000). Other relatively similar emerging economies outside Africa (Malaysia and Turkey) have higher 2021 growth forecast (3.5% and 8.9% forecast respectively). Per Capita income in Malaysia is \$10,580, and \$9,050 in Turkey.

GDP & Population Growth in Nigeria vs. Select Emerging Economies



Sources: IMF, World Bank

So, what does the 4% Q3 2021 real GDP growth mean to an average Nigerian or business? Whilst the index gives a sense on the direction of economic output, it fails to communicate economic progress, standard of living and inclusiveness. Nigeria ranks 131 out of 190 countries on the World Bank Doing Business Index. Unemployment is currently at 33%, whilst food inflation hit 20.75% in October 2021. Some 83 million Nigerians (41% of the population) live below the N137,430 per annum poverty line. These are equally important macroeconomic indices begging for some serious attention.

Verraki's Real Sector practice can help you navigate rapidly changing markets to leapfrog business hurdles, capture new opportunities and create value. Our team can help position your organization to compete profitably in the African real sector space. Talk to one of our experts today to learn more.

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A fusion of two words: 'Versorium' (Latin for Turn Around) and 'Meraki' (Greek word used to describe the action of doing something with soul, creativity, pouring oneself into a task), Verraki aptly captures the essence of our company; to turn around African enterprises and governments via smart, future-focused solutions and business insights, new growth opportunities, helping to unleash their potential, turnaround their performance and achieve the seemingly impossible, with the sole goal of creating a better future for Africa.

We are committed to enabling the African (start-up) story by supporting high-impact socially-conscious entrepreneurs and catalysing self-sustaining enterprises and governments within the continent to deliver affordable services across critical sectors.

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Our seasoned executives and team have a broad range of multibillion-dollar P&L experience delivering long-term growth and optimisation vision, strategies, and management at global Fortune 500 companies.

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