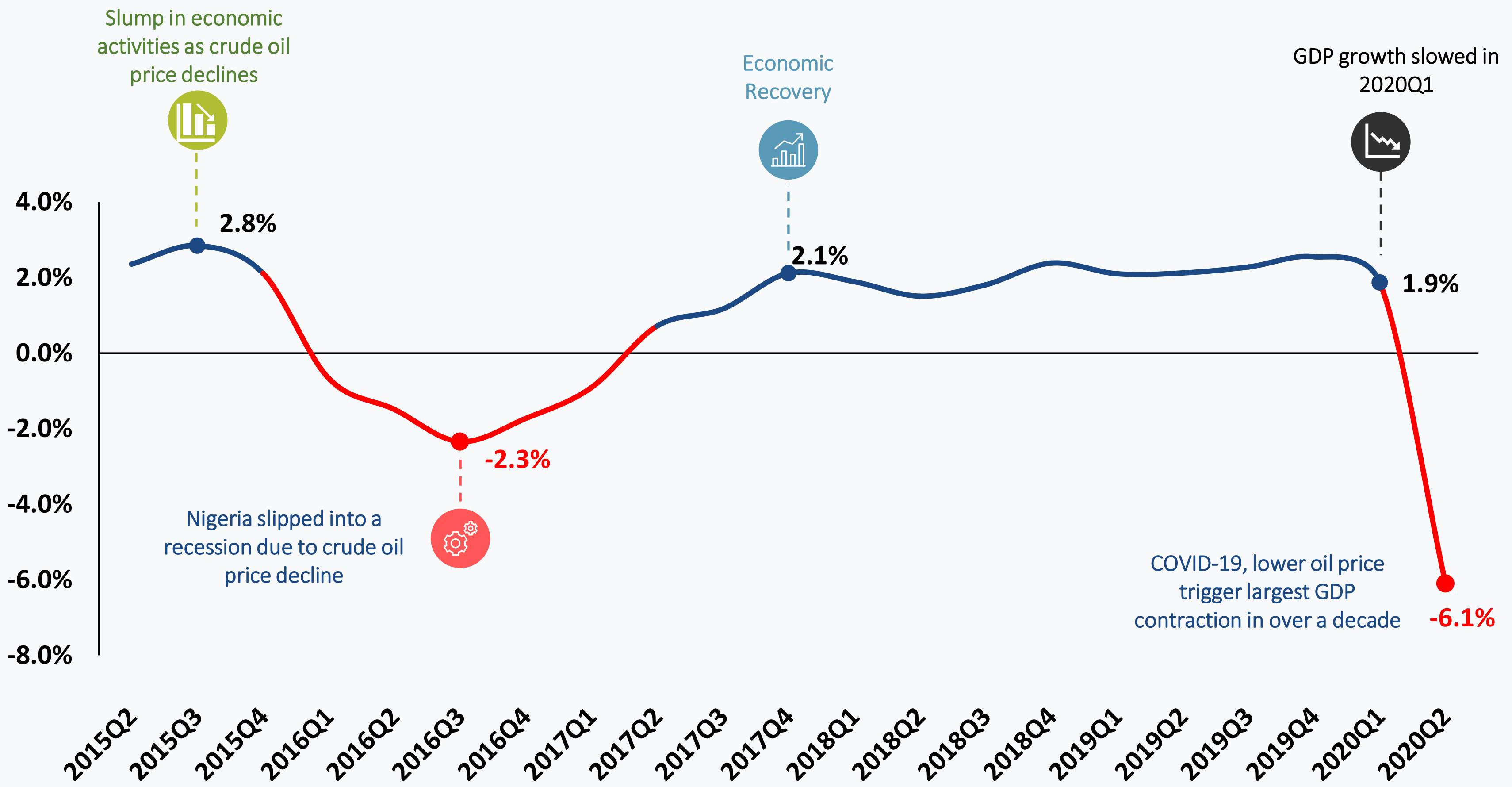
GDP and Inflation Report 2020 Q2

Nigeria faces severe stagflation as GDP declines, Unemployment & Inflation rise

August 2020

The Nigerian economy contracts by -6.1% in 2020Q2

Nigeria's GDP Growth Rate



Data Source: National Bureau of Statistics

- **The Nigerian economy contracted by -6.1% in the second quarter of 2020.**
- **This represents the highest quarterly decline since the first quarter of 2004 (-7.6%).**
- **The contraction in GDP was as a result of the decline in crude oil price and the implementation of lockdown and movement restrictions due to COVID-19.**
- **Nigeria joins the list of countries - South Korea (-3.3%), Singapore (-41.2%), US (-9.5%), Germany (-10.1%) - that experienced GDP contraction in Q2.**
- **For full-year 2020, we expect the economy to contract by 4.6%.**

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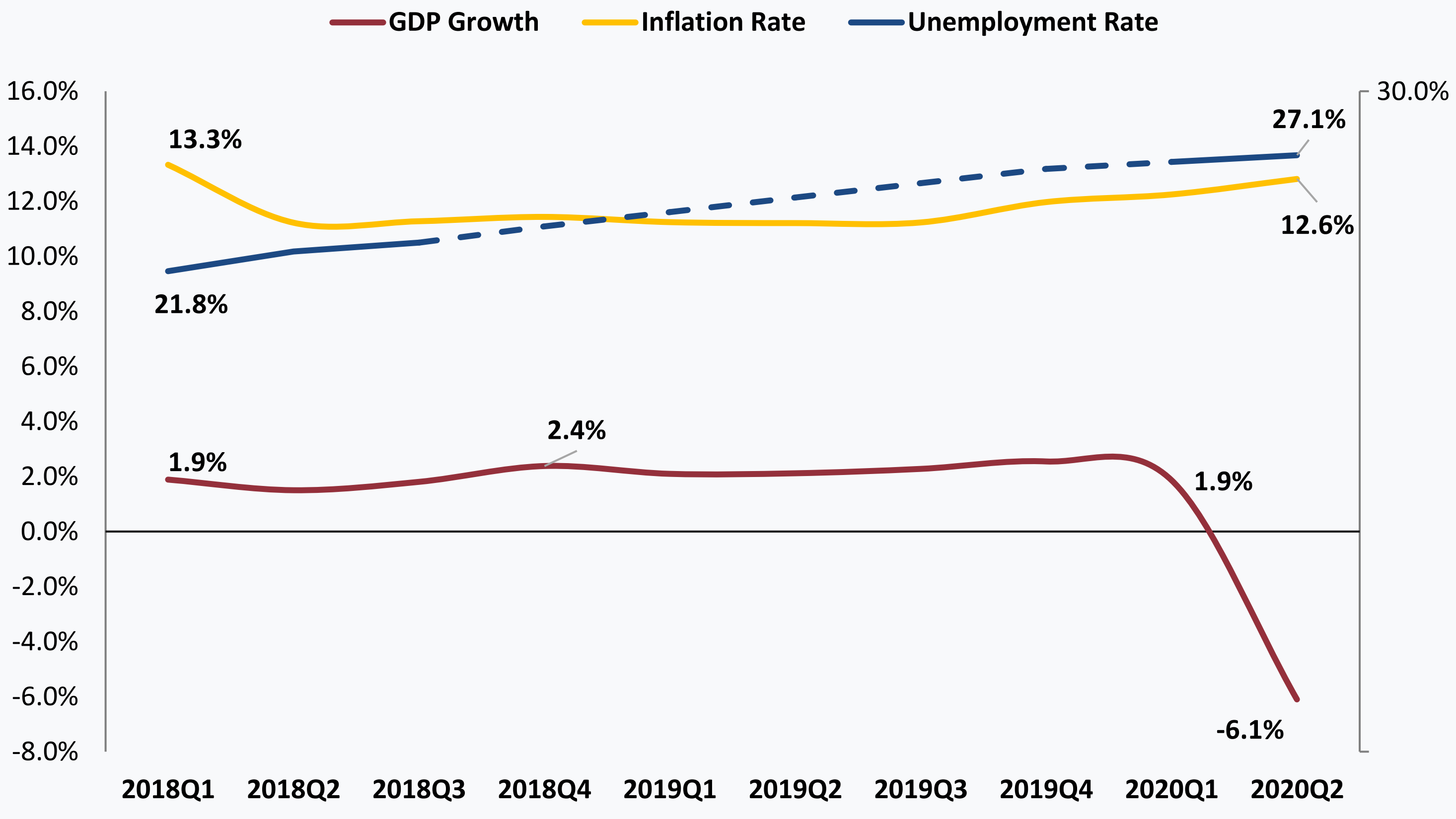
Nigeria faces severe stagflation as GDP declines, Unemployment & Inflation rise

Real GDP, Inflation Rate and Unemployment Rate



***Right axis represents unemployment rate*

- - - - represents period with no official unemployment data

- **The impact of COVID-19 was largely felt on output, employment and inflation.**
- **With COVID-19, many companies engaged in non-essential items were forced to shut down operations.**
- **As a result, the total number of individuals employed in the country declined to 35.6 million in 2020 Q2. Unemployment rate rose to 27.1% in the quarter.**
- **Key sectors such as Agriculture, Trade and Manufacturing experienced significant job losses.**
- **A fall in output was also accompanied by rising prices with inflation rate at 12.6% in June 2020. Supply bottlenecks and value chain disruption were largely responsible for the rise in inflation.**

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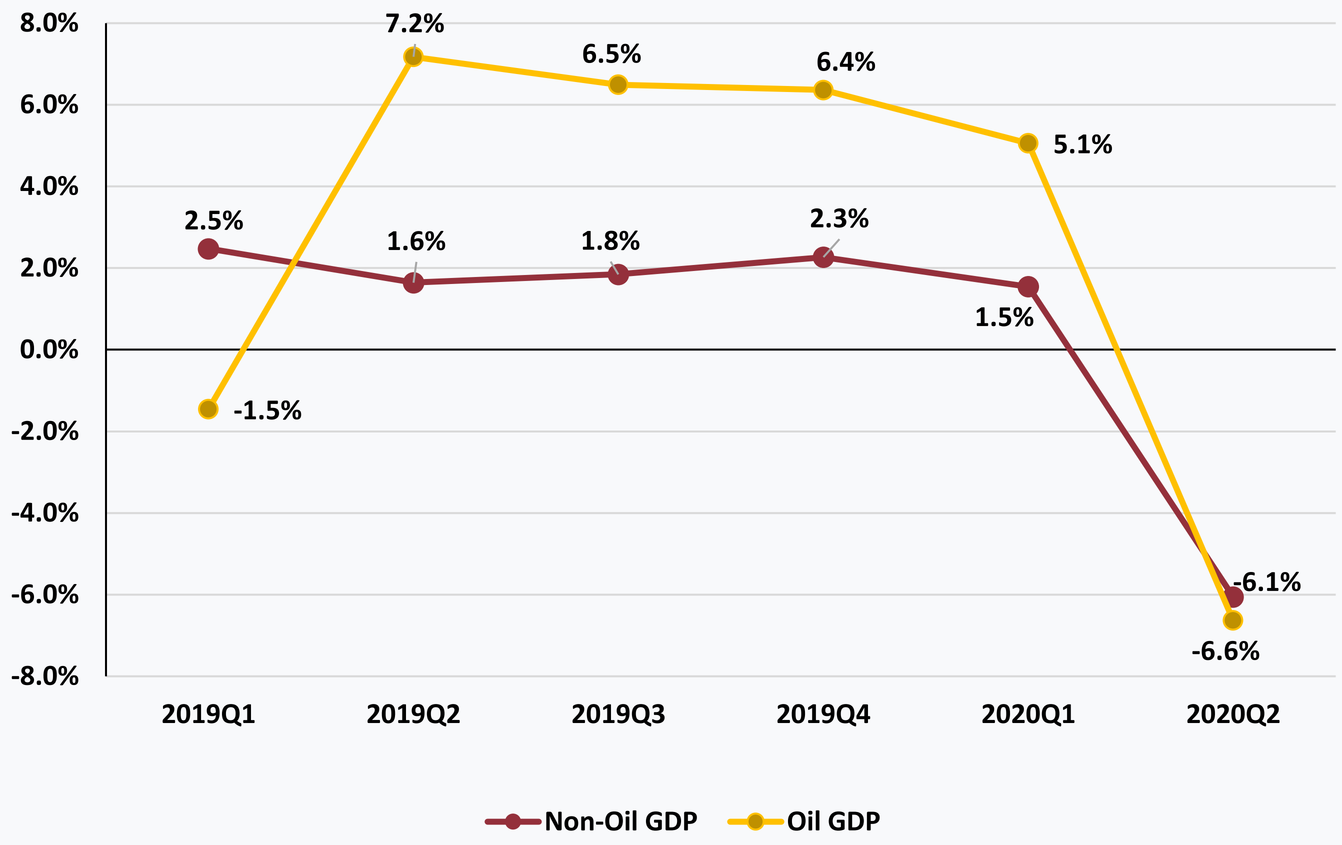
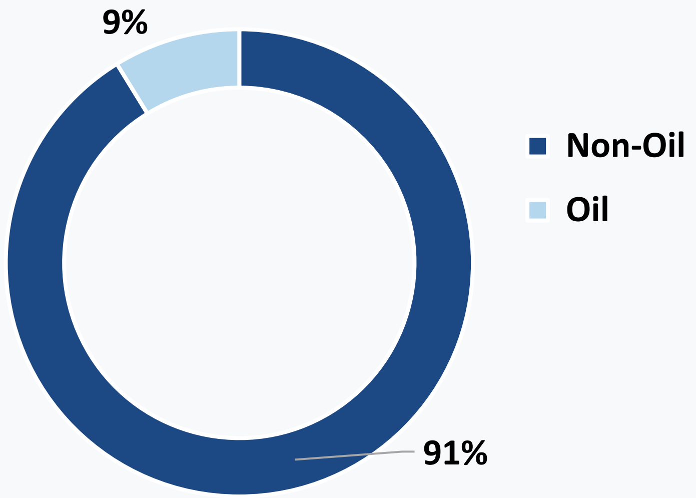
Data Source: National Bureau of Statistics

Both Oil & Non-Oil GDP declined in 2020Q2 as a result of COVID-19

Growth of Oil & Non-Oil GDP



Share of Oil & Non-Oil GDP in 2020Q2



- The oil sector reversed its positive growth trend and declined by 6.6% in the second quarter of 2020.
- Lower crude oil production in the quarter, mainly as a result of low demand, led to a contraction of the sector.
- The non-oil sector which had been resilient was also affected by the lockdown and restrictions.
- The sector's output declined by 6.1% in the quarter. Manufacturing and services led the sector's decline.

Data Source: National Bureau of Statistics

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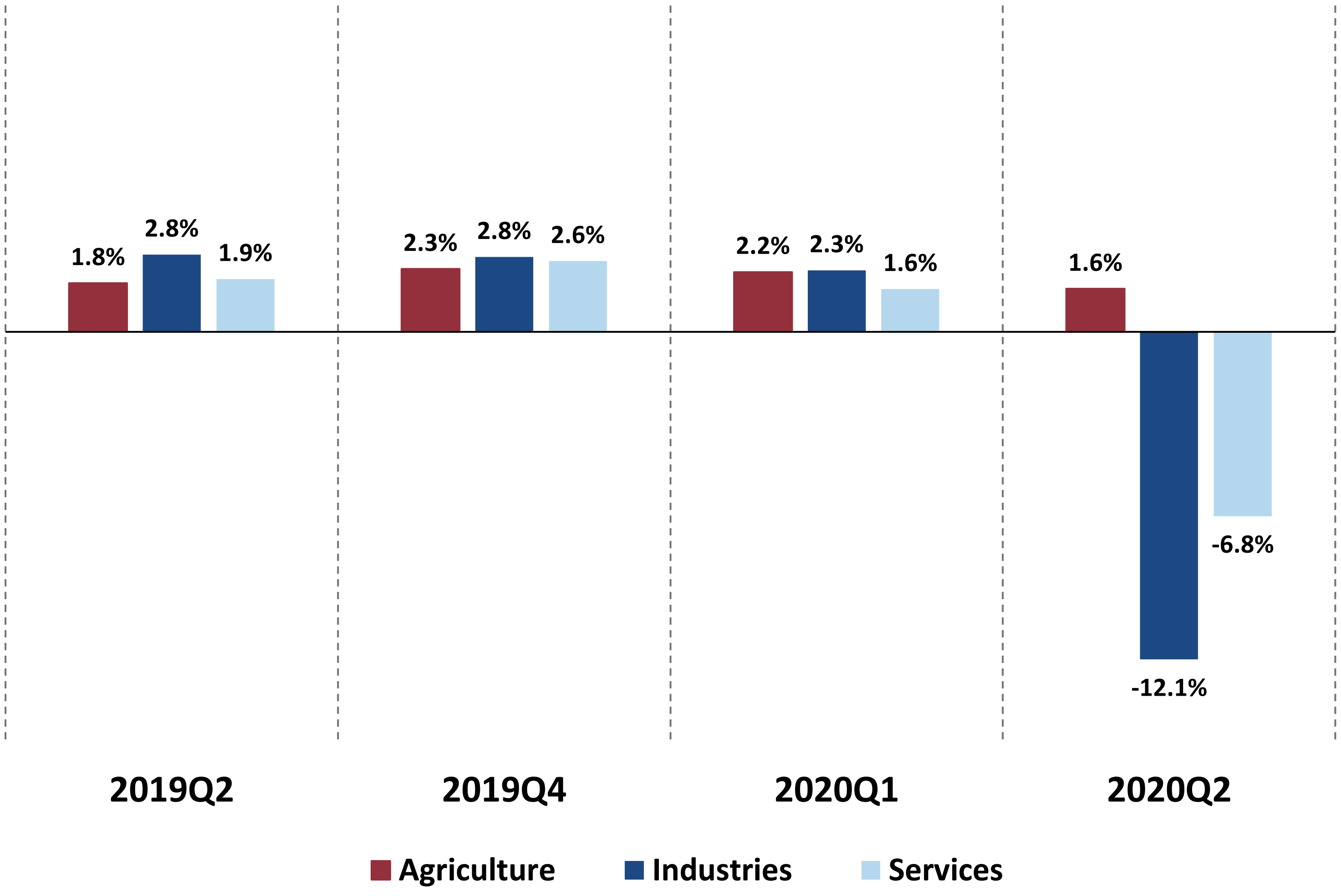
Agriculture remained resilient, Services and Industry contracted

Growth Performance of Agriculture, Industry and Services

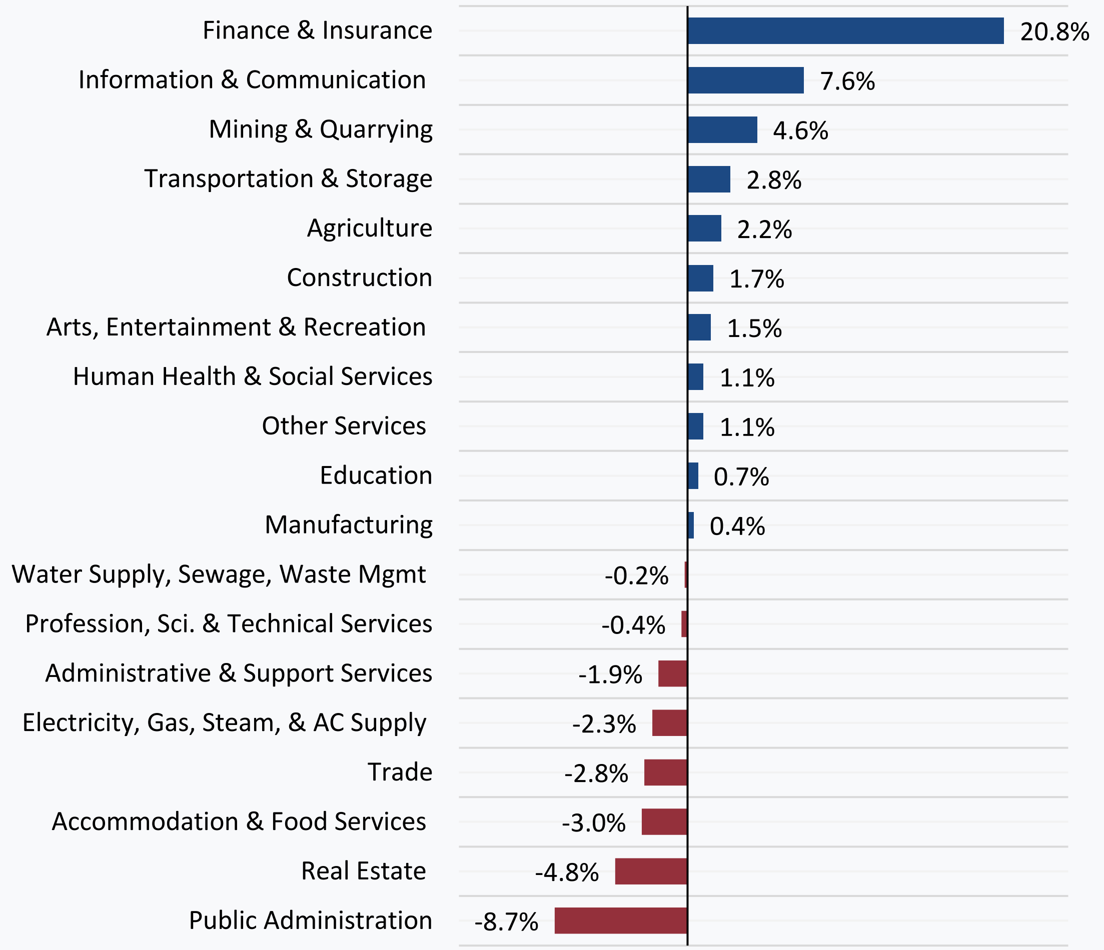


Data Source: National Bureau of Statistics

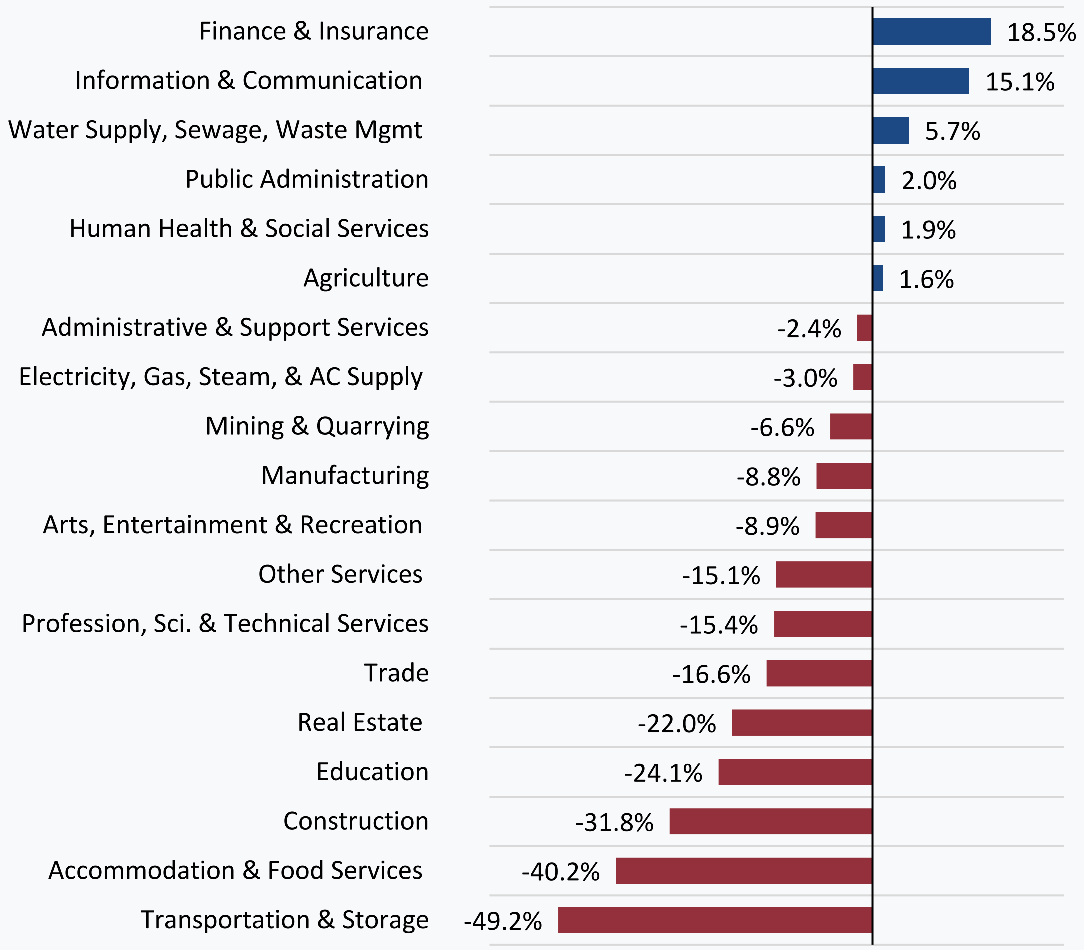
- The industrial sector was the most affected among the three broad sectors. It declined by 12.1% in the second quarter of 2020.
- Major industrial sub-sectors such as construction, manufacturing and mining and quarrying all experienced negative growth in the quarter.
- The slump in crude oil price and output and the impact of restrictions were responsible for the huge decline experienced in the industrial sector.
- Agriculture showed a positive growth of 1.6% in the quarter, however, at a slower pace when compared with the previous quarter. Higher demand for food and related items drove up output of the sector.
- Poor performance of subsectors such as Trade, Transport, Real Estate, Entertainment and Accommodation & Food Services led to the decline of the Services sector.

Sectoral Growth: 13 out of 19 sectors contracted in 2020Q2 from 8 in Q1

2020Q1



2020Q2



The second quarter of 2020 saw a contraction of 13 out of the 19 major sectors following the implementation of social distancing policies as a result of COVID-19. Transportation, Accommodation and Food Services, Construction and Education were directly affected by these policies. ICT and Finance displayed significant growth as COVID-19 necessitated remote working.

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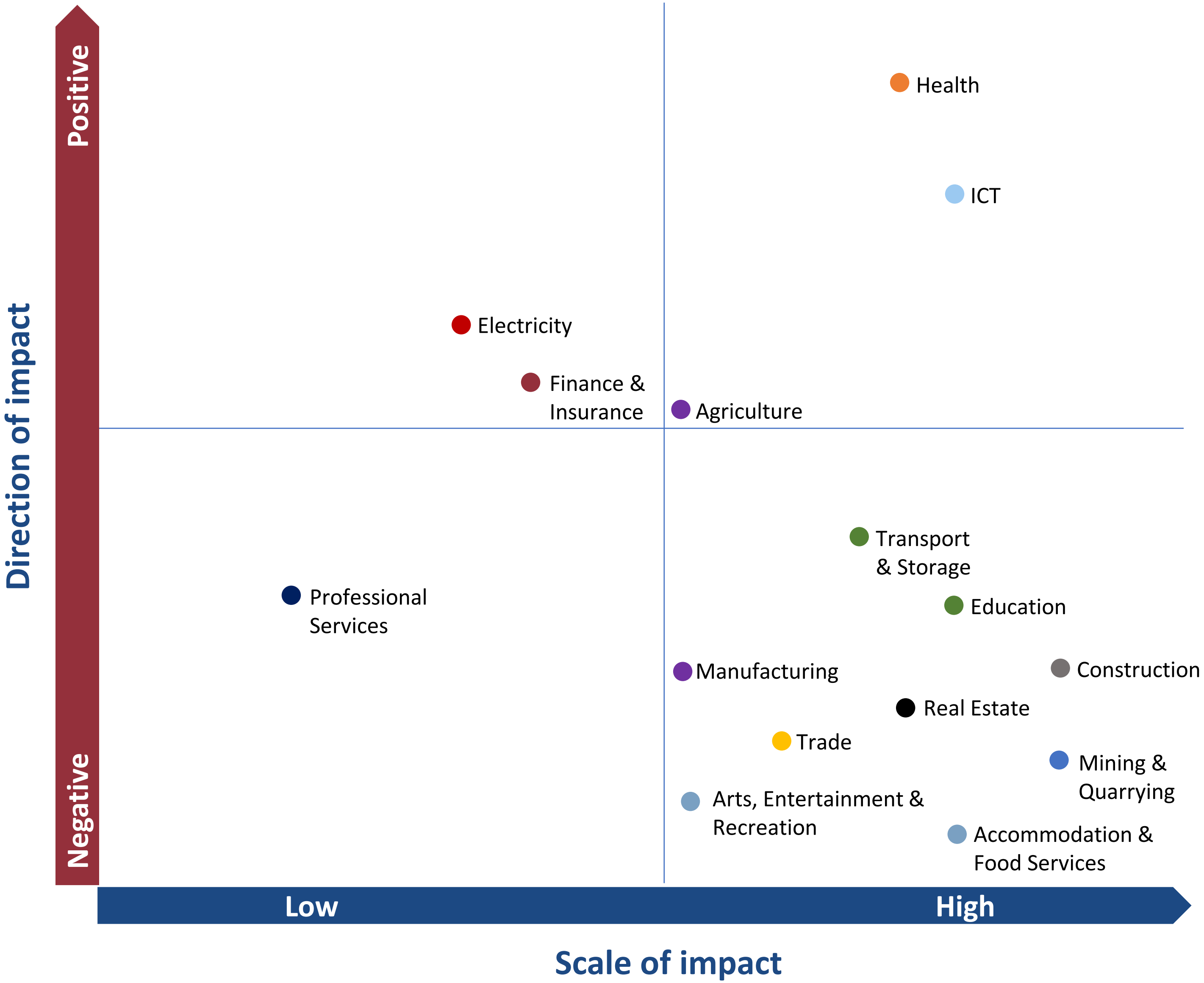
Data Source: National Bureau of Statistics

Actual sectoral performance in Q2 mirrors outcome from our COVI9-19 impact analysis released in June



- Earlier in June, we released an analysis on the impact of COVID-19 on major sectors in Nigeria.
- Of all the major sectors in the economy, we highlighted five sectors that will be positively affected by the pandemic.
- With the exception of Electricity, all other sectors (Agriculture, Finance, Health and ICT) in our analysis showed positive growth as revealed by the NBS data on sectoral growth.
- In addition, we noted that Agriculture has remained resilient during and post 2016 recession and highlighted that constant demand for agriculture output for both consumption and as intermediate input will sustain the sector.
- The sector grew by 1.6% in the quarter and was instrumental in limiting the decline in overall output especially given that it accounts for a significant weight (25%) in overall GDP output.

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Sectoral Output vs Jobs: Trade, Agriculture and Services led job losses during the lockdown

NBS COVID-19 Impact Survey: Percentage of respondents that STOPPED working

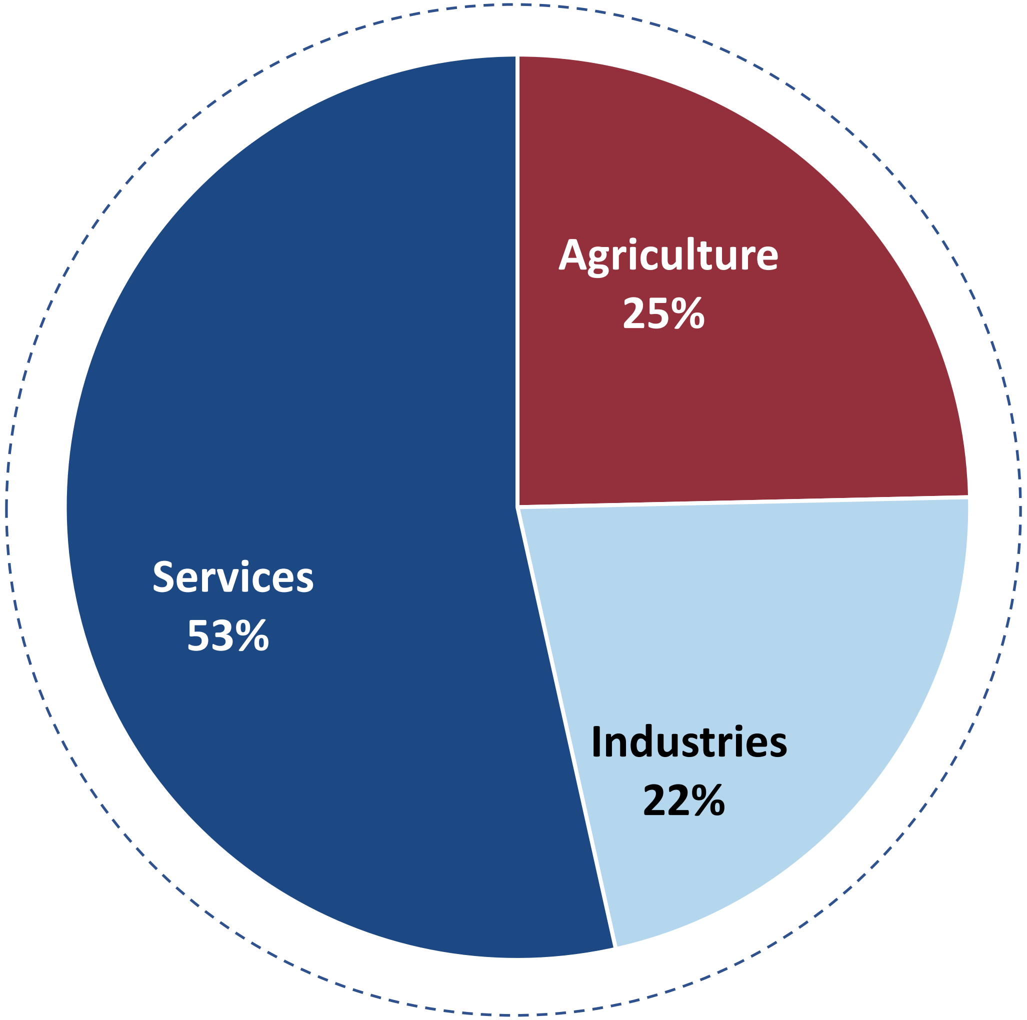
	Between Mid-March and April/May	Between April/May and June
Agriculture	24.8%	39.5%
Mining & Utilities	2.1%	1.8%
Construction, Transport & Professional Act.	16.9%	10.6%
Commerce	29.4%	22.1%
Public Administration	7.3%	5.3%
Services	19.5%	20.9%

Data Source: NBS

- Reconciling sectoral growth with job losses, it is evident from the NBS data that labour intensive sectors that experienced slowdown/decline in output, accounted for larger job losses in the second quarter of 2020.
- Results from the NBS COVID-19 impact survey showed that 42.2% of respondents stopped working between March and May as a result of the pandemic.
- During the lockdown, Commerce (Trade), Agriculture and Services had the highest share of job losses, respectively.
- Nigeria's two biggest sectors – Agriculture and Trade - both in terms of contribution to GDP and employment, experienced slowdown in activities as the government implemented lockdown and restrictions in 2020Q2.
- For agriculture specifically, while the sector grew by 1.6%, job losses were significant due to seasonal factors and interrupted access to seedlings/farms/markets among other factors.

Agriculture’s share increased; Services and Industry’s shares plummeted

Share of GDP in 2020Q2



Services

The share of Services in 2020Q2 GDP declined marginally to 53% from 54% in the previous quarter. Looking at the major sub-sectors, Trade is no longer the largest subsector. ICT (led by Telecoms) overtook Trade with a share of 33.3%. The share of Trade declined from 30% in 2020Q1 to 27%.

Agriculture

With the decline in actual output of Services and Industries, Agriculture’s share in overall GDP increased to 25% in 2020Q2 from 22% in the previous quarter. Crop production remained the largest subsector and accounted for 89% of Agricultural output in the second quarter of 2020.

Industries

In 2020Q2, the Industrial sector’s share fell to 22% from 24% in 2020Q1. Manufacturing and Crude Oil sectors contributed 40% and 41% to Industrial output in the quarter.

Data Source: National Bureau of Statistics

COVID-19: Nigeria's resilient sectors in 2020Q2

Finance

In the midst of the pandemic, the sector grew by 18.5% in 2020Q2 and retained its position as the fastest growing sector in the quarter. The insurance segment of the sector, however, experienced a decline.

+18.5%

ICT

Given the nature of the pandemic, the ICT sector, led by Telecoms, is one of the gainers following the increase in teleconferencing, data usage and remote working. The sector grew by 15.1% in the quarter.

+15.1%

Agriculture

Agriculture has remained resilient even during the economic recession in 2016. Although the sector grew marginally by 1.6% in 2020Q2, it has maintained positive annual growth rate for over three decades.

+1.6%

Growth rate of sub-sectors

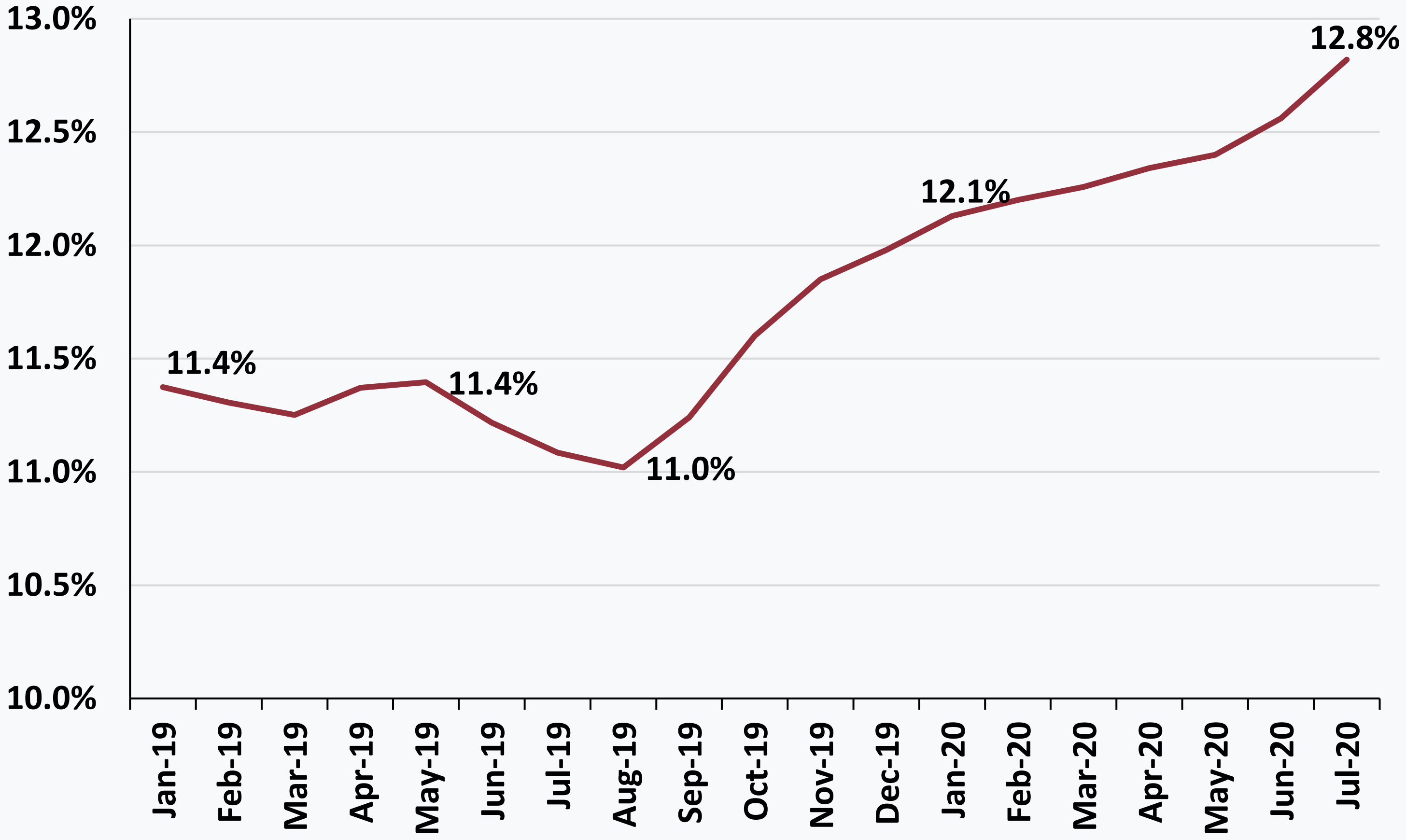
Subsector	Growth Rate
Financial Institutions	+28.4%
Insurance	-29.5%
Telecommunications	+18.1%
Publishing	-18.4%
Motion Pictures, Sound recording and Music	-4.6%
Broadcasting	+8.8%
Crop Production	+1.4%
Livestock	+2.3%
Forestry	+1.1%
Fishing	+5.7%

Nigeria’s FX shortages could forestall economic recovery in H2

- GDP decline of -6.1% in the second quarter of 2020 is the first negative growth since the first quarter of 2017. In the first half of 2020, GDP growth averaged -2.12%.
- In H2, we expect this sluggish economic performance to continue especially given the lockdown of key sectors, the tough business climate and persistent challenges in the fiscal space.
- In addition, Nigeria’s foreign exchange challenge will play a major role in shaping economic outcomes in 2020H2. Already, there have been limited FX supply which has resulted in depreciation of the currency in the parallel market.
- More recently, the CBN has embarked on FX rationing and exchange rate adjustments, among other measures, to reduce pressure on the Naira and maintain a stable exchange rate.
- Drawing from experience during the last recession, limited availability of FX as well as FX rationing could have unintended consequences on broad economic aggregates such as GDP, Inflation, external reserves and foreign investments.
- Growth of key sectors such as trade, manufacturing and agriculture could also be constrained by limited availability of FX to secure inputs.

Inflation rate rises to 12.8% in July 2020

Nigeria's Inflation Rate



- Headline inflation rate rose to 12.82% in July 2020, a 26 basis points increase from 12.56% in June 2020.
- Increase in food inflation is a major driver of overall inflation in Nigeria.
- On a month-on-month basis, average prices rose by 1.25%. Forex shortages, exchange rate depreciation and supply bottlenecks are key factors responsible for the increase in general price level.

1.25%

Month-on-Month

On a month-on-month basis, Nigeria's inflation rate was 1.25% in July, the highest in two years.

Data Source: National Bureau of Statistics

Food inflation rose faster to 15.5% in July 2020

Nigeria's Food & Non-Food Inflation Rate

	Food Inflation	Core Inflation
Jan 2020	14.8%	9.3%
Feb 2020	14.9%	9.4%
Mar 2020	15.0%	9.7%
Apr 2020	15.0%	10.0%
May 2020	15.0%	10.1%
Jun 2020	15.2%	10.1%
Jul 2020	15.5%	10.1%

- **Food inflation rate recorded a sharp increase in July and attained a peak of 15.5%- the highest in over two years.**
- **According to the NBS, the increase in food prices was driven by increases in prices of Bread and cereals, Potatoes, yam and other tubers, Meat, Fruits, Oils and fats, and Fish.**
- **Non food inflation rate was stable at 10.1% in July 2020.**
- **Inflation rate will continue to trend upwards in coming months given the anticipated pressures from exchange rate depreciation and supply side constraints.**
- **By our estimates, inflation rate will average 12.9% in 2020.**

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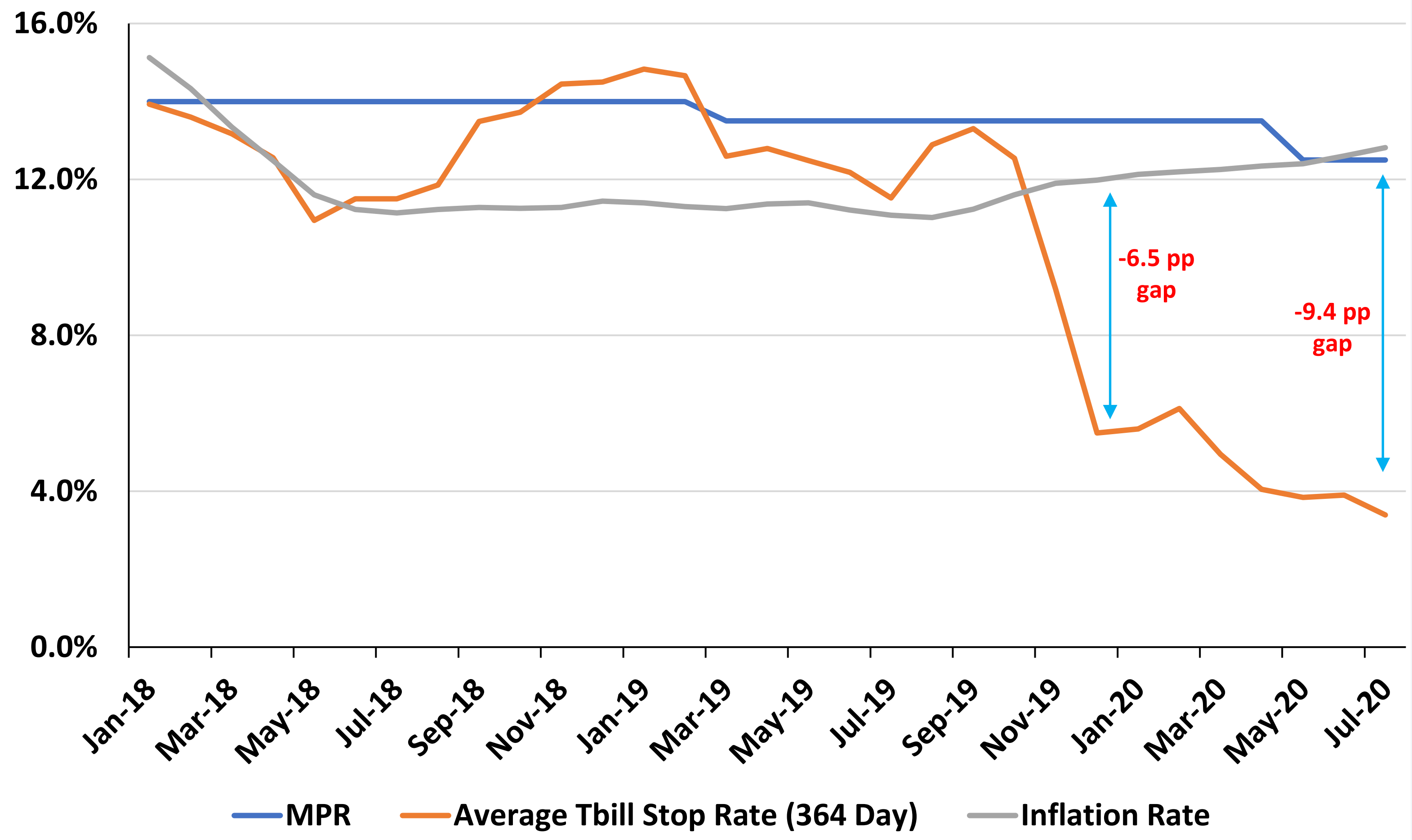
Data Source: National Bureau of Statistics

Real interest rate stood at -9.4 percentage points in July 2020

Real Interest Rate: MPR, 364-Day Treasury Bills Average Rate vs Inflation Rate



*pp - percentage points

- The rise in inflation rate and decline in 1 year Treasury bills rate extended the real interest rate gap to -9.4 percentage points (pp) in July 2020 from 8.7 pp in June.
- Excess liquidity in the fixed income space has suppressed yields since the last quarter of 2019.
- In relation to the Monetary Policy Rate (MPR), real interest rate also expanded by 0.3pp in July.
- With inflation rate expected to increase further in coming months, negative real return on investments is expected to continue in 2020.

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Data Source: National Bureau of Statistics & Central Bank of Nigeria

Nigeria's COVID-19 Scenarios Update for 2020

Scenario	Assumptions	Possible Outcome
Best Case (Economy opens up and government fully implements interventions to stimulate the economy)	• Oil price rises significantly above US$40 pb for the remaining part of the year • Economic activities pick up in the third quarter • Demand for Nigerian crude improves as economies recover- Nigeria produces 1.9 million barrels per day • Government capital spending at N1.5 trillion • Full implementation of sectoral support interventions	• GDP Growth at -0.4% • Inflation Rate at 12.5% • External Reserves at US$38bn • Exchange Rate at N380/US$
Moderate Case (Gradual opening of economic activities, partial implementation of business support initiatives)	• Oil price falls between US$30 and US$40pb • Gradual re-opening of cities, schools, airports, businesses, etc. • Sluggish crude production at 1.4 million barrels per day • Government capital spending at N900 billion • Partial implementation of sectoral support interventions	• GDP Growth at -4.6% • Inflation Rate at 12.9% • External Reserves at US$35 billion • Exchange Rate at N420/US$
Worst Case (Death toll from COVID-19 increases rapidly, weak implementation of business support initiatives)	• Oil price below US$30 pb • Lock down of major cities, schools, airports, businesses, etc. • Weak demand for Nigerian crude - Nigeria produces 1.2 million barrels per day • Government capital spending at N500 billion • Weak implementation of sectoral support interventions	• GDP Growth at -5.9% • Inflation Rate at 16% • External Reserves to average US$28 billion • Exchange Rate at N450/US$

Revised Macroeconomic Projection

	2017	2018	2019	2020
Real GDP Growth	0.8%	1.9%	2.3%	-4.6%
Inflation rate	16.5%	12.1%	11.4%	12.9%
Exchange rate (BDC, N/US$)	395.4	361.8	359.5	420.0
Investment as a % of GDP	14.7%	19.0%	24.6%	19.0%
Monetary Policy Rate	14.0%	14.0%	13.5%	12.0%
External Reserves (Average, US$ Billion)	31.3	44.6	43.0	35.0