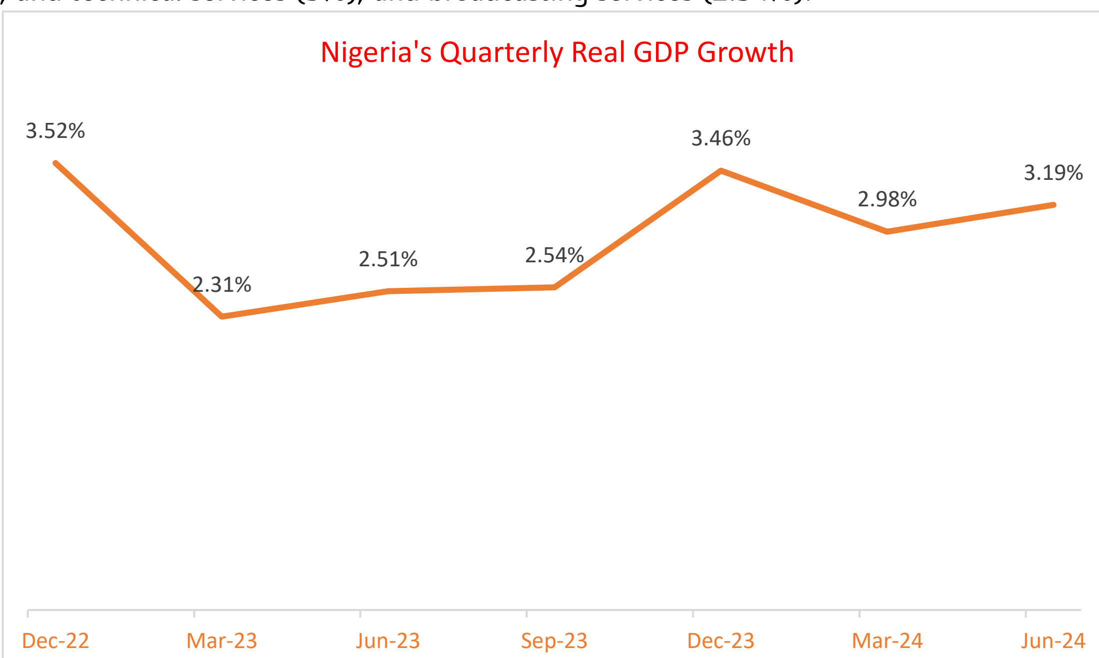
August 26, 2024

Analyst's Note on: Nigeria's Gross Domestic Product – Q2'24

Nigeria's Economy Beats Expectations Amid Rate Hikes; Growth Quickens by 3.19% in Q2'24…

The latest macroeconomic data on growth, published by the National Bureau of Statistics (NBS), indicates that Nigeria's economy has experienced accelerated growth for the fifteenth consecutive quarter, with a real growth rate of 3.19% year-on-year during the second quarter of 2024. This growth rate surpasses the 2.51% recorded in the second quarter of 2023 and exceeds the first quarter of 2024's growth of 2.98%.

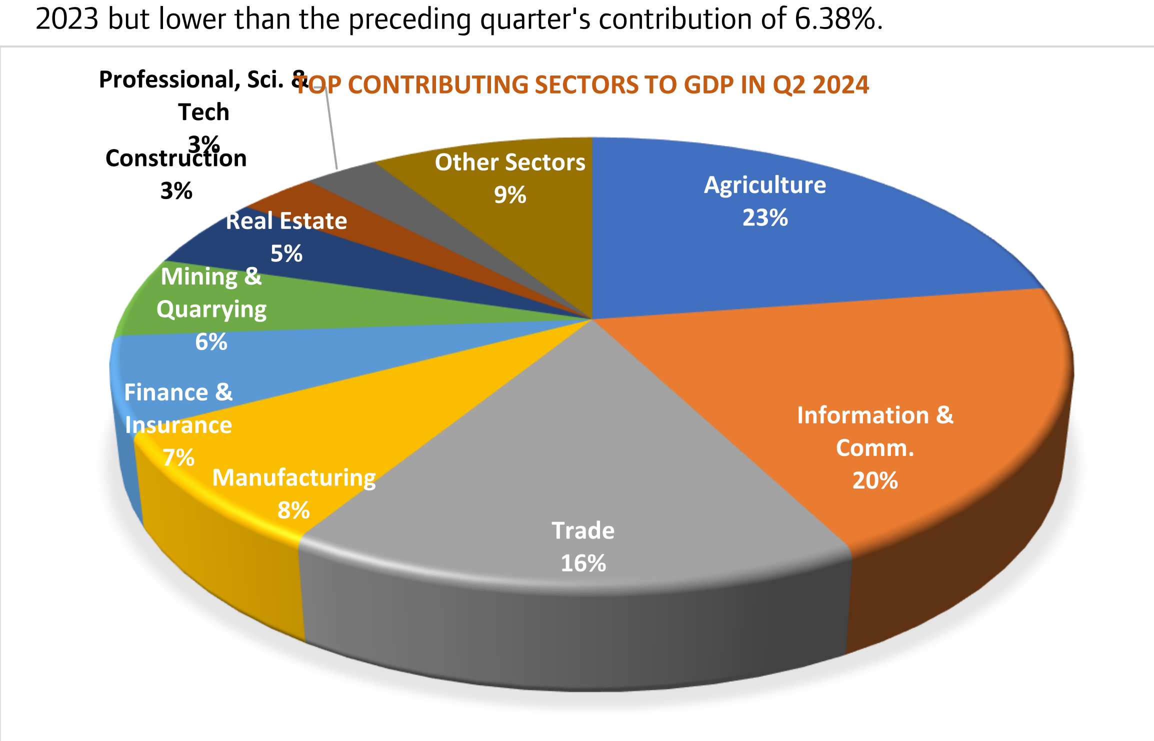
An examination of GDP performance during the second quarter of 2024 highlights the services sector as the primary driver of real growth during this period. The sector achieved a growth rate of 3.79% year-on-year and contributed 58.8% of the total gross domestic product (GDP). This performance was supported by positive growth in key sectors such as telecommunications and information services (16.4%), financial institutions (6.04%), real estate (5.2%), construction (3.2%), professional, scientific, and technical services (3%), and broadcasting services (2.54%).



Additionally, the agriculture sector recorded modest gains during the second quarter, growing by 1.41%, slightly below the 1.50% growth recorded in the second quarter of 2023. This growth in the agriculture sector was driven by improved activities in crop production, livestock, forestry, and fishery, as well as mining and quarrying activities.

The industrial sector grew by 3.53%, an improvement from the -1.94% recorded in the second quarter of 2023, driven by the performance of the manufacturing sector. However, the growth was undermined by negative performances in the transportation sub-sector, particularly in road and air transport. In terms of GDP share, the industry and services sectors contributed more to the aggregate GDP in the second quarter of 2024 compared to the corresponding quarter of 2023.

Elsewhere, the performance of the basic sectors of the economy, specifically the oil and non-oil sectors, further supported the positive performance of the aggregate GDP. The oil sector's real growth was 10.15% year-on-year in Q2 2024, an increase of 23.58 percentage points compared to the rate recorded in the corresponding quarter of 2023 (-13.43%). Growth also increased by 4.45 percentage points compared to Q1 2024, which was 5.70%. The oil sector contributed 5.70% to the total real GDP in Q2 2024, higher than the figure recorded in the corresponding period of 2023 but lower than the preceding quarter's contribution of 6.38%.



During the review period, Nigeria's average daily oil production of 1.41 million barrels per day (mbpd) was higher than the daily average production of 1.22 mbpd recorded in the same quarter of 2023 by 0.19 mbpd. However, it was lower than the first quarter of 2024's production volume of 1.57 mbpd by 0.16 mbpd. This decrease occurred despite continued crude oil theft and low investment in the sector.

On the other hand, the non-oil sector maintained its growth, recording a real growth rate of 2.80% in Q2 2024. This sector's growth was driven mainly by financial and insurance services (financial institutions), information and communication (telecommunications), agriculture (crop production), trade, and manufacturing (food, beverage, and tobacco), all of which contributed to positive GDP growth. In real terms, the non-oil sector contributed 94.30% to the nation's GDP in the second quarter of 2024, slightly lower than the 94.66% recorded in the second quarter of 2023 but higher than the 93.62% recorded in the first quarter of 2024.

As expected, Nigeria's economy continues its positive growth trajectory, defying challenges such as high price pressures, global dynamics, a rising interest rate environment, and the continued depreciation of the local currency against the United States dollar across various foreign exchange market segments. This strong growth trajectory is underpinned by the pivotal role played by the non-oil sector, driven by the improved activities of financial institutions through the development of consumer-tailored financial services products and the adoption of technology to drive their operations. We also note the rapid expansion of the oil sector from 5.70% in the previous quarter, driven by improved oil output. However, there are downside risks to Nigeria's oil output, including crude oil theft, pipeline vandalism, and the regulators' lack of capacity to encourage refining by local refineries.

Overall, we believe that the normalisation and implementation of new government reforms and policies are expected to drive national output growth, particularly supported by the industry and services sectors. Additionally, the expectation of a dovish tone from the Central Bank of Nigeria in September and the anticipated moderation in price levels will likely support further upward output growth.

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