

# Quadruple Negative GDP Growth in 2016. 25-Year Low Average Growth

Last week, the National Bureau of Statistics (NBS) released Nigeria's Gross Domestic Product (GDP) report for the fourth quarter ended December 2016. According to the report, the economy contracted by 1.3% y/y during the three months period, wherein the oil sector extended contraction to the fifth quarter in a row while the non-oil sector relapsed to negative growth, after exiting recession with a negligible growth in the previous quarter. Having declined in each of the three previous quarters, the decline in the final quarter of 2016 marked Nigeria's first year round negative growth since 1987 (prior to rebasing). Notably, the 1.51% contraction recorded in the 2016 fiscal year is the country's first in 25 years (-0.6% in 1991) and the biggest since 1983 (-7.6%).

Figure 1: Real GDP Growth (annual)

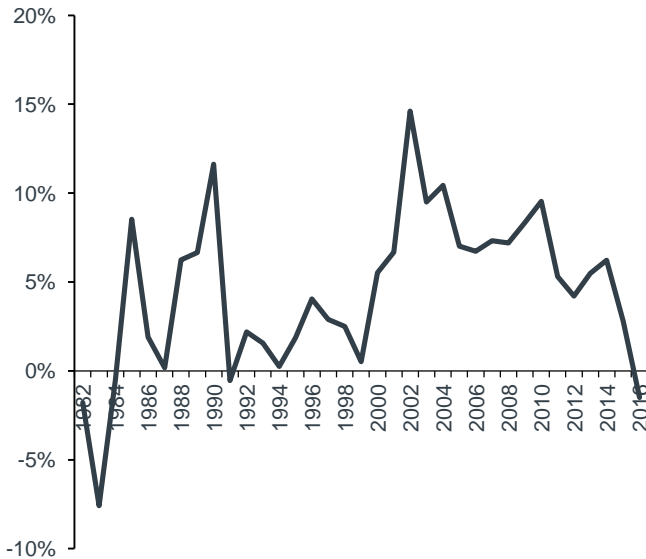
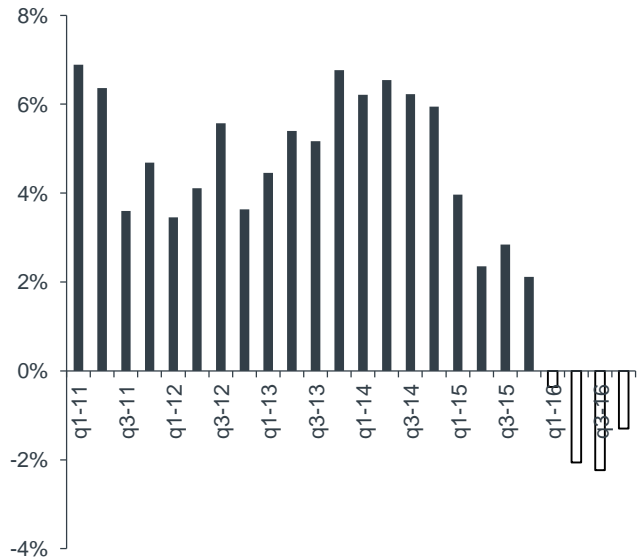


Figure 2: Real GDP Growth (y/y)



Source: : NBS, OPEC, Cordros Research

### The Oil Sector – Slower Contraction

The oil sector recorded a negative growth of 12.4%, and as stated earlier, extending contraction to the fifth quarter in a row. Over the three months period, output from the sector was affected by relatively lower domestic crude oil production as the effects of militants' attacks on crude oil & gas facilities in prior quarters lingered. The NBS estimated crude oil production during the three months period to be 1.90mbpd, although a marked improvement from the 1.63mbpd reported in Q3-16, but much lower than the 2.16mbpd achieved in Q4-2015 and the 2.2mbpd budgeted. Ironically, despite the gain on production during the quarter, the oil sector still contracted by 9.1% on q/q basis, after growing by 8.1% q/q in the third quarter. Quite instructively, the domestic crude oil production figures reported for the quarter varied with OPEC's estimates based on direct communication (1.43mbpd) and secondary sources (1.57mbpd).

Figure 3: Oil Sector GDP Growth (Annual)

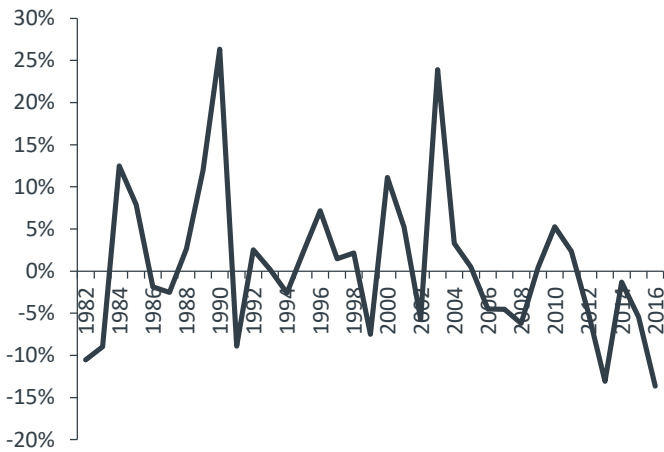
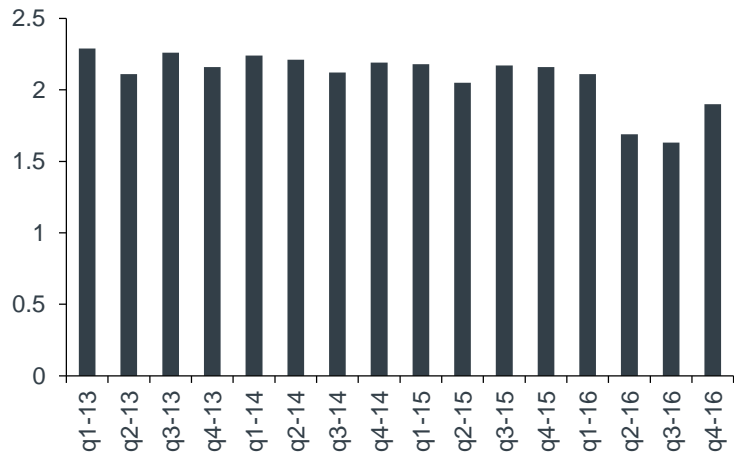


Figure 4: Crude Oil Production (mbpd)



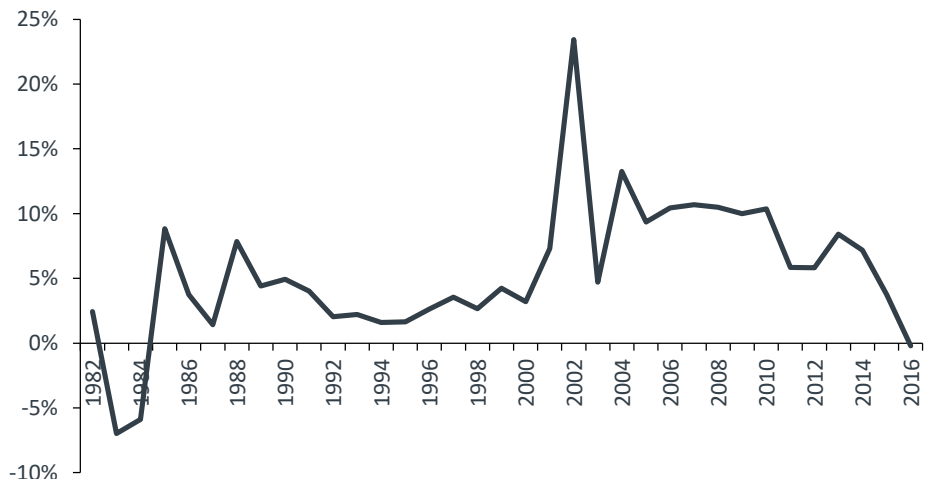
Source: : NBS, Cordros Research

Since growing by 2.3% in 2011, the oil & gas sector has remained in recessionary mode, highlighting the tempered investment in the sector -- owing to security apprehension and uncertainty surrounding reforms – from where significant portion of government’s budgetary revenues accrue. The shocking crash of crude oil prices, with the resultant cash flow constraint affecting operators’ financial obligations to creditors, also delayed critical investment decisions in the sector.

**The Non-Oil Slips Back to Negative Growth**

After exiting recession with a marginal 0.03% growth in Q3-16, the non-oil sector slipped back to negative growth, declining by 0.33% y/y in the final quarter of the year. Also, compared to Q3-16, the non-oil sector grew by 5.27%, down 381bps from the 9.08% q/q growth recorded in the previous quarter. While agriculture grew at the slowest pace since the second quarter, other major non-oil subsectors – manufacturing, trade and services – all furthered their negative growth.

Figure 5: Non-oil Sector GDP Growth (Annual)

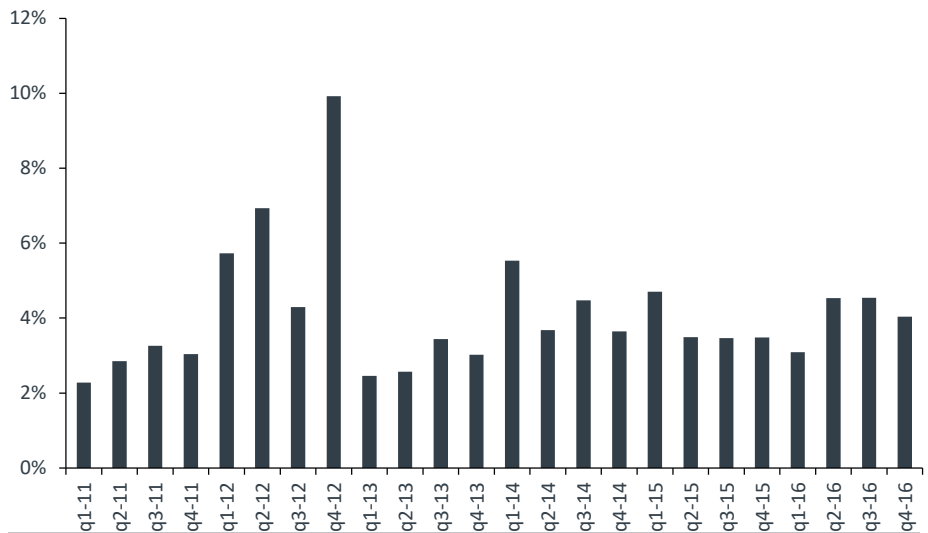


Source: : NBS, Cordros Research

**Agriculture – Weakened Growth**

Growth in agriculture moderated to 4.03% y/y, from 4.54% and 4.53% respectively in the third and second quarters. On quarterly basis, agriculture actually contracted by 7.4%, after growing by 38.5% and 11% q/q respectively in the third and second quarters. During the period, slower growth in Crop Production -- accounting for about 90% of output from the subsector -- to 4%, from 5% in the previous two quarters, dragged down growth in this segment. In the September edition of its Food Security Outlook Update, FEWSNET had forecasted that main harvests, beginning October across the country, were expected to be average in most areas. The expected below-average production was attributed to flooding, conflict, pest infestation, and dry spells. On flooding, the update noted that a flood response plan developed by the National Emergency Management Agency (NEMA) and partners anticipated that floods may impact 14 states and 34 local government areas (LGAs) across the country with an estimated five million people facing some impact by the end of the season.

**Figure 6: Agriculture GDP Growth (y/y)**



Source: : NBS, Cordros Research

**Manufacturing Still in Slumber**

Manufacturing extended negative growth to the fourth quarter in a row. In the review period, output from this segment contracted by 2.5% y/y and ended 2016 with 4.32% negative growth, the highest since 1998 (-12.3%). Output from this subsector has contracted in two straight years, the first since the stretch of negative growth experienced between 1992 and 1995. The chart below, showing that manufacturing skidded sharply to negative growth in 2015, following four years of robust double-digit growth, links the challenges currently experienced in this segment to the crash in crude oil price, and the resultant (1) severe shortage of dollars to producers and importers alike and (2) lower revenue to support government budgetary implementation at both the central and state levels. The significant increase in energy costs (gas and diesel prices increased by 109% and 53% respectively), amid shortage of supply (gas particularly), exacerbated the tough conditions experienced by manufacturers over 2016.

Figure 7: Manufacturing GDP Growth (Annual)

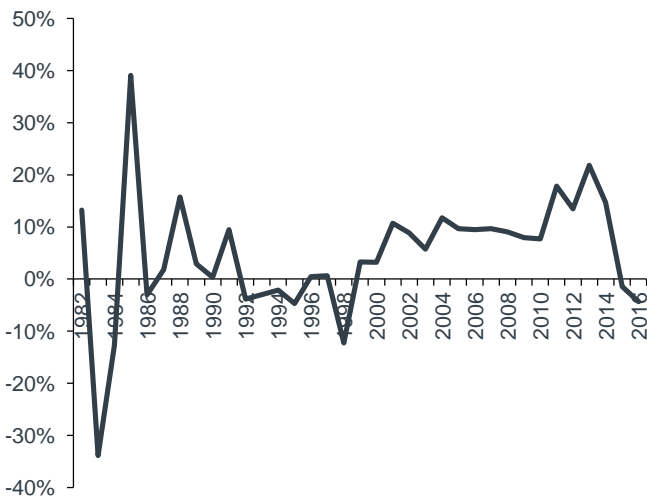
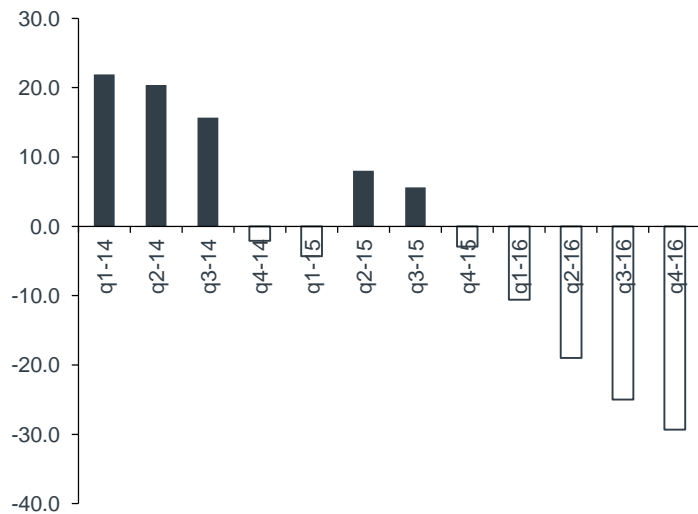


Figure 8: Business Outlook Index (Industrial Sector) - Points



Source: : NBS, Cordros Research

**Food, Beverages and Tobacco**, the biggest component of the manufacturing segment (c.47%) contracted by 2.7% in the fourth quarter. Negative growth in this category has now lasted for two years in a row and, considering its size, is largely responsible for the underperformance of the broader manufacturing subsector. This is indeed reflective of the performances of the Nigerian Stock Exchange (NSE) listed Consumer Goods companies whose revenues and profitability -- have weakened to record low levels in the last two years -- have been adversely impacted by significantly weakened consumer purchasing power and severe FX-related cost inflation.

**Textile, Apparel and Footwear (TA&F)**, the second largest component of the manufacturing subsector, exited recession with a 1.08% y/y growth in the fourth quarter. Overall however, the TA&F segment contracted by 1.09%, slightly higher than the 1.07% in 2015, following the robust expansion witnessed between 2011 and 2014.

**Cement**, the third largest component of the manufacturing sector contracted by 5.4% in 2016, following negative growth in all quarters of the year. The contraction, following two years of declining growth which started 2014, mirrors the growing pressure on oil and non-oil revenues and the consequent slow down of capital expenditure projects across all tiers of government. In 2015, only 66% of FGN capex budget was released for spending, and although expenditure improved in 2016, the amount disbursed was about 57% of the total appropriation. Cement producers are of the view that private demand drives domestic consumption, and this segment indeed, as shown by the 6.9% contraction in Real Estate in 2016, following sharply weakened growth in 2014 and 2015, has been adversely affected by the downturn in the economy.

**Services – Drags from Real Estate and ICT**

Services contracted (1.6% y/y vs. 1.1% y/y in Q3) at a faster pace in the final quarter, closing the year with all round negative growth. Growth in this segment, accounting for c.37% of the economy, has equally been on the decline since 2014. **As stated earlier, Real Estate**, the second largest component of this subsector, contracted by 6.9% in 2016, following sharply weakened growth in 2014 and 2015 on low demand for properties, especially for non-residential and prime residential buildings. For reference, Global Property Guide estimated that house prices fell by 18.2% and 11.3%, inflation adjusted, in Lagos Island and Mainland respectively in 2016 owing to low demand. Land transactions in Lagos were also estimated to have dropped by 30% in 2016, despite cuts in various land transaction-related rates.

Figure 8: Services GDP Growth (Annual)

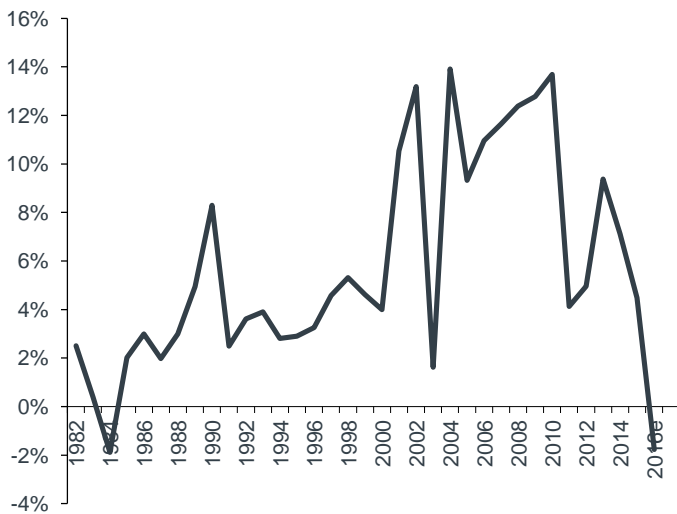
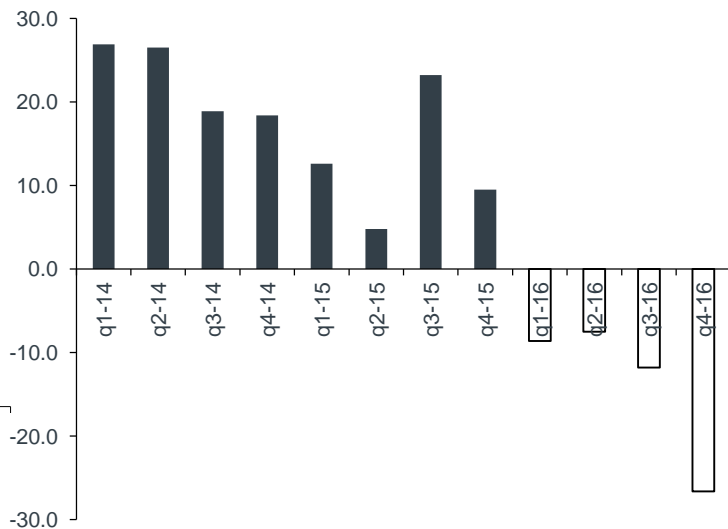


Figure 9: Business Outlook Index (Service Sector) - Points



Source: : NBS, Cordros Research

**Information and Communication**, the largest component of the services subsector, grew by 1.4% y/y in Q4, from 1.1% y/y in Q3. Aggregate growth in 2016 was 1.95%, helped by the strong start (4.1% y/y) in the first quarter. That said, growth in 2016 (c.2%) was the lowest since 2011 (2.2%) and was dragged by the significant underperformance in Broadcasting, the second largest component of this segment. Growth in Broadcasting fell from 19.9% in 2015 to 6.1% in 2016. Meanwhile Telecommunication, the biggest component of the ICT segment, grew by 2%, its slowest pace since 1.2% in 2011. During the year, mobile subscription fell by 6.4% while internet subscription grew by only 1.7%.

**Trade – The Pain of FX and Import Policy**

Trade contracted by 1.44% y/y in Q4-16 and 0.24% in 2016 fiscal year. This subsector, the third largest component of the non-oil economy, has significant linkage with imports, thus suffering from the massive depreciation of the naira exchange rate and the FGN's import substitution policies in 2016. The highly inflationary environment which weakened consumer purchasing power also affected trade at both the wholesale and retail segments. Before the contraction last year, growth in the trade sector, like the other subsectors of the non-oil economy, has been on decline since 2015.

**2017 – After the Recession**

We look for growth in 2017, hinged on recovery in both the oil (on less disruptive output) and the non-oil sectors (on less disruptive impact of forex shortages, acceleration of capital releases, and continued growth in agriculture).

On the future view, the oil sector is poised to benefit from improved and stable production. The peace deal between the FGN, and Niger Delta stakeholders and representatives of disaffected youth groups, if not compromised, has the potential of ending pipeline vandalism and similar acts of sabotage of oil and gas installations in the Niger Delta region. The Nigerian National Petroleum Corporation (NNPC) stated recently that the restoration of peace to the oil-producing communities has enabled the organization to fast-track the repairs of all pipelines vandalized last year, and thus targets to ramp up output above the budget benchmark of 2.2mbpd by the end of Q2-2017. In addition to the interactive engagement, the FGN's plan to establish a specialized paramilitary force (comprising coastal patrol teams, Niger Delta subsidiary police, and other paramilitary agencies) in the petroleum industry this year in a bid to ensure zero vandalism of pipelines will be impactful.

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The non-oil sector, as stated earlier, should benefit from improved flow of crude oil revenue and continued growth in agriculture on increasing focus from both private sector and the government. Stable crude oil production and relatively higher average prices, while bolstering the spending capacity of the fiscal authorities, should provide the monetary authorities (to a certain degree), the buffer to confront forex scarcity challenge. We think the CBN's resolve to increasing the availability of dollars to large scale businesses and retail users, if uncompromised (by policies somersault) and assuming oil prices and production are unimpaired, will lessen the disruptive impact of acute FX shortage on the economy. In particular, services, trade and manufacturing subsectors should benefit from the increased availability of the foreign exchange.

The achievement of government's plans to invest heavily on critical infrastructures will also be key to the recovery of the economy. The latest 2016 budget implementation report shows that N870 billion had been released for capital projects (vs. N362 in 2015). Despite potential challenges with achieving revenue targets (especially the non-oil component), we expect the FGN will continue to prioritize capital expenditures as demonstrated with the ongoing pace of projects in the works and transportation ministries.

Continued growth in agriculture, in addition to the factors mentioned above, will support the recovery of the non-oil sector. The pronounced commitment by the FGN on diversifying the economy through the Agriculture Promotion Policy (i.e. The Green Alternative), the N92 billion historic high allocation to agriculture in the proposed 2017 budget, the proposed recapitalization (c.N750 billion) of the Bank of Agriculture, and increased intervention funding at single digit interest rate (under the Anchor Borrowers Programme, commercial agricultural credit scheme and the Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending of the Ministry of Agriculture and the CBN on agricultural productivity) are initiatives having the capacity to improve agricultural output. Growing emphasis on backward integration by the private sector companies in view of providing alternative sources of raw materials (following the challenges faced with external sourcing in the last two years) should also bolster local output of agricultural products. In addition, compelling commodities prices and the increasing prospect of foreign currency earnings has encouraged investment in the agriculture sector, with existing farms increasing area planted.

*06 March 2017*

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