

Q3 2022 GDP GROWS BY 2.25% YoY

... Economic Growth Weakens as Oil Production Woes Persist

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Economic Report

The Nigerian economy grew by 2.25% year-on-year in Q3 2022, below the general market expectations. Non-Oil GDP drove the overall economic output with a 4.27% year-on-year growth. On the other hand, Oil GDP remained under severe pressure, as output declined by 22.67% year-on-year.

Broad Sectors	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Oil Sector	-22.67%	-11.77%	-26.04%	-8.06%	-10.73%
Non-Oil sector	+4.27%	+4.77%	+6.08%	+4.73%	+5.44%

Source: NBS, WSTC Research

Based on economic segments, the Agricultural sector grew by 1.34% year-on-year in Q3 2022, a marginal improvement from 1.20% recorded in Q2 2022. The Industrial sector declined by 8.00% year-on-year, a worsening figure from the 2.30% decline in Q2 2022; while the Services sector recorded an improved growth of 7.01% year-on-year in Q3 2022.

Economic Segments	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Agricultural Sector	+1.34%	+1.20%	+3.16%	+3.58%	+1.22%
Industrial Sector	-8.00%	-2.30%	-6.81%	-0.05%	-1.63%
Services Sector	+7.01%	+6.70%	+7.45%	+5.58%	+8.41%

Source: NBS, WSTC Research

Economic Performance of Top Sectors

Sectors	Average Contribution to National GDP	Q3 2022 growth	Q2 2022 growth	Q1 2022 growth	Q4 2021 growth	Q3 2021 growth
Agriculture	25%	+1.34%	+1.20%	+3.16%	+3.58%	+1.22%
Trade	16%	+5.08%	+4.51%	+6.54%	+5.34%	+11.90%
InfoComms	16%	+10.53%	+6.55%	+12.07%	+5.03%	+9.66%
Manufacturing	9%	-1.91%	+3.00%	+5.89%	+2.28%	+4.29%
Real Estate	6%	+4.56%	+4.42%	+4.44%	+1.47%	+2.32%
Oil	6%	-22.67%	-11.77%	-26.04%	-8.06%	-10.73%
Finance & Insurance	4%	+12.70%	+18.48%	+23.24%	+24.14%	+23.23%
	82%					

Source: NBS, WSTC Research

Analysis

In our view, economic output slowed in Q3 2022, and this was evident in the weak performance of the **Manufacturing sector**. We attribute the weak performance to weakening purchasing power due to inflationary pressures and production capacity constraints owing to energy disruptions and foreign exchange illiquidity.

The **Oil sector** recorded another steep decline in Q3 2022, on the back of persistent crude oil theft that materially impacted output levels over the past three quarters. The average daily oil production stood at 1.20mn barrels per day in Q3 2022, from 1.57mn barrels per day in Q3 2021. On quarter-on-quarter basis, the average daily oil production declined by 16.08%.

Meanwhile, there were also positives recorded in Q3 2022, led by the **Information and Communications sector** which grew by 10.53% year-on-year. We attribute the growth to increased digital activities and penetration across the economy. Also, we posit that the temporary slowdown in growth momentum due to the NIN registration normalised in Q3 2022.

The **Agricultural sector** output growth was relatively weak, but resilient in Q3 2022. Some of the constraints that limited production capacity in the sector were higher input costs such as fertilisers, climatic factors, and other legacy structural bottlenecks including inefficient farming techniques, poor yields, and storage.

Economic output of the **Finance & Insurance sector** was strong in Q3 2022, but the growth momentum slowed. We attribute the slowdown of growth momentum to a gradual response to the rising interest-rate environment, as well as heightened macroeconomic risks given the rising trend of inflation and rising poverty levels.

Outlook

We have revised our FY 2022 growth forecast to 2.90% (previous: 3.26%). This is due to our expectations that tightened financial conditions and declining household consumption will continue to negatively impact economic activities across the sectors in the near term. Also, we do not see the disruption in the global energy market abating in the near term. Therefore, we expect higher energy prices to cap production capacity of the Manufacturing and Agricultural sectors.

Recently, the national security operatives launched a clampdown on oil theft across the major oil-producing regions. While we expect the clampdown to translate into improved oil production in the near term, we are not entirely optimistic, and we only expect to see marginal improvements.

Implications for the Financial Markets

Equities: A generally bleak outlook for overall economic growth might continue to strengthen investors' already-dampened sentiments in the Nigerian equities market. Notably, there were output contractions in the Manufacturing and Oil sectors. This implies an underlying volume decline across these two sectors. Although we might see a marginal improvement in Q4 2022, companies in the manufacturing space (particularly the food & beverage subsector) are most likely to be under pressure in the near term.

Fixed Income Market: The rising yields in the fixed income market are expected to remain, on the back of the CBN's resolve to combat inflationary pressures. Over the past few months, the policy focus of the monetary policy authorities already shifted from pro-growth to price stability. Therefore, we do not expect the tightened financial markets conditions to deviate in the near term.

Foreign Exchange Market: the steep contraction in the Oil sector suggests supply bottlenecks in the foreign exchange market, given the significant portion of FX supply that comes from oil receipts. In addition, we believe that the cascading effect of the Oil sector poor state could impact output growth of the other real sectors. For context, the unavailability to import the required raw materials due to FX scarcity could limit production capacity. This, therefore, negatively impacts non-oil exports.



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- Hold Rating: estimated change in price is between -10% and 15% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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