

Q2 2024 GDP GROWS BY YoY 3.19%

...Oil Sector's Growth Masks Non-Oil Sector's Tepid Performance

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Economic Report

According to data released by the National Bureau of Statistics (NBS), the Nigerian economy demonstrated resilience in Q2 2024 as Real GDP grew by 3.19% year-on-year, exceeding the 2.51% and 2.98% growth rates in Q2 2023 and Q1 2024, respectively. The Oil sector's strong performance was the linchpin of this growth, while the Non-Oil sector remained tepid.

Broad Sectors YoY Growth Trend

Broad Sectors	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023
Oil GDP growth	10.15%	5.70%	12.11%	-0.85%	-13.43%
Non-oil GDP growth	2.80%	2.80%	3.07%	2.75%	3.58%

Sources: Nigeria Bureau of Statistics (NBS), WSTC Research

Oil Sector

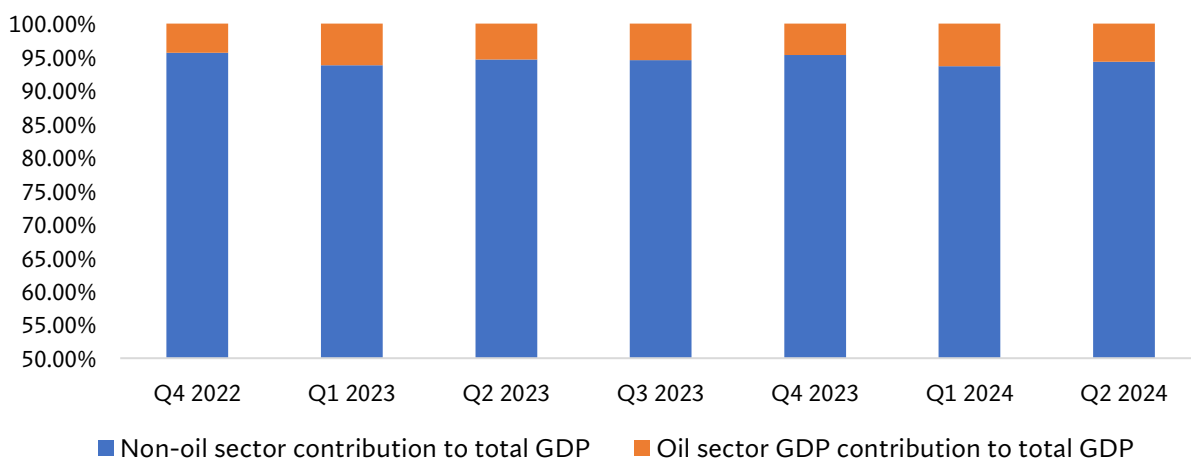
The Oil sector sustained its upward trajectory for the third consecutive quarter, achieving a remarkable 10.15% year-on-year real GDP growth in Q2 2024. This marks a substantial recovery from the -13.43% contraction in Q2 2023, and nearly doubles the 5.70% growth recorded in Q1 2024. The sector contributed 5.70% to total GDP growth in Q2 2024 (Q2 2023: 5.34%; Q1 2024: 6.38%).

We attribute the Oil sector year-on-year growth solely to the low base effect. Notably, NBS reported that the daily oil production in Q2 2024 averaged 1.41mbpd, which while higher than the 1.22mbpd average reported in Q2 2023, fell short of the 1.57mbpd reported in Q1 2024.

Non-Oil Sector

Macroeconomic headwinds, characterised by heightened interest rates environment, infrastructure vandalism, FX illiquidity and persistent inflationary pressures that stifles purchasing power and escalates production cost continued to weigh heavily on the sector. This confluence of challenges culminated in a subdued year-on-year growth of 2.80% in Q2 2024, unchanged from Q1 2024 figures, and a decline from 3.58% in Q2 2023. The sector contributed 94.30% to total GDP growth in Q2 2024 (Q2 2023: 94.66%; Q1 2024: 93.62%).

Non-Oil Vs Oil Sector Contribution to Total GDP



Sources: Nigeria Bureau of Statistics (NBS), WSTC Research

By sector, the Agricultural sector experienced a 1.41% year-on-year growth, contributing 22.61% to total GDP; the Industrial sector saw a 3.53% year-on-year growth, contributing 18.62% to total GDP; and the Services sector recorded a 3.79% year-on-year growth, contributing 58.76% to total GDP.

Non-oil sub-sectors YoY Growth Trend

Economic Segments	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023
Agricultural Sector	1.41%	0.18%	2.10%	1.30%	1.50%
Industrial Sector	3.53%	2.19%	3.86%	0.45%	-1.94%
Services Sector	3.79%	4.32%	3.98%	3.99%	4.42%

Sources: Nigeria Bureau of Statistics (NBS), WSTC Research

The Agricultural sector's year-on-year growth of 1.41% represents a notable uptick from the tepid 0.18% growth recorded in Q1 2024, indicating a nascent recovery in the sector. However, this growth still lags the 1.50% achieved in Q2 2023, underscoring the lingering drags of the structural bottlenecks on the sector's performance.

The Industrial sector's 3.53% year-on-year growth marks a significant improvement from the 2.19% growth in Q1 2024, and the -1.94% contraction recorded in Q2 2023. Further analysis of the sector's dynamics reveals that the Mining and Quarrying subsectors were the primary growth catalysts, surging by 7.79% year-on-year (Q1 2024: 6.30%; Q2 2023: -12.16%).

Conversely, the Manufacturing subsector experienced a subdued 1.28% year-on-year growth, lagging the 1.49% and 2.20% growth recorded in Q1 2024 and Q2 2023, respectively. The performance can be attributed to several adverse factors which include inflationary pressures which averaged 33.95% in Q2 2024 (Q1 2024: 31.60%; Q2 2023: 22.48%), and high cost of importation of production materials due to Naira depreciation. Additionally, the elevated interest rate environment, exacerbated by an additional 150 basis points increase in MPR in Q2 2024, further strained financing conditions for manufacturers.

The Services sector's growth momentum moderated, as it reported a year-on-year growth of 3.79%, trailing the 4.32% and 4.42% growth recorded in Q1 2024 and Q2 2023, respectively. This performance reflects the slowdown in key drivers, which lost steam compared to previous periods.

Notably, the Information & Communication subsector growth eased to 4.44% (Q1 2024: 5.43%; Q2 2023: 8.60%), as the Telecommunication sector continued its trend of slower growth (Q2 2024: 5.17% vs Q1 2024: 6.23%; Q2 2023: 9.74%). This trend is largely due to the adverse effect of rising cost of operations on the telco ecosystem, and the impact of the disconnection of mobile numbers not linked to NIN.

The trade subsector's growth also slowed to 0.70% (Q1 2024: 1.23%; Q2 2023: 2.41%), primarily due to a -15.88% contraction in Road transportation in Q2 2024.

Furthermore, the Finance & Insurance subsector demonstrated resilience, positing a 28.79% year-on-year growth, albeit a moderation from Q1 2024's 31.24%. The tempered growth can be attributed to the elevated interest rate environment which constrained loan growth, as data from CBN showed a modest 3% increase in credit to the private sector in Q2 2024.

Outlook

While we are not optimistic about the Oil sector achieving the ambitious target of 1.78mbpd in H2 2024, we expect improvement in the oil production in H2 2024. The authorities have signaled intentions to foster industry-wide collaboration to reduce production costs and enhance output. Furthermore, plans to upgrade outdated infrastructure, implement rig sharing program to ensure continuous rig availability within the country are expected to yield significant benefits in both the near and long term. Also, the scale-up of production capacity at the Dangote Refinery, slated for H2 2024, is poised to bolster the sector's growth.

On the Non-oil sector front, diverse trends emerge. We anticipate that the benefits of harvest season will bolster growth in the Agricultural sector, while the recent NCC's directive for the reactivation of barred mobile numbers affected by the NIN-SIM verification exercise is also expected to positively impact the telecommunication subsector. However, the challenges of shrinking consumer disposable income, Naira depreciation, and elevated interest rates, casts a shadow over our overall growth expectation for the Non-oil sector.

In light of this, we project that the economic growth will be largely underpinned by the Oil sector's performance, and we revise our we revise our projection for FY 2024 real GDP growth to close at 3.31% (previous: 3.20%).

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