

Flashnotes

Issue 12 | 27 November 2023 | KPMG in Nigeria

Expected Sluggish Q3 2023 GDP Growth

Highlights

- Real GDP in Nigeria rose by 2.54%, year on year in the third quarter of 2023, slightly higher than 2.51% recorded in Q2 2023 and 2.25% in Q3 2022.
- Average year to date growth rate stands at 2.45%, which will now require Q4 2023 growth of about 5.1% to meet 2023 targeted growth rate of 3.75% assumed in the 2023 budget.
- We retain our earlier 2023 forecast at 2.65% driven by continuous improvements in the oil sector, while expecting the non-oil sector to retain its slow and fragile performance on the back of weakening household purchasing power, generally weaker private investments, and higher business costs.

Event

The Nigerian economy grew in real terms by 2.54% in Q3 2023, representing a marginal increase compared to 2.51% recorded in Q2 2023 and 2.25% in Q3 2022. The data further revealed that growth was majorly driven by the services sector, which grew by 3.99% though lower than the preceding quarter which recorded 4.42% growth. Industry, which contracted in Q2 2023 with a growth rate of -1.94% grew by 0.46% in Q3 2023. At the same time, the agricultural sector recorded 1.30% growth which was slightly slower than Q2 2023 when it grew by 1.50%.

Further decomposition of the data for Q3 2023, reveals the oil sector contracted by -0.85%, compared to -13.43% recorded in Q2 2023 while the non-oil sector grew by 2.75%, compared to 3.58% in Q2 2023 and 4.27% in Q3 2022.

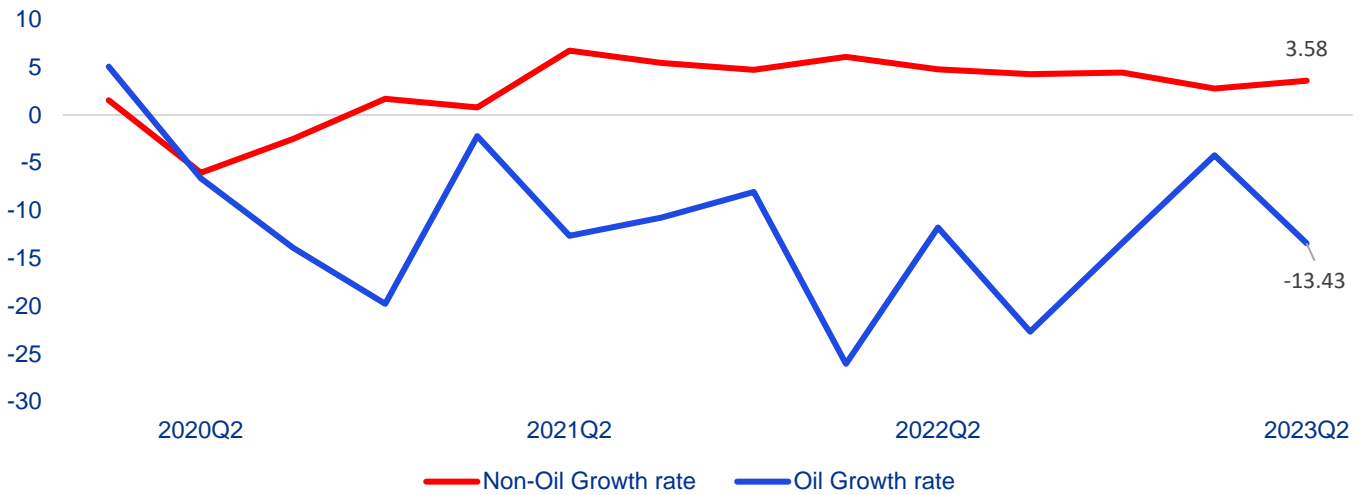
The non-oil sector performance was driven by the Metal ores (68.76%), Coal Mining (58.03%), Finance and Insurance (28.21%), Rail transport and Pipelines (18.23%), Water supply and Waste management (11.93%), and the Information and Communication sectors (6.67%)

Other key results include: Average Oil production 1.45mbpd (Q2 2023, 1.22mbpd); Manufacturing 0.48% (Q2 2023, 2.20%) Trade 1.53% (Q2 2023, 2.41%) Transport -35.85% (Q2 2023, -50.74%) ICT 6.69% (Q2 2023, 8.60%) Real Estate 1.90% (Q2 2023 1.87%) Finance and Insurance 28.21% (Q2 2023, 26.84%) Education 1.45% (Q2 2023, 1.42%) Health 2.93% (Q2 2023, 1.95%).

Real GDP Year on Year Growth (%)



Real Oil and Non-Oil Year-on-Year GDP Growth Rate (%)



Oil Production (mbpd)



Source: NBS, KPMG Research

Further disaggregation of each sectors revealed that the best performing sector with 52.7% contribution to aggregate GDP, the services sector was largely driven by activities of the information and communication sector, the trade sector, real estate sector and the finance and insurance sector, these four sub-sectors have thrived amidst the economic constraints in the country however, despite their upward trend overtime, in terms of contribution to the overall GDP, they all recorded percentages lower than what was recorded in Q2 2023 2023 reflecting a slower growth in some of the activities and the ripple effects on the entire services sector. The information and communication sector and the finance and insurance sector which contributed 15.97% and 4.36% respectively to the overall GDP had been plagued by increasing cyberattacks, concerns for security of data and the need for customers' confidence in the safety of finance transactions as FinTechs continue to increase.

The industry sector which experienced a slow recovery from its contraction in Q2 2023 2023, contributed 18% to the overall GDP which was lower than it contributed to the previous quarter, with the highest contributors to growth in the sector were the manufacturing, the mining and quarrying and the construction sector with 8.42%, 5.64% and 3.36%. We believe growth in the manufacturing sector can be described as the effect of the adjustment of businesses and consumers to mitigate the effects of the reforms on the economy, while businesses have begun to diversify in their strategies and the products offered to satisfy the basic need of the consumers (food & shelter) evident in the growth in the cement (4.2%), food, beverage and tobacco (0.9%) and chemical and pharmaceutical products (6.8%).



SECTORAL CONTRIBUTION GDP 2023 (%)

Activity Sector	Q1	Q2	Q3
A. AGRICULTURE	21.66	23.01	29.31
1. Crop Production	19.48	20.66	27.11
2. Livestock	1.25	1.55	1.58
3. Forestry	0.25	0.29	0.25
4. Fishing	0.69	0.50	0.37
B. INDUSTRY	21.05	18.56	18.00
1. Mining and Quarrying	6.26	5.58	5.64
a. Crude Petroleum and Natural Gas	6.21	5.34	5.48
b. Coal Mining	0.01	0.02	0.00
c. Metal Ores	0.04	0.01	0.02
d. Quarrying and Other Minerals	0.00	0.20	0.14
2. Manufacturing	10.13	8.62	8.42
a. Oil Refining	0.01	0.01	0.01
b. Cement	1.08	0.84	1.02
c. Food, Beverage and Tobacco	5.13	4.48	4.13
d. Textile, Apparel and Footwear	1.86	1.53	1.52
e. Wood and Wood Products	0.31	0.26	0.26
f. Pulp, Paper and Paper Products	0.08	0.06	0.06
g. Chemical and Pharmaceutical Products	0.26	0.28	0.28
h. Non-Metallic Products	0.37	0.28	0.31
i. Plastic and Rubber products	0.34	0.31	0.26
j. Electrical and Electronics	0.00	0.01	0.01
k. Basic Metal, Iron and Steel	0.22	0.22	0.20
l. Motor Vehicles & Assembly	0.06	0.04	0.04
m. Other Manufacturing	0.42	0.32	0.33
3. Electricity, Gas, Steam & Air conditioner	0.20	0.71	0.37
4. Water Supply, Sewage, Waste Management	0.23	0.42	0.20
5. Construction	4.22	3.23	3.36
C. SERVICES	57.29	58.42	52.70
1. Trade	15.97	16.80	15.19
2. Accommodation and Food Services	1.01	0.40	0.72
3. Transportation and Storage	1.18	0.89	0.84
a. Road Transport	0.92	0.74	0.62
b. Rail Transport & Pipelines	0.00	0.00	0.00
c. Water Transport	0.01	0.01	0.01
d. Air Transport	0.17	0.06	0.12
e. Transport Services	0.04	0.06	0.09
f. Post and Courier Services	0.04	0.01	0.01
4. Information and Communication	17.47	19.54	15.97
a. Telecommunications and Information Services	14.13	16.06	13.50
b. Publishing	0.03	0.03	0.03
c. Motion Pictures, Sound Recording and Music Production	1.33	0.87	1.06
d. Broadcasting	1.98	2.59	1.39
5. Arts, Entertainment & Recreation	0.31	0.21	0.20
6. Financial and Insurance	5.35	5.26	4.36
a. Financial Institutions	4.91	4.78	3.97
b. Insurance	0.44	0.49	0.39
7. Real Estate	5.31	5.29	5.58
8. Professional, Scientific & Technical Services	3.25	3.05	3.22
9. Administrative and Support Services	0.02	0.02	0.02
10. Public Administration	1.63	2.17	2.04
11. Education	1.89	1.33	1.66
12. Human Health & Social Services	0.73	0.76	0.71
13. Other Services	3.17	2.72	2.18

Analysis/Opinion

The under-welling performance of the economy in Q3 2023 GDP figures did not come as a surprise and align with our expectation in various recent publications on the economy of continuous slow and fragile growth at or below population growth. We had opined that the continuous slowdown in household consumption demand and private investment in the presence of high and rising double digit inflation and costs of production will conspire to keep growth slow. We had also maintained that the ability of the economy to grow at high growth rates also depended on the oil sector exiting recession and the economy achieving macro stability before we can experience any stronger growth that will enable the economy to meet the current administration ambition of attaining a \$1trillion economy by 2032.

Average growth rate, year to date stands at 2.51% which means the economy will have to grow by at least 5% in Q4 2023 to attain the 3.75% assumed in the 2023 budget of fiscal consolidation and transition. We are accordingly maintaining our earlier forecast of a growth rate of 2.65% for 2023 and 3.45% for 2024.

While we expect the non-oil sector as a whole to retain its slow growth rate given demand destruction and higher business costs, especially following FX and PMS reforms, we anticipate that the economy will in the short to medium term reflect improvements in the oil sector, which we estimate will finally exit recession in Q4 2023, after 14 consecutive quarters of contraction driven by recent and ongoing efforts targeted at curtailing oil theft and oil infrastructure vandalism.

Furthermore, the increase in crude oil production could be as a result of oil discovery by the Petroleum Production License (PPL) Awardees of the 2020 Marginal Field Bid Round in which the Nigerian Upstream Regulatory Commission (NUPRC) had in June 2022 handed over 57 oil fields located onshore and swamps of the Niger Delta to local oil companies with a charge on them to quickly develop the fields and produce first oil before the end of 2023 as published in the Africa Oil+Gas report in September, 2023.

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