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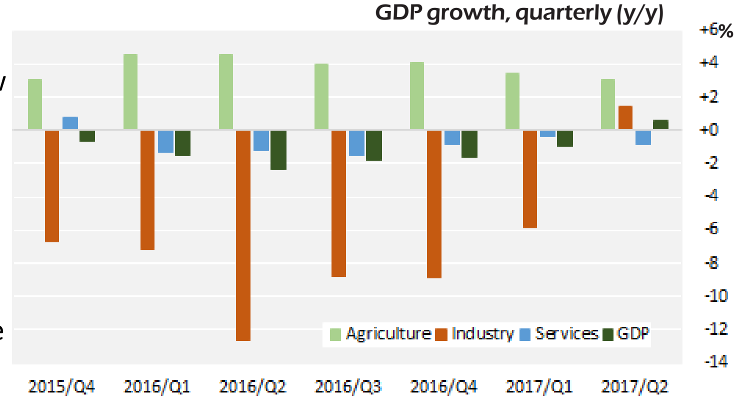
NIGERIA RESEARCH NOTE [REV]

Exiting the recession … with a whimper, not a bang

Appropriately enough, the report[1] that, after 15 months of contraction the economy had managed to expand during Q2, was greeted with guarded optimism. After all, the +0.55% print suggested anything but a freshly tuned machine, throbbing with propulsive energy.

1) Posting a fifth quarter of disappointing growth, the bellwether **Services** sector[2] eked out an **expansion of just 0.85%**. Not only did this result completely reverse the sector's moderate improvement during the prior quarter; it was also the **weakest out-turn since 2016/Q3**[3].

GDP growth, quarterly (y/y)



2) Agriculture[4], which had remained in expansionary mode throughout the recession, grew by 3.01%. But this marked a **seventh consecutive quarter of declining growth**, reflecting continued weakness in Crop production[5,6].

3) The one "bright" spot in the GDP report was **Industry** which managed to turn the corner after contracting for five quarters[7]. Although modest, the **1.45% expansion** was encouragingly broad-based - led by mining and quarrying[8], with manufacturing[9]; electricity and gas supply; and water and sewerage all in positive territory.

4) One of the report's more curious details was the laconic – almost surreptitious - disclosure[10] that the **initial estimate for Q1** had been **revised from -0.52% to -0.91%**. No explanation was provided; **not even a mention of the offending sector(s)**.

Given the unusual circumstances, one is forced to speculate about the true motive behind this significant data restatement.

5) One possibility is that the goal was **to camouflage the alarmingly weak trajectory of the economy's recovery** from a 15-month recession.

The point is best demonstrated by plotting two trend lines, based on the reported quarterly growth rates from 2015/Q2 through 2017/Q1: the first incorporating the initial estimate for 2017/Q1, and the second, the revised estimate.

6) As illustrated in the pair of charts in the Appendix overleaf, projecting forward along each trend line generates **two sharply diverging forecasts**.

- The output based on the **initial Q1 estimate forecasts a Q2 print of +1.5%** that accelerates to a solid +3.4% the following quarter.
- The trend based on the **revised Q1 estimate predicts a far shallower recovery: less than +0.40% in Q2** and barely topping 1% in Q3.

[1] See GDP Report Q2 2017, National Bureau of Statistics; Sept. 2017. [2] Accounting for 53.73% of GDP.
[3] Transport (-6.18%); Real estate (3.53%); Professional services (-1.72%) and Administrative services (-1.61%) were the principal sub-sectors responsible for this under-performance.
[4] Accounting for 22.97% of GDP and more than two-thirds of all employment.
[5] Contributing factors include the Boko Haram insurgency in the North-East region and ongoing, climate-driven conflicts between nomadic pastoralists and sedentary farmers across the Middle Belt.
[6] An additional source of drag was the Fisheries sub-sector which declined by 2.72% - its worst performance since 2016/Q2.
[7] Ranging between -5.83% and -12.66%. [8] Comprising: oil and gas, coal mining and quarrying.
[9] Almost all components of this sub-sector experienced a solid expansion, with the conspicuous exception of cement (-4.16%) and motor vehicles and assembly (-19.72%).
[10] The information was in fact disclosed in parentheses (in the Overview section).

Clearly, **the second forecast casts a more flattering light** upon the +0.55% print reported for Q2.

7) An added benefit from the er, statistical adjustment is that, should the halting recovery stall, **the authorities will find the setback a lot easier to rationalize**[11]. Conversely, should the current quarter deliver a growth 'spurt' - say, on the order of 2% or more - a spectacular triumph can be claimed.

8) For investors, the take-away is that this is **a very tentative recovery**. The point is underscored by the oil minister's bold assertion that **Nigeria will resist any attempt to curb its output** at this month's OPEC meeting. And yet, only four months ago, Mr. Kachikwu's stated position was that *"Nigeria (was) not opposed to joining the OPEC production caps"*[12].

The change of tune may well signal that the Federation's non-oil tax revenues are lagging their target – **a tell-tale sign of weak/deteriorating growth**.

[11] E.G. by arguing that the economy had never really achieved escape velocity.
[12] His peers are unlikely to be so indulgent, given the 500 million bbd by which Nigeria's output has expanded since the cuts were adopted in Sept. 2016. At the time, Nigeria was granted an exemption, in recognition of the insurgency then raging in the Niger Delta. Libya and Iraq were each granted a similar dispensation.

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Appendix:
Trajectory of GDP growth, with projections for 2017/Q2 & Q3