

Flashnotes

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Underwhelming Q2 2023 GDP Growth Recorded

Highlights

- Real GDP in Nigeria rose by 2.51%, year on year in the second quarter of 2023, slightly higher than 2.31% recorded in Q1 2023 and 3.54% in Q2 2022 with industry returning to contraction.
- We are adjusting our 2023 forecast further downwards to 2.65% from 2.85% earlier premised on:
 - ✓ H1 2023 GDP currently stands at 2.41% and will require an average growth in H2 2023 of 3.30% to record 2.85%.
 - ✓ Q3 2023 is the quarter where the impact of subsidy removal, FX unification and other reforms of the new administration had it major impact on squeezing household consumption demand and firms' costs of operations as well as reduced private investment.
 - ✓ Muted government investment in the economy in Q2 & Q3 2023 with new administrations at the Federal and State level settling in Q3 2023.
 - ✓ Further contraction in oil production in July 2023 and likely to continue for the following 2 months.
- Expectation of continued rising inflation in Q3 2023 and its impact on real GDP growth.

Event

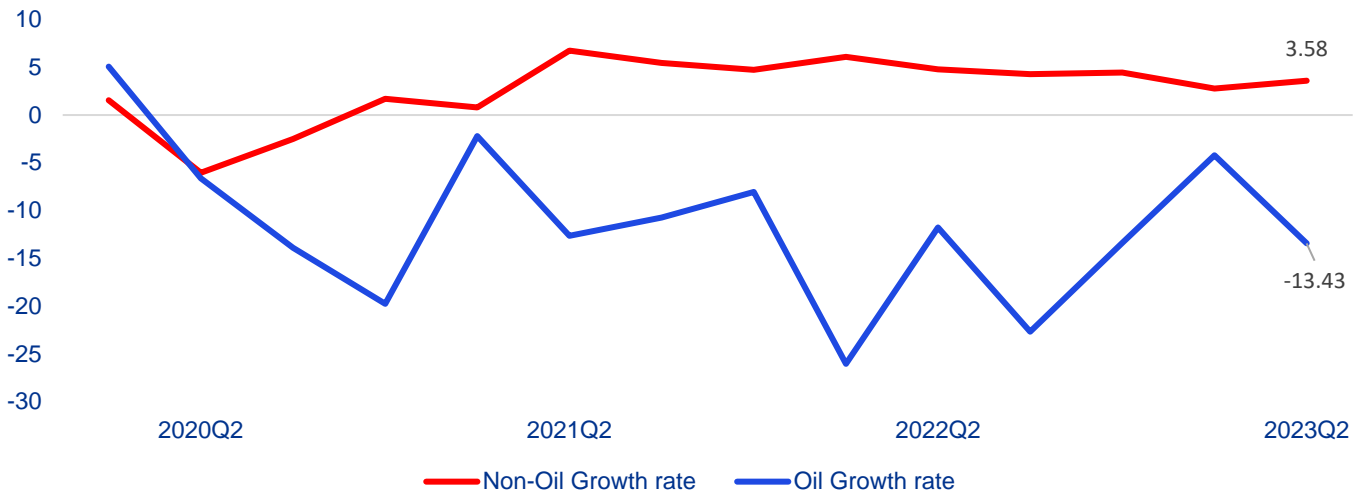
According to the Nigerian National Bureau of Statistics (NBS), Real Gross Domestic product (GDP) in Nigeria rose by 2.51%, year on year in the second quarter of 2023, slightly faster than 2.31% recorded in Q1 2023 and 3.54% in Q2 2022. Growth was driven by the services sector, which grew by 4.42%. The agricultural sector reversed its first Quarter 2023 contraction growing by 1.50% compared to -0.90% in Q1 2023 and 1.20% in Q2 2022.

Industry, which had reversed its seven-quarter long contraction growing by 0.31% in Q1 2023, returned to contraction in Q2 2023 recording -1.94%. Accordingly, the non-oil grew by 3.58% in Q2 2023, compared to 2.77% in Q1 2023 while the oil sector, which has contracted since Q1 2020, further declined by -13.43% in Q2 2023 compared to -4.21% in Q1 2023 and -11.77% in Q2 2022.



Source: NBS

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



Oil Production (mbpd)

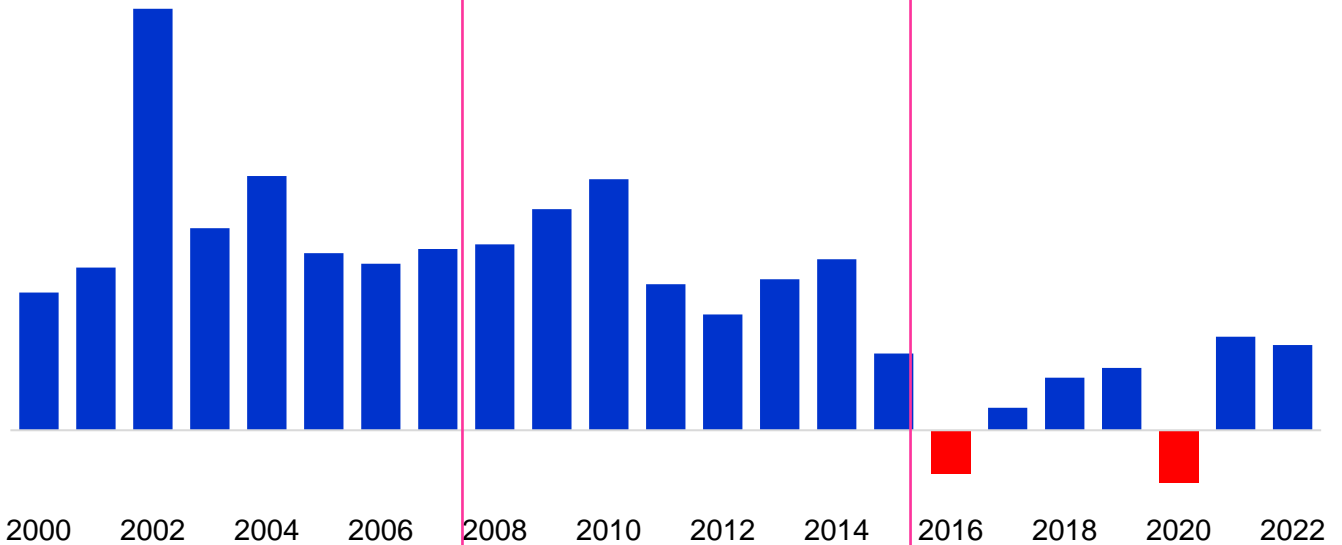


Real GDP Growth in Nigeria

Average Growth: 7.7%

Average Growth: 6.0%

Average Growth: 1.1%



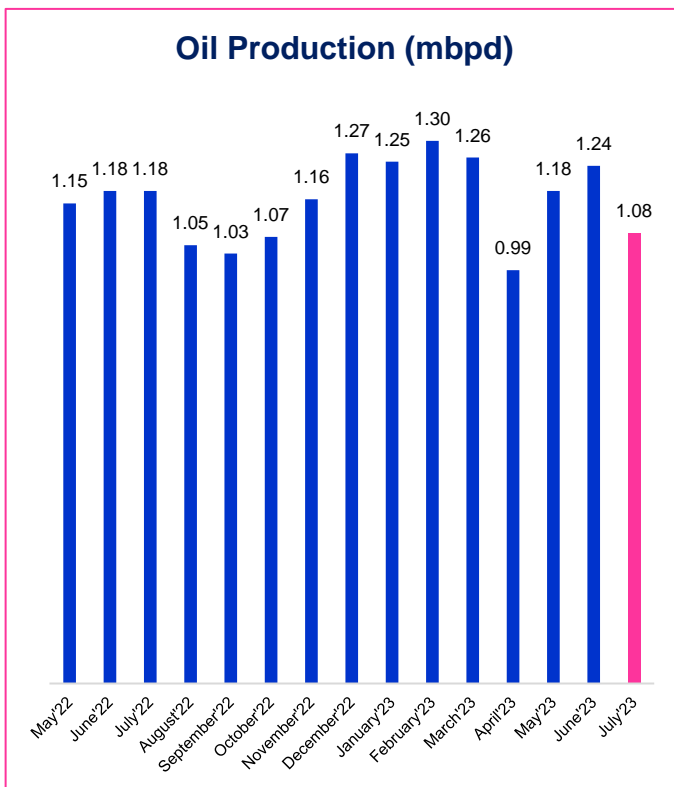
Analysis/Opinion

Q2 2023 GDP results is broadly in line with our earlier downward revision of 2023 GDP to 2.85%. Nevertheless, we are adjusting our 2023 forecast further downwards to 2.65%. Our revision is premised on various considerations.

Firstly, half year 2023 GDP currently stands at 2.41% and will require an average growth in H2 2023 of 3.30% and 3.50% to end the year at 2.85% and 3.0% respectively for 2023 which we believe is challenging and unlikely. Q2 2023 is however the quarter where the impact of subsidy removal, FX unification and other reforms of the new administration had its major impact on squeezing household consumption demand and firms' costs of operations as well as reduced private investment as firms continued to adopt a wait and see approach, tweak strategies to cope with rising costs and reduced demand for their goods and services and struggled to find FX to operate. These factors will likely constrain non-oil growth given that household consumption and private investment constitute the largest share of GDP.

The impact of subsidy removal was evident in the biggest contraction in road transportation GDP since the new GDP series. Though, subsidy was only removed in June 2023 representing one month impact of the three months of the quarter, road transport GDP contracted by -55.14% in Q2 2023, representing the biggest contraction in road transport GDP in history. This contradicts the muted results recorded with respect to inflation for that same month which according to NBS was not expected to fully reflect on the CPI though methodologically, the inflation rate in each sector is used to deflate nominal GDP for that sector.

At the same time, there has been muted government capital investment in the economy in Q2 2023 and the first half of Q3 2023 so far, with new administrations at the Federal and State level settling down in Q3 2023. Furthermore, oil production has started Q3 2023 with a further contraction in July 2023 and if this trend continues for the remaining two months of Q3 2023, we will have a situation where non-oil sector growth and oil sector growth underperform.



- *Nigeria's crude oil production was 1.08 mbpd in July 2023. This shows a decline when compared to 1.24 mbpd in June 2023 and signifies the second lowest it has produced since the beginning of 2023.*
- *July production was also significantly lower than the 1.7 mbpd production quota by OPEC.*
- *Nigeria recorded 40 incidents of crude oil theft between July 15 and July 21, 2023; 139 incidents between July 22 to 28 and a total of 144 crude oil theft incidents were recorded between August 4 and 11.*

Finally, with rising inflation in the first month of Q3 2023 and our expectation of further increases in inflation for the rest of the year, the pressure on nominal to real GDP will be higher, thereby curtailing higher real GDP growth in Q3 2023.

For further information, contact:

Dr Yemi Kale

Partner/Chief Economist
KPMG Nigeria
Oyeyemi.Kale@ng.kpmg.com

Busayo Olanrewaju-Afuye

Associate, Research and Insights
KPMG Nigeria
Busayo.Olanrewaju-Afuye@ng.kpmg.com

Festus Ogunbayo

Analyst, Research and Insights
KPMG Nigeria
Festus.Ogunbayo@ng.kpmg.com



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