CENTRE FOR THE PROMOTION OF PRIVATE ENTERPRISE

2021 THIRD QUARTER GDP REPORT: ECONOMIC IMPLICATIONS

The 4.03% GDP growth recorded in the third quarter of 2021 marked the fourth consecutive quarters of GDP growth since the exit of Nigeria from recession in Q4 2020. However, there are lingering concerns around the inclusiveness of the growth and the productivity of the non-oil sector of the economy which accounts for 92.51% of the GDP. These concerns are underpinned by the weak contribution of the non-oil sector to foreign exchange earnings, revenue and quality jobs. It is also underscored by the weak global competitiveness of the non-oil economy.

Key challenges bedevilling the non-oil sector are issues bordering on the macroeconomic instability, currency depreciation, forex liquidity, regulatory constraints, policy inconsistency, security of lives and property, structural bottlenecks and barriers to import and export trade and burdensome bureaucracy.

Meanwhile, the recent positive growth trend in the GDP could be attributed to the following:

- Rebound of domestic economic activities following the relaxation of restrictions on economic activities and movement within the country.
- Revitalization of sectors that were earlier on lockdown following the onset of the Covid-19 pandemic such as the hospitality, entertainment, aviation, road transportation, tourism, among others.
- The restoration of supply chains that were disrupted at the inception of the pandemic.
- Recovery of the global economy following improvements in investors sentiments as a result of improved vaccination in many parts of the world.
- Rebound of commodity prices which had a positive impact on macro-economic outlook. Crude oil price for instance has recorded an impressive recovery in last couple of months.
- Base effect as a comparative benchmark for the computation of GDP was period of recession.
- Economic stimulus programmes by monetary and fiscal authorities.

SECTORAL GROWTH PERFORMANCE

SECTORS THAT GREW

Rail sector:

The 59.93% growth performance in the rail sector was the highest sectoral performance during the period under review. This was driven largely by the following factors:

- High passenger traffic in the rail sector especially along the Kaduna-Abuja axis and Warri-Ajaokuta axis.
- Safety concerns as the rail system is considered safer than the roads
- Quality of the roads which often results in long travel time and risk of road accident.
- Incidents of banditry and kidnapping on the highways.

The Metal Ores Sub-sectors:

The metal ores sectors recorded an impressive 54.92% growth driven by the following factors:

- Imperative of local sourcing of minerals for manufacturing and other processes as a result of a depreciating exchange rate and the liquidity problems in the foreign exchange market. This has led to increased demand for domestic solid minerals.

- There is an increase in investment in solid minerals as s result of the opportunities created by the scarcity of foreign exchange for the importation of some of these minerals.

The Air Transport Sector:

The air transport sector recorded an impressive rebound at 33.31% growth. This positive trajectory was driven by the following:

- Resumption of economic activities across all sectors in the economy with a corresponding increase in mobility and velocity of circulation within the country.
- Safety concerns around road transportation especially incidences of kidnapping and banditry on the highways. This led to many travellers opting for flight.
- State of the roads and the long travel time.

Electricity, Gas and Steam Air- conditioner:

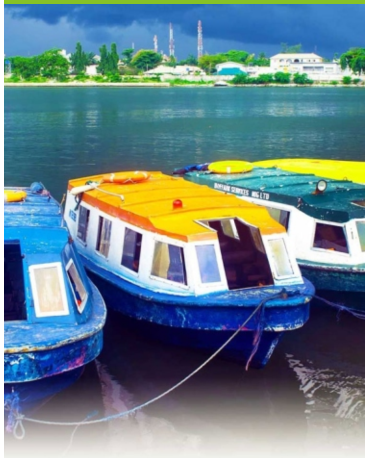
The sector recorded a growth of 14.36%, this was as possibly a result of the following factors:

- The market segmentation models used by the Discos have impacted positively on the liquidity of the electricity providers.
- Economic activities have since resumed as a result of the relaxation in the Covid protocols and the use of vaccines. This led to an increase in energy demand, especially for gas and electricity.
- There is an increase in the use of gas for industries and households which impacted on its demand.

Road Transportation Sub-sector:

The road transportation sub-sector recorded a GDP growth of 21.11%, this again is impressive and driven by the following factors:

- The rebound of economic activities which led to increased physical mobility and connectivity within the economy.
- Relaxation of movement which had hitherto affected road transportation.
- Restoration of economic activities in sectors that were earlier on lockdown such as entertainment sector, the hospitality, aviation, etc.



Water Transportation:

The water transportation sector recorded a GDP growth of 16.30%. this was driven by the following factors:

- Increased use of inland waterways as a result of the rise in water levels especially along rivers Niger and Benue.
- Increased use of badges especially around the Lagos area for the evacuation of cargo from the ports as a result of the congestion at the port

Trade and Commerce Sector

The trade sector experienced a GDP growth of 11.9%, again this was as a result of the following factors:

- Rebound of economic activities across all the sectors of the economy which impacted positively on trade and commerce.
- Resumption of activities in sectors that were earlier on lockdown especially the entertainment and hospitality sector.
- Restoration of supply chains locally and globally. Supply chains were earlier disrupted as a result of the pandemic. Therefore, the momentum of trade other commercial activities increased once the disruptions eased.
- Lifting of Lockdown of Some Economic Activities

Finance and Insurance:

The financial Services sector recorded an impressive GDP growth of 23.23% which could be ascribed to the following:

- There is a correlation between the volume and tempo of economic activities and financial transactions in an economy. As economic activities rebounded, financial activities also increased correspondingly. This has been reflected in the financial reports of some of the players in the sector.

ICT sector and Telecoms:

The ICT and Telecoms sector grew by an impressive 10.87%. The sector has maintained a consistent growth trend pre, during and post pandemic. This was driven largely by the following:

- The economy is witnessing an increased use of digital solutions across all sectors for marketing, operations, logistics and other business processes.
- The demand for data has increased significantly following the increase adoption of remote working by many organisations.
- The fintech industry is growing and leveraging on technology provided by the ICT.
- Digital applications to teaching in the educational and capacity building sectors is gaining remarkable traction.
- The increased tempo and volume of transactions on the e-commerce and social media platform, driven largely by young people.

AGRICULTURAL SECTOR:

Although the sector did not contract but recorded a very sluggish growth at 1.22%. Some of the factors responsible for the sluggish performance of the agricultural sector include the following:

- Insecurity in many parts of the country which affected many farming communities.
- Cost of transportation which is impeding access to market putting pressure on cost of farm produce.
- Cost of farm inputs, agrochemicals and equipment.
- Slow technology adoption in the agricultural sector. The sector is still dominated by subsistent farming.
- Very little mechanisation and commercialisation.
- Climate change issues is affecting the size of arable land in many locations.
- High cost of feed for poultry, livestock and fishery sub-sectors which is adversely impacting investment in those sectors.

MANUFACTURING SECTOR

The manufacturing sector posted a modest growth of 4.29 percent. This was driven largely by the following sub sectors:

- Chemicals and Pharmaceuticals 10.02 percent
- Food and Beverage 6.07 percent
- Cement 5.68 percent
- Motor Vehicles and Assembly 4.97 percent.

The food and beverage sub sector as well as the cement industry leveraged their investments in backward integration. The chemicals and pharmaceuticals profited from the favourable investment sentiments that followed the pandemic. The motor vehicles and Assembly sub sector took advantage of the favourable import tariffs for SKDs.

SECTORS THAT DECLINED

Oil refining:

The oil refining sector recorded the biggest sectoral contraction in the third quarter of 2021. The sector contracted by 47.83%. The floundering state of the refineries has been a trend in the past couple of years. The key factors are as follows:

- Public sector ownership of refineries and the associated burden of bureaucracy, political interference, poor management and transparency issues.
- Petroleum subsidy regime which practically blocked private investment in the sector. Therefore, investment growth was stunted.
- Unfavourable policy regime and the associated distortions in price.
- Unfavourable regulatory environment for the downstream sector of the economy.

Hopefully, the Petroleum Industry Act will put an end to the policy headwinds in the sector.

Crude, Petroleum and Gas:

The sector contracted by 10.73% in the third quarter. Factors responsible includes the following:

- Disruption in the production arising from insecurity in the Niger-Delta.
- Crude oil theft and vandalization of oil production facilities.
- Policy uncertainty and policy transitioning which affected the confidence of investors.
- Difficult regulatory environment which are not investment friendly.
- Weak investment sentiment on the back of the global decarbonisation programmes and energy transition initiative.
- Attracting investment into the sector is becoming more challenging as a result of the global groundswell of decarbonization and energy transition programmes.
- OPEC quota which has been low for most part of the year.

SECTORAL CONTRIBUTIONS TO GDP AND ECONOMIC IMPLICATIONS

According to the Q3 GDP report, the contributions of sectors to GDP are as follows: Agriculture: 29.94%; crude oil and gas: 7.49%; manufacturing: 8.96%; trade 14.93%; telecom and ICT: 11.94%.

The non-oil sector accounts for 92.51% while the oil sector accounts for 7.49%. This is a reflection of the dominance of the non-oil sector. It is also a reflection that economic players are much more active and involved in the non-oil economy.

However, the paradox is that the oil sector still accounts for over 50% of revenue and over 90% of our foreign exchange earnings. This is a manifestation of the low level of productivity in the non-oil sector.

Therefore, reforms are imperative to scale up productivity in the non-oil sector of the economy in order to enhance its contributions both to revenue and foreign exchange earnings. This is the way to make the economy more sustainable and stable.

- There is a need to de-risk investment in the real sector of the economy to reduce the dominance of the service sector in the economy. We cannot afford an economy that is very weak in production and the associated competitiveness challenges. This is the sustainable pathway to promote the self-reliance and backward integration agenda.

- There should be deliberate policy to plug into the global value chain rather than be consumed in building a wall around the domestic economy.

- There is need for periodic impact analysis of policy measures and intervention programmes to ensure the delivery of desired outcomes.

- There should be regular engagement with stakeholders across sectors to get feedback from investors and stakeholders in order to gather empirical evidence to enhance the quality of fiscal and monetary policies. Such interactions are also imperative for regulatory feedback.

SERVICE SECTOR CONTRIBUTION TO THE GDP

The service sector continues to dominate the contribution to GDP with a 49.65% contribution in Q3. This structure is a reflection of the following:

- It is an indication that productivity is much higher in the service sector compared to other sectors like manufacturing and agriculture.
- Flexibility is easier in the sector. This enables investors to reflect the changing economic circumstances in their business model.
- Challenges of infrastructure, especially roads, railway and power are much less in the services sector. Infrastructure demands are not as high as what you have in the real sector.
- Investment risk in the service sector is for most part lower than in the real sector.
- Gestation period for investment is shorter in the service sector than in the real sector.
- There is greater ease of entry and exit.

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Profile Of
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Dr Muda Yusuf is the immediate past Director General of the Lagos Chamber of Commerce and Industry (LCCI). He is an economist and has contributed immensely to the national economic discourse through his research-based analysis of policies of government as they affect various sectors of the economy. He is currently the Founder/CEO of the Centre for the Promotion of Private Enterprise [CPPE], an NGO committed to the ideals of free enterprise and private sector development.

Dr Yusuf obtained bachelor's and Master's degrees in Economics from the University of Ilorin, Nigeria and University of Lagos, Nigeria respectively. He has a Masters Degree in Business Research from the Swiss Business School, Switzerland. He also holds a Doctorate degree in Business Administration from Swiss Business School, Switzerland. He has good understanding and competence in Business and Corporate Strategy. He is an alumnus of the Lagos Business School, having attended the Advanced Management Programme of the school.

He has participated in numerous high-level public policy advocacy dialogues at both the federal and state levels with the aim of fostering a conducive environment for private sector development in the Nigerian economy. He is a leading advocate of an enabling environment for the Nigerian private sector and has a vast knowledge and exposure on Business Research, Policy and Regulatory issues affecting business.

Dr Muda Yusuf has attended numerous prestigious courses, conferences and seminars both locally and internationally.

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