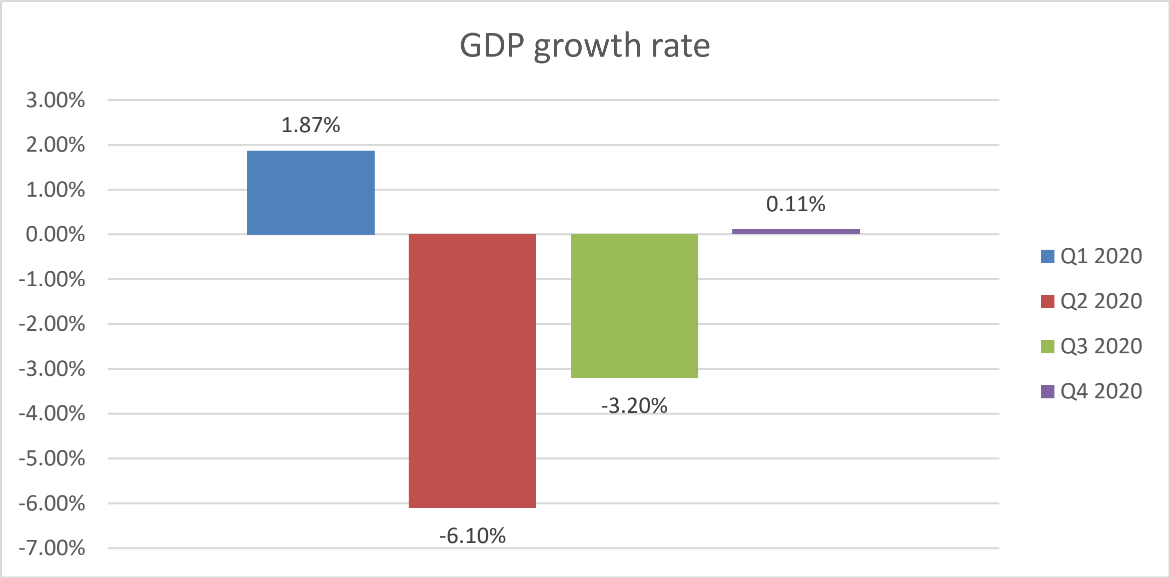
NIGERIA EXITS RECESSION, Q4 GDP GROWS MARGINALLY BY 0.11%



Key take aways

- Nigerians heaved a sigh of relief when the National Bureau of Statistics released the country's official GDP figures for Q4 2020 showing that Nigeria has exited the recession which it slumped into during the year.
- The economy of Nigeria advanced 0.1% yoy in the Q4 of 2020, following a 3.6% contraction in the previous period. It marks the first positive quarterly growth in the last three quarters, reflecting the gradual return of economic activities following the easing of restricted movements and limited local and international commercial activities in the preceding quarters.
- The non-oil sector grew 1.7%, recovering modestly from a 2.5% decline in Q3, boosted by telecommunications & information services (17.6% vs 17.4%). Other important contributions came from agriculture (3.4% vs 1.4%) and real estate (2.8% vs -13.4%).

- The oil sector plunged 19.8%, following a 13.9% slump, amid lower crude oil production (1.56 million barrels per day, down from 1.67 mbps in Q3 and 2 mbps a year ago). On a quarterly basis, the GDP grew 9.7%, after increasing 12.1% in the previous quarter. In 2020, the economy shrank 1.9%, compared to a 2.3% expansion in 2019
- Overall, in 2020 the annual growth of real GDP in Nigeria contracted by -1.92% which denotes a decline of -4.20% points when compared to the 2019 figure pf 2.27%. The oil sector declined by 19.76% (year on year), amid lower crude oil production (1.56 million barrels per day). Also, the non-oil sector grew by (1.69%).
- The negative growth can be attributed to the downturn caused by covid-19 pandemic, which necessitated lockdown actions across the country as a measure to curb the spread of the pandemic.
- The implementation of the lockdown, caused significant disruptions in the value chain, halt in most aspects of the economy, disruption in the manufacturing sector, and many more. Specifically, many Nigerians lost their jobs during the period, and those who had their jobs had to work remotely from their various homes.
- Issues surrounding the EndSARS protest was also significant as it caused disruption in normal business activities as many states declared curfew. Also, some victims are yet to recover from the destruction of private and public-owned properties.

Outlook

Non-oil sector is expected to recover in 2021 as the economy opens up and productivity gradually returns to pre pandemic levels coupled with increase in consumer spending. This view is supported by an improvement in expenditure in capital expenditure spending in 2021 as government stimulates effort to curb the effect of the pandemic. The AFCTA agreement which commenced in January opens up opportunities for improved trade activities between Nigeria and the rest of the continent.

The Stock Market in 2021 is expected to be driven by some factors:

- Gradual economic recovery and increased government spending
- Banking sector to record healthy profit despite low interest environment
- Gradual recovery in the oil and gas sector
- Consumer spending power will be enhanced by social intervention programmes

While we believe the GDP figures is a sort of good news to investors, the CBN may begin to shift focus to combat Inflation. If the CBN chooses to increase interest rate and drive more investment into the fixed income, investors may begin to rebalance their portfolio by exiting their equity positions and taking up fixed income instruments. We note that the major driver of the stock market last year was the low yields in the fixed income market, therefore a reversal of events would pose a threat to the bulls rally. On this note, we say that the major driver for the equities market for this year would be the fundamentals of companies, industrial breakthroughs and a rebound in Oil prices. Hence, we advise investors to stick to companies with good fundamentals and liquidity so as not to get trapped with a stock when the bubble bursts and unable to sell. Dividend paying stocks would be attractive options at this point.

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