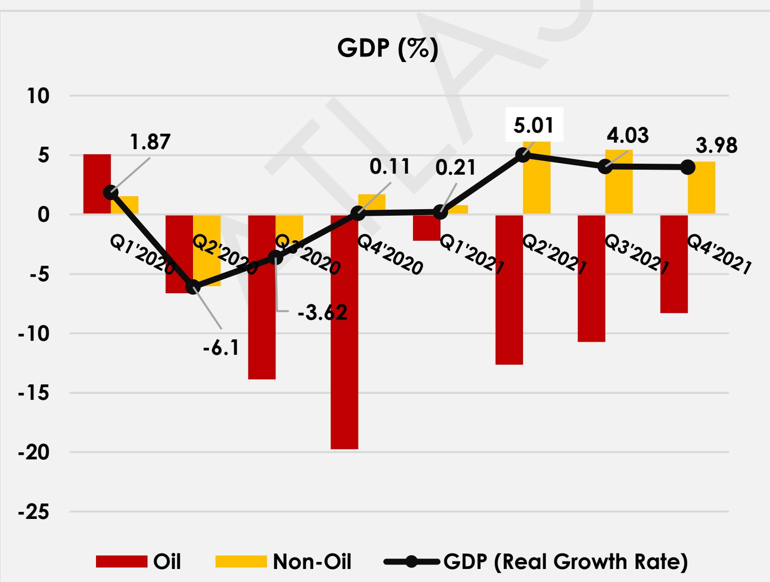
Nigeria Economy Expands to 7 years High as Inflation Rate Remain Above 15%

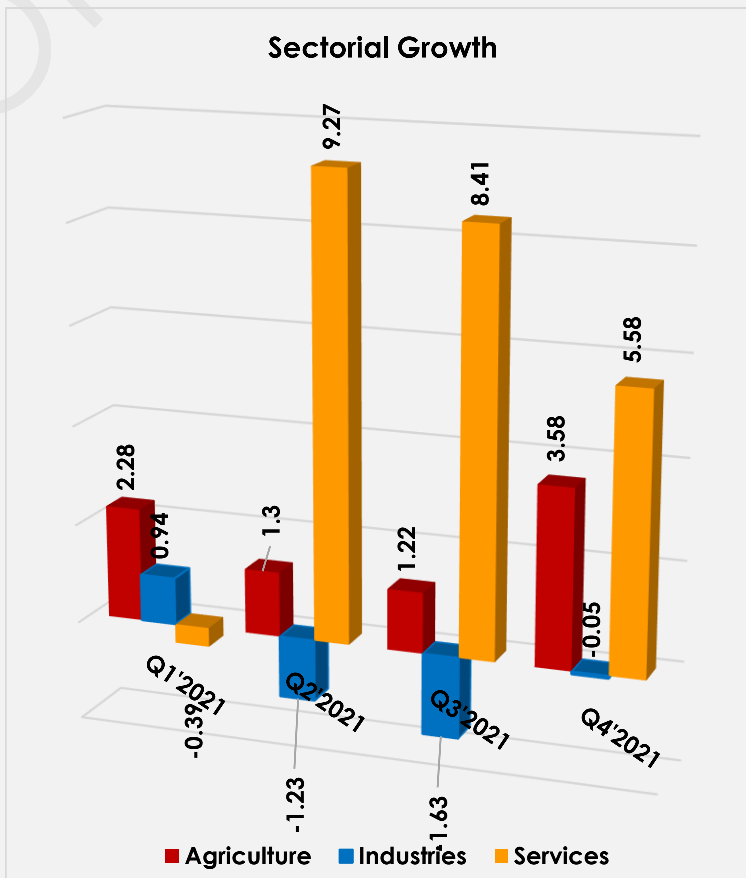
On Thursday, the National Bureau of Statistics published the fourth quarter of 2021 and Full Year 2021 Gross Domestic Product (GDP) report, Nigeria most important economic performance indicator to the public. Following the data released, the GDP grew by 3.98% in Q4'2021, sustaining the economic expansion to four consecutive quarters after posting -6.10% and -3.62% contraction in Q2'2020 and Q3'2020, respectively, due to the aftermath effect of Covid-19 pandemic. Similarly, the overall GPD expanded by 3.40%y/y higher than the IMF (3.0%), World Bank (2.4%) and Atlass Portfolio (3.0%) expectations and highest since 2014, as against -1.92%y/y contraction recorded in 2020.

With reference to the components contributing to the GDP, the Non-Oil contribution to the GDP grew by 0.92% (annualized) to 92.76% compared to 91.84% in FY'2020. On the other hand, the Oil contribution to the GDP declined by 0.92% (annualized) to 7.24% as against 8.16% in FY'2020, despite the increase in global crude oil prices.



Source: NBS, Atlass Portfolio

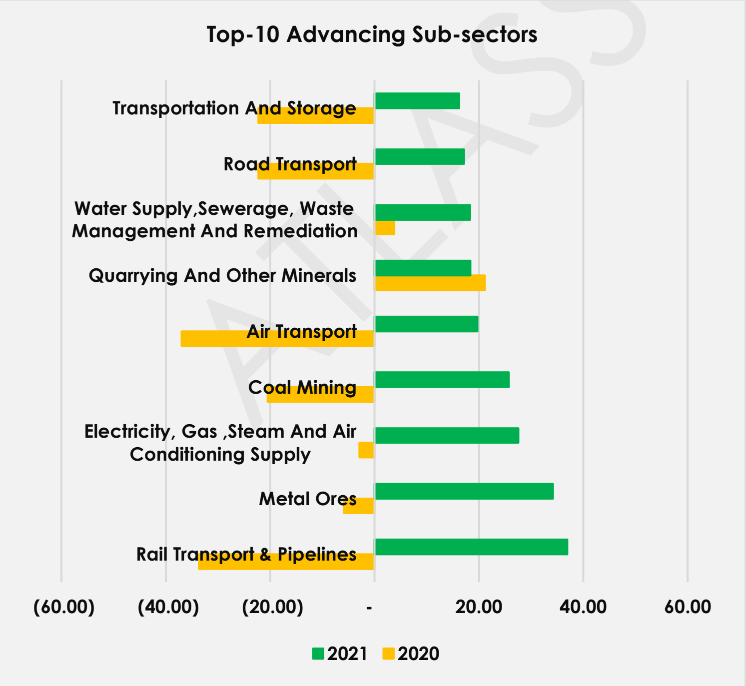
Nonetheless, in terms of growth, the Non-Oil components largely expanded by 4.44%y/y, as against the contraction of -1.25% in FY'2020. We believed this resulted from the base effect when the country began its partial reopening of the economy after the total lockdown in 2021 to curb Covid-19 disease spread. On the other hand, the Oil component of the GDP contracted by -8.30%y/y in FY'2021, compared to the -8.89%y/y contraction in FY'2021. The oil sector contraction follows the 14.9% decline in average daily oil production to an average of 1.54mbpd in 2021, compared to 1.77mbpd in FY'2020, as Nigeria failed to meet up to the OPEC quota of 1.66mbpd as of December 2021.



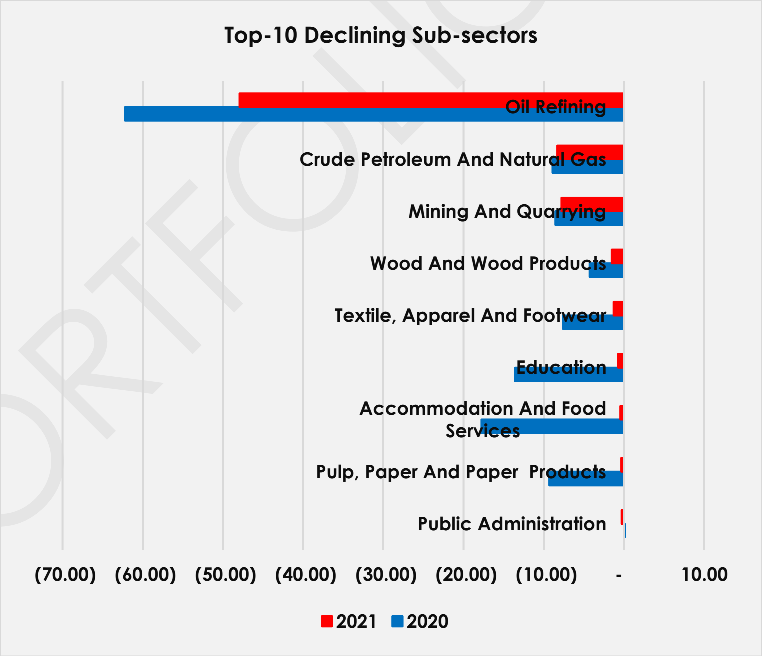
Source: NBS, Atlass Portfolio

Breaking down the components of the Non-Oil GDP, both the Services and Agriculture sectors expanded by 5.61%y/y and 2.13%y/y, respectively. While the Industries sector contracted by -0.47%y/y in FY'2021 compared to –5.85%y/y contraction in FY'2020. The contraction witnessed in the industries sectors was believed to be driven by the high exchange rate of Naira to the US Dollar, high inflation rate and high lending rate, which combined resulted in high misery index.

Predictably, Rail Transport and Pipelines came out as the fastest growing sub-sector in 2021 with 36.95%y/y growth from -33.64%y/y contraction in FY'2021. This was due to the revitalization and development of the Nigeria Rail-line system following the commissioning and full operation of the Lagos-Ibadan rail line combined with the base year effect. The growth in Rail Transport was followed closely by the expansion in Metal Ores by 34.19%y/y (vs -5.85%y/y contraction in FY'2020), Electricity, Gas, Steam and Air conditioning supply by 27.57%y/y (vs -2.90%y/y in FY'2020), Coal Mining by 25.75%y/y (vs 20.50%y/y in FY'2020) and Air Transport by 19.70%y/y (vs -36.98%y/y in FY'2020). While the Financial and Insurance sectors expanded by 10.07%y/y (vs 9.37% in FY'2020) and Telecommunications & Information Services expanded by 7.28%y/y (vs 15.90%y/y in FY'2020). Other sub-sectors that saw expansion was the Agricultural sector with 2.13%y/y expansion from 2.17% in FY'2020 due to heightened rate of insecurity across the country, and Trade with 8.62%y/y growth, compared to -8.49%y/y contraction in FY'2020 when there was Covid-19 lockdown measure.



Source: NBS, Atlass Portfolio



Source: NBS, Atlass Portfolio

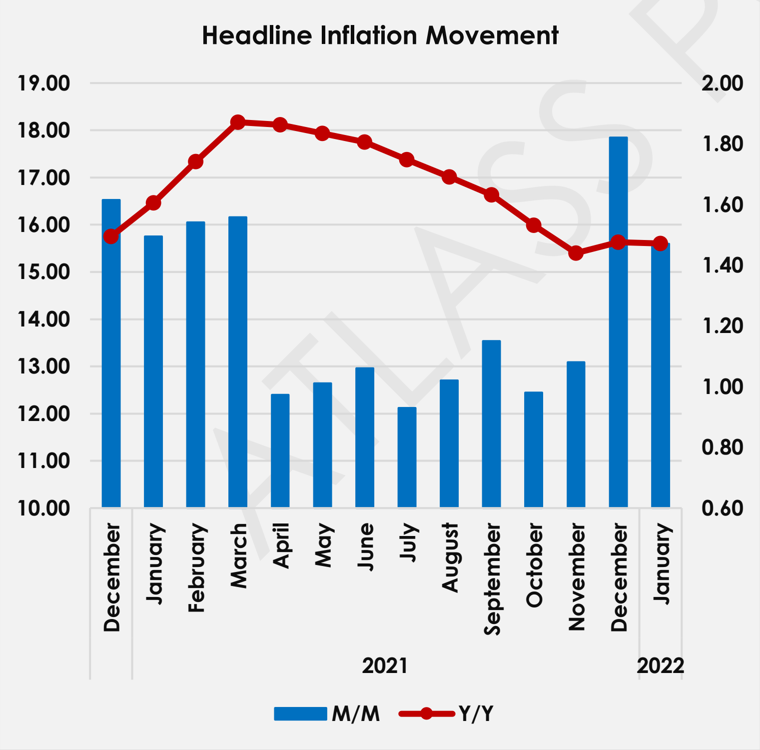
On the flipside, Oil Refining recorded the highest contraction of -47.94%, followed closely by the Crude Petroleum & Natural Gas with -8.30%, Wood and Wood Products with -1.54%, Textile, Apparel and Footwear with 1.27%y/y and Education sector with -0.75% contraction. While Accommodation & Food Services and Public Administration contracted by -0.45%y/y and 0.30%y/y respectively.

Conclusively, we expect slow growth in Q1'2022 GDP and expansion of 2.9% as the country recovers from the Covid-19 pandemic and return to the pre-pandemic era.

Food Inflation Drives Headline Inflation Lower in January'2022

In line with our expectation, data released by the National Bureau of Statistics (NBS) on Tuesday indicates that the Headline Inflation for January 2022 increased at a slower rate to 15.60%y/y from 15.63%y/y in December 2021. This implies that the general price level of goods and services in the economy for January 2022 was relatively lower as against the corresponding period of 2021.

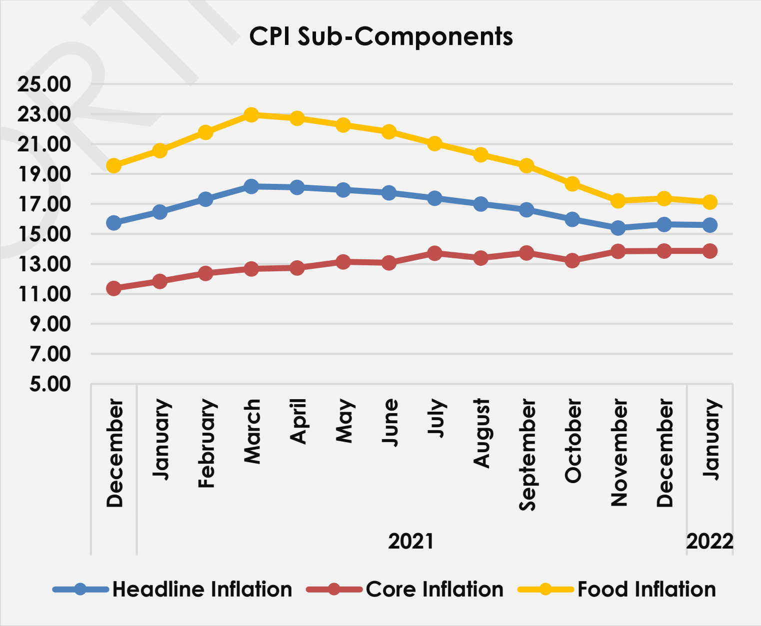
This slow increase in the Headline Inflation index follows the decline in the Food price inflation sub-component, which dipped from 17.37%y/y in Dec'2021 to 17.13%y/y in Jan'2022; the lowest since October 2020. Coming from the increase in Dec'2021 following the festive season demand, the food inflation dipped by 57bps on a month-on-month basis from 2.19%m/m in Dec'2021 to 1.62%m/m in January 2021. We believe these reflect the increase in the domestic food value chain, decline in the insecurity rate and moderate cost of transportation in January and the impact of the CBN interventions in the agricultural sector.



Source: NBS, Atlass Portfolio

Meanwhile, the Core inflation sub-component, which measures the direction of change in the average price level of All Items Less Farm Produce, remained the same at 13.87%y/y, as against the same rate in Dec'2021, but increased by 13bps to 1.25%m/m in Jan'2022, from 1.12%m/m in Dec'2021. Following the increase in electricity tariff, high exchange rate due to low earnings from crude sales and by extension, weak foreign reserve.

In the meantime, the decrease in the inflation rate means a decline in the negative True-Yield (i.e. lower negative difference between inflation and yield) on fixed income instruments. Also, the purchasing power of consumers was a bit stronger, compared to the corresponding period of 2021 and Dec'2021.



Source: NBS, Atlass Portfolio

In conclusion, with the decline in the foreign reserve to support the FX market, the circulation of imported dirty fuel, returning queue to filling stations in many states across the country and caused further increase in transportation cost, we expect the February 2022 inflation rate to increase at a slower rate between 15.15% and 15.35% as against the Jan'2022 rate on the back of the positive impact of the CBN intervention in the agricultural sector.

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