

OCTOBER 2021

CORPORATE DIGEST

Macroeconomic
Update

The Nigerian Food &
Beverage Industry:
Wheels for Sustainable
Growth

What The Future Holds:
A look at the 2022
FGN Budget



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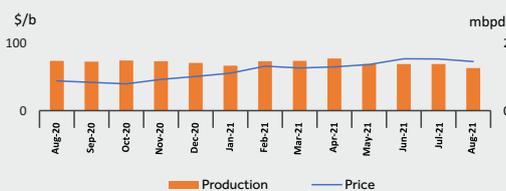
Macroeconomic Update

Lending & Investment Rates(%)



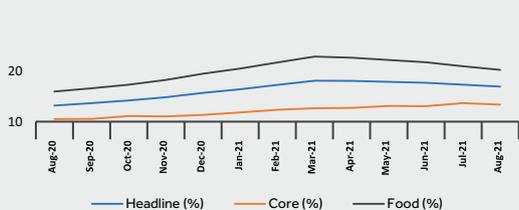
- The Monetary Policy Committee (MPC) met in September, making it the fifth time this year.
- The Monetary Policy Rate (MPR) was left unchanged at 11.5% to move the economy in a sustainable path.
- The Prime Lending Rate (PLR) and Maximum Lending Rate (MLR) rose slightly from 11.57% and 27.99% recorded in July 2021 to 11.62% and 28.00% recorded in August 2021.
- The 270-Day Treasury Bills (T-Bills) declined further, dropping from 7.11% posted in August to 6.38% in September 2021

Bonny Light Oil



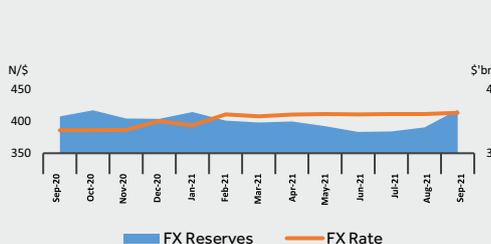
- Oil prices rose to settle at \$78.11 per barrel in September 2021 from \$73.18 per barrel posted in August. This was largely due to the shortage of crude inventories in the United States and global recovery from the COVID-19 pandemic.
- Nigeria's crude oil production declined further in August 2021 settling at 1.27 million barrel per day (mbpd) compared to 1.39mbpd posted in July.
- Analysts have projected an increase in oil prices owing to stock draws, lower OPEC production and stronger energy demand

Inflation Rate (%)



- Headline inflation rate continues to decline in 2021, settling at 17.01% in August 2021 from 17.38% posted in July 2021
- However, the headline inflation rate is still well above the CBN's target of 6% - 9%. Hence, more work needs to be done to close the gap.
- Food inflation rate dipped further by 0.73% to reach 20.30% in August 2021 compared to 21.03% posted in July 2021. Likewise, the Core inflation rate also declined to settle at 13.41% in August, up from 13.72% in July 2021

FX Reserves, FX Rate



- External reserves rose by \$2.76 billion to settle at \$36.78 billion in September 2021 compared to \$33.93 billion posted in the previous month. This reflects inflows from the IMF Special Drawing Rights, Eurobond amongst other inflows.
- The NAFEX rate depreciated by ₦1.85 to close at ₦413.05/\$ in September 2021 compared to ₦411.2/\$ posted in the previous month.
- Dollar demand continues to outweigh its supply, hence putting pressure on the Naira.

Sources: CBN, NBS, FMDQ

The Nigerian Food & Beverage Industry:

Wheels for
Sustainable
Growth



Overview of the Nigerian Food & Beverage Industry

- The Nigerian Food and Beverage industry is highly saturated with numerous players thereby causing very intense competition and in most cases makes it difficult for new entrants to survive (sometimes leading to early withdrawals.)
- The performance of the industry is mainly driven by the growth in the urban population and a rise in the number of middle-income consumers who continue to embrace modern Western cultural norms and consumption habits.
- The industry boasts of a strong distribution network as food and beverage products are readily available in open-air markets, supermarkets, kiosks. There has also been an increased shift to e-commerce, as consumers are finding it more convenient to do business and shop online.
- Key operators in the industry have gradually resorted to looking inwards with less reliance on imported raw materials. Some operators now engage in backward integration to achieve self-sufficiency with some of the raw materials used in production, thereby limiting exposure to the volatility of input prices and giving operators a competitive edge.
- Brand loyalty remains shaky due to higher price sensitivity while product availability is also key as value consumers are frequent buyers who seldom stock in large quantities.

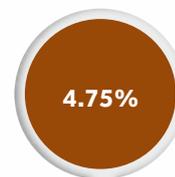
Real GDP Growth (%) for the Nigerian Food, Beverage & Tobacco Industry



Sector
Characteristics*



Nominal GDP
Size (N'trn)**



Contribution
to GDP (%)**

Interest Rate Sensitive



Exchange Rate Sensitive



Employment Sensitive



* - The food, beverage & tobacco industry has experienced more than 2 consecutive quarterly positive growth rates

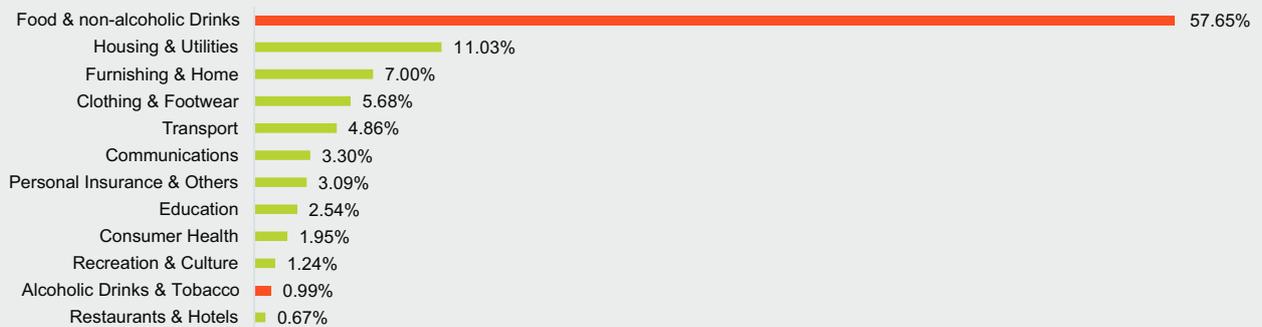
** - Data as at full year 2020

SWOT Analysis

<h1>S</h1> <p>STRENGTHS</p> 	<h1>W</h1> <p>WEAKNESSES</p> 	<h1>O</h1> <p>OPPORTUNITIES</p> 	<h1>T</h1> <p>THREATS</p> 
<ul style="list-style-type: none"> • Large population creates Nigeria as the largest consumer market in Africa. • Nigeria produces several key agricultural crops locally and is the world's fourth largest cocoa grower. • The mass grocery retail sector is growing from an extremely low base, which could attract regional retailers seeking first-mover advantage. 	<ul style="list-style-type: none"> • High food inflation will negatively impact industry real growth • The retail sector is relatively underdeveloped with over 80% of shopping still carried out in the old format of corner shops, kiosks and local markets • High operating costs and weak internal trade systems have inhibited foreign retailers from entering the retail space. 	<ul style="list-style-type: none"> • The Covid-19 pandemic has resulted in the adoption of e-Commerce services and this trend is expected to continue • The African Continental Free Trade Agreement (AfCFTA) will bring greater market access to neighbouring countries. • Investment into the highly underdeveloped mass grocery retail industry is likely to attract a larger 	<ul style="list-style-type: none"> • High inflation is weighing consumer purchasing power and this could impact food and drink spending growth. • Ongoing security concerns in northern regions would increase the cost of raw materials needed for production. • A precarious economic environment may limit growth in the formal food retail sector

Consumption Pattern in Nigeria

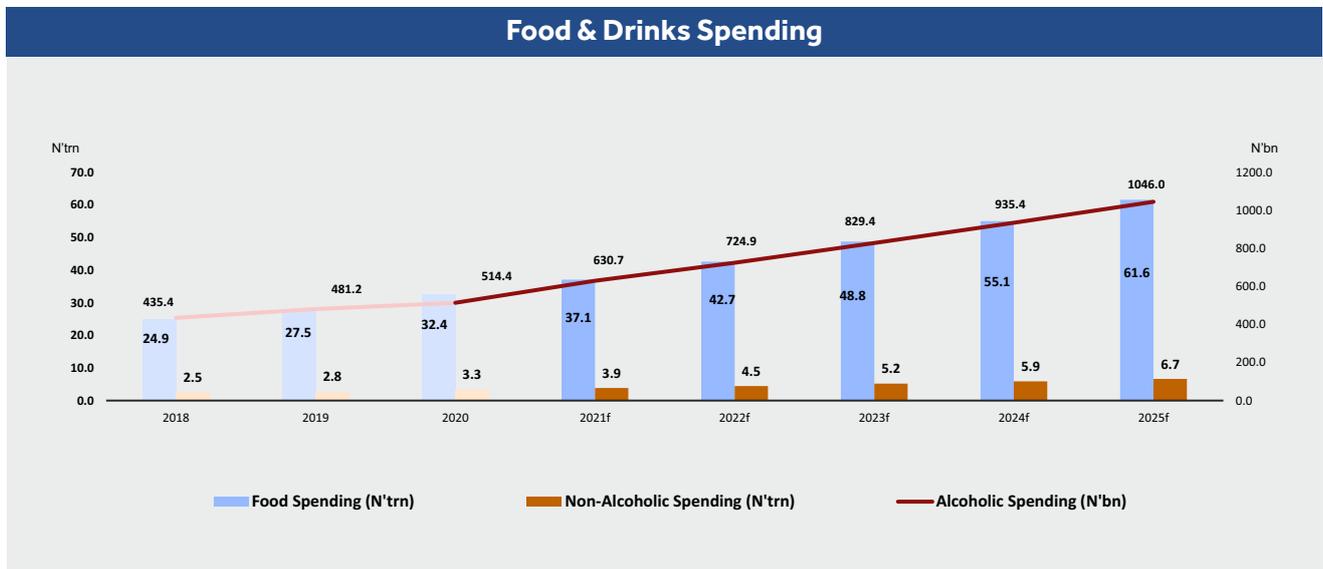
Consumers' Spending Breakdown (2021 Forecast)



- Data from Fitch reveals that for the remaining part of the year 2021, Nigerians will spend most of their income on food and non-alcoholic drinks. Food and non-alcoholic drinks account for 57.65% of consumers' spending, placing it as the most essential item in every Nigerian Household.
- Consumer spending will be dampened by the country's high unemployment and high inflation which erodes purchasing power. Over 2021, real household spending is forecast to grow by just 0.2% y-o-y.
- In the long run, Nigeria boasts of robust consumer spending outlook which will continue to be supported by the young population.
- This consumer group is more open to modern retailing concepts, as well as having greater purchasing power. Also, Nigeria offers a less saturated market presenting more attractive long-term growth opportunities.



Nigerian Food & Drinks Industry Outlook



- Food spending is forecast to grow by an average of 13.7% year-on-year over the forecast period (2021-2025). This will take total food spending from ₦37.1 trillion in 2021 to an estimated ₦61.6 trillion in 2025.
- Over the forecast horizon, spending on bread, rice and cereals will remain strong, growing by an average of 14.3% y-o-y while oils and fats, and meat and poultry spending growth will be out-performers.
- Non-alcoholic drinks spending is projected to grow by an average annual growth rate of 13.9% y-o-y. This will take non-alcoholic drinks spending in nominal terms from ₦3.9 trillion in 2021 to ₦6.7 trillion in 2025.
- Carbonated drinks will dominate the soft drink spend in the remaining part of the year, accounting for 59.8% of total soft drinks spending closely followed by fruit and vegetable juices (39.5%) and bottled waters (0.7%).
- Alcoholic drinks spending growth is forecast to accelerate in the remaining part of the year, as restrictions on alcoholic drinks trade due to Covid-19 are lifted and economic activity begins to gradually recover. Alcoholic drinks spending growth over 2021 is forecast to reach 22.6% y-o-y.
- Beer will remain the alcoholic beverage of choice in Nigeria and the category is set to show healthy growth in consumption. The beer industry has a strong multinational presence and is one of the few African beer markets to have attracted more than two major multinational brewers.
- Consumers are expected to remain focused on essential items. However, high inflation in the country continues to pose a downside risk to the projection.

Food & Beverage Industry – Post COVID-19



Recovering Economy: The Nigerian economy continues to improve as the effect of both fiscal and monetary policies kick in. Real GDP growth soared to 5.01% in Q2 2021 from 0.51% posted in Q1 2021. With the recovery from the pangs of the pandemic, the industry is expected to experience improving growth



AfCFTA: The African Continental Free Trade Area (AfCFTA) would promote market expansion for businesses, job creation for the populace amongst others. More jobs and the free movement of people and businesses across AfCFTA countries would increase the demand of food and drinks



Consumer Spending: Despite an economic recovery, households still have relatively low disposable incomes. This means that consumers will continue to spend a larger proportion of their budgets on more essential items, leaving non-essential goods and services at just 17.5% of total spending in 2021



Income Levels: Most households are below the \$5,000 income bracket. This means that spending will mostly be limited to essentials but there will be some opportunities for non-essential spending as the \$10,000 plus income bracket expands during the forecast period.



Stringent FX Policy: The CBN's ban list prohibits goods that have local substitutes from accessing forex for importation. This policy is believed to generate jobs, reduce pressure on the Naira, discourage importation, encourage exportation and local production which overall boosts economic growth.



Government Support: The Agricultural sector is the cornerstone for the nation's diversification efforts and main input provider, hence the priority accorded to it. The CBN, through its various intervention schemes continue to support the growth of agriculture. A flourishing Agricultural sector is a win for the food & beverage industry.

Business advice for players in the Food & Beverage Industry

- The Nigerian Food and Beverage Industry is a price-sensitive market. Businesses' in this sector should endeavour to meet customers at price points that would ensure robust sales. One strategy to achieve this is to produce small product sizes to satisfy differing customer wallets. Producers should also ensure consistent product quality to retain and grow market share.
- The number of active internet users in Nigeria as of September 2021 is 101.72 million. This is about 48% of Nigeria's population. Businesses should explore the online space and engage catchy advertisements to consumers. This will promote the visibility of the business and provide a wider customer base amongst other benefits.
- Companies can standalone or form strategic alliances in order to leverage the African Continental Free Trade Area (AfCFTA) in registering their presence abroad.
- Engage financial and economic experts for advisory services. Access Bank remains committed to assisting customers with the tools necessary to propel their businesses amidst a fragile Macroeconomic environment.





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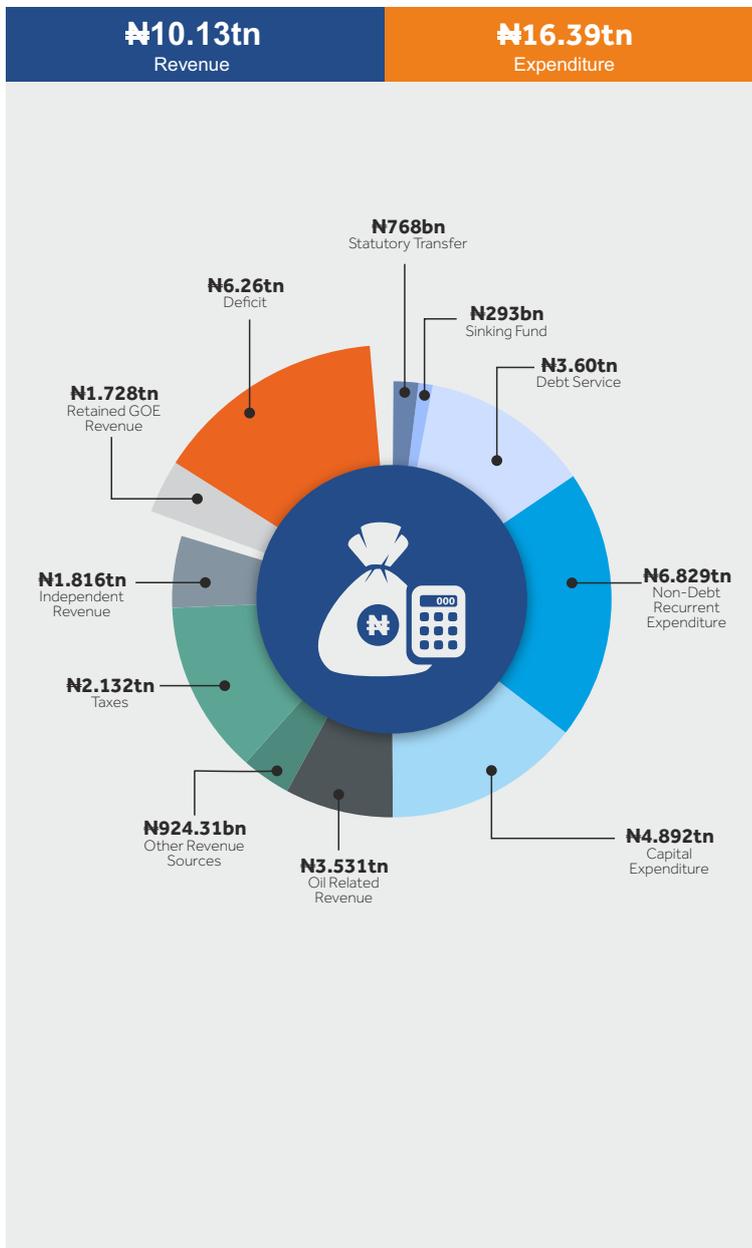


What the future holds

A look at the FGN
2022 Budget



Nigeria's 2022 Budget



- The Federal Government of Nigeria (FGN) has submitted its budget for 2022 Fiscal year after careful considerations following a year filled with spiking inflation, suboptimal growth, business contraction, insecurity, rampaging exchange rate and inflation
- The 2022 FGN expenditure is 12.2% higher than the Medium Term Expenditure Framework (MTEF).
- The 2022 Budget bears the similar characteristics with past budgets being;
- Heavy Recurrent expense at 41.7%, 18.5% higher than in 2021. A conscious effort to control cost has led to multiple initiatives such as cost-to-income cap on Government owned enterprises.
- A projected N6.39tn deficit to be funded by borrowings. A historical 40% gap in projected revenue achievements could see borrowings increase by 20% bringing effective deficit to N8tn.
- Debt service is 22% of total expenditure, and 35.6% of total revenues. Debt obligations currently gulp 85% of Government revenue due to weak revenue mobilization and exchange rate.
- The recently passed Petroleum Industry Act is expected to improve Government revenues and attract investments substantially in 2022.
- We believe the budget execution will be same with past years; Lower Income, Higher expense and borrowing.

2022 Budget Assumptions: A Conservative Stance

The budget themed, "Budget of Economic Growth and Sustainability" has been prepared in preparation for the 2022 Fiscal year. The Government has made the below listed assumptions in its support:

 <p>\$57 Per Barrel</p>	<ul style="list-style-type: none"> • This assumption is conservative and positive as oil prices are expected to rally as demand improves. • OPEC supply quotas will continue to maintain oil prices above \$50. • We believe this is a conservative estimation for revenue accretion. 	
 <p>Daily Oil Production 1.88 Million Barrel</p>	<ul style="list-style-type: none"> • This is right on OPEC's quota of 1.8mbpd for Nigeria. • Oil production has averaged 1.5mbpd in the past year because of vandalism and supporting infrastructure. • We believe this assumption is fair as it aligns with OPEC supply quota but Oil production still falls short 	
 <p>Exchange Rate ₦410.15 per US Dollar</p>	<ul style="list-style-type: none"> • This assumption opines that the CBN will be able to defend the Naira and maintain the current valuation. • There is a wide premium in Naira pricing in parallel market, thus fueling fraud. • We believe there will be further devaluations to manage supply and demand 	
 <p>GDP Growth 4.20%</p>	<ul style="list-style-type: none"> • This assumption is feasible due to the low base effect as we approach a high-spending electioneering year. • Inability to meet GDP growth estimates has been a trend and is not changing soon • We believe GDP is still below the requirement to spur economic growth 	
 <p>Inflation 13%</p>	<ul style="list-style-type: none"> • A double-digit inflation projection of 13% in 2022 up from 11% in 2021 projection implies the Government expects inflation to spike further. • We believe Nigeria experiences imported inflation transited from Naira valuation, with food at the core due to insecurity and low farmland production 	

Our view: Positive  Negative 

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