

## A REVIEW OF BUSINESS ACTIVITY, JANUARY – JUNE, 1985

A survey of business activities covering 370 establishments in the Lagos area was conducted for the first six months of 1985 by the Central Bank of Nigeria. Of this total, 160 enterprises or 43.7 per cent of the population survey responded. The respondents were categorised into 120 manufacturing, 33 trading and 7 building and construction enterprises.

### Level of Business Activity

The total value of production of the manufacturing sub-sector amounted to ₦646 million showing a rise of 12.1 per cent over its level in the first half of 1984 (See Table 1). This increase, due to some improvement in the allocation of import licences and greater use of locally available inputs by some firms as well as nominal rise in price level, was unevenly distributed among the respondents. Increases in production levels ranging from 6.4 to 74 per cent occurred in some firms while over 100 per cent increase occurred in others like vehicle assembly and grain milling. However, equally substantial declines were recorded for beer and stout, leather products, structural and fabricated metal, plastics and radio and T.V. communications.

Net sales of the trading sub-sector was ₦1,972.0 – a rise of 9.7 per cent over the level attained in the same period of 1984 (See Table 2). The increase largely resulted from high unit cost of sales. With cost of physical stock at ₦848.0 million and labour and other costs together at ₦891.0 million, sales price was more than double the unit cost of physical stock.

The value of work completed by the building and construction sub-sector was ₦26.6 million, having declined by 29.1 per cent from the level attained in the same period of 1984. (See Table 3). The declining performance was largely due to 63.6 per cent fall in the value of available government contracts as a result of the decision by the Federal Government in early 1984 not to embark on new projects and to review existing contracts.

### Costs of Operation

Reflecting reduced scale of operations, the total cost of operation in the manufacturing sub-sector declined by 1.3 per cent to ₦797.6 million from its level in the first six months of 1984. Raw materials accounted for 55.4 per cent while labour costs explained 18.0 per cent. The balance was accounted for by depreciation and other costs. The value of total turnover handled by the trading concerns declined by 30.1 per cent to ₦1,403 million. Of this imported and local merchandise accounted for ₦512 million or 36.5 per cent, having declined by 60.7 per cent from its level in the same period of 1984. Similarly, labour cost of the sub-sector which declined by 4.2 per cent ₦69 million accounted for about 5 per cent of total operational costs. Other costs amounting to ₦822.0 million rose by 30 per cent and accounted for 62.9 per cent. This increase in other costs was reportedly due to a rise in bank charges, maintenance and medical expenses as well as advertisement or public relation costs. Following the decline in available contracts, the total cost of operations of the building and construction industry stood at ₦46 million – about the same level as in the first six months of 1984. Labour cost which declined by 45.7 per cent to ₦5.7 million accounted for 12.4 per cent. Raw materials (local and imported) amounting to ₦11.4 million accounted for 24.9 per cent. Other costs and depreciation totalling ₦11.7 million accounted for 25.5 per cent while the balance was explained by rents and rates, interest on loans and power and fuel costs.

### Use of Locally-based Inputs

The value of raw materials, machinery and spare parts used by respondents of the manufacturing firms rose by 40.3 per cent from ₦325.2 million in the first six months of 1984 to ₦456.2 million. Supply of these inputs from domestic source rose by 59.5 per cent to ₦216.9 million and accounted for 47.5 per cent of the total inputs as against its share of 41.8 per cent in the first half of 1984. As for the trading sub-sectors, locally supplied merchandise declined by 64.2 per cent to ₦412.0 million under the impact of what the traders described as unfair competitions of smuggled silk materials originating from Asian countries of China and Korea. However, local merchandise accounted for 80.5 per cent of total merchandise. On the other hand, inputs from local sources utilised by building and construction enterprises rose by 5.0 per cent to ₦4.2 million and accounted for 36.8 per cent of total inputs.

The increases in the use of local inputs was contingent on the decline of imported inputs – a phenomenon which followed the introduction of the Economic Stabilisation measures in March 1982. For example, although the approved import licence of the manufacturing enterprises rose by 26.5 per cent to ₦239.3 million during the period, only a fraction of the sector's requirements was satisfied. On the other hand, approved imports of the trading concerns declined by 38.4 per cent to ₦136.0 million.

### Investment Expenditure and Sources of Funds

Aggregate investment expenditure of the manufacturing subsector amounting to ₦321.6 million, declined by 4.6 per cent from its level in the comparable period of 1984. Expenditure on machinery and equipment declined by 20.9 per cent to ₦166.7 million during the period. This item, accounting for 51.8 per cent of total new investment was the highest. Expenditure on office or factory/storage buildings which accounted for ₦128.6 million or 40 per cent of total expenditure ranked second. The item however declined by 7.8 per cent from its level in the first six months of 1984. Other items of expenditure were vehicles (₦11.4 million) and Residential buildings (₦17.1 million). Sources of funds for investment in the period consisted largely of companies' own funds which amounted to ₦232.1 million – having declined by 5.4 per cent from its level in the comparable period. Bank loans which rose by 7.9 per cent to ₦59.8 million was the second important source of the invested funds. Other sources were increase in equity capital amounting to ₦23.7 million and foreign capital which declined by 17.4 per cent ₦5.2 million.

While building and construction industry did not report any new capital investment, the trading establishments increased investment expenditure by 6.3 per cent to ₦186.0 million. Expenditure on machinery and equipment, the highest item, rose by 1.5 per cent to ₦134 million and accounted for 72 per cent of the total investment. The second was non-residential building which attracted ₦22 million investment, a rise of 29.4 per cent on the same period of 1984. Other sources of investment were repairs and maintenance (₦17.0 million), Residential buildings and new vehicles (₦11 million and ₦2 million respectively). The most important source of funds of the trading group was companies' own funds which rose by 5.7 per cent to ₦93.0 million and accounted for about half of the total new funds. Capital from foreign sources and loans from the

domestic banking system, rising respectively by 37.0 and 2.9 per cent to 37.0 million and ₦35.0 million, constituted about 20 and 19 per cent of total funds respectively. The increase in new funds deriving from foreign sources is not surprising because it is relatively easier to attract capital for distributive purposes with no long gestation period.

#### **Capacity Utilisation**

The introduction in 1982 of draconian import control measures which were further intensified in April 1983 curtailed imports of raw materials, machinery and spare parts by all economic activities. Arising from these developments, which were necessitated by continuing foreign exchange shortage, installed capacity utilisation of respondents in the manufacturing sub-sector plummeted to an average of 44.2 per cent, having risen from a low of 36 per cent in the comparable period of 1984.

The most affected were the core industries of the import substituting strategy that relied heavily on imported raw materials and components. Their installed capacity utilisation rates ranged between 30 and 33 per cent. Some of these industries included the assembling plants, paints, plastic products, structural and fabricated metals, stout and beer. On the other hand, some firms like leather product, grain milling, tyres and tubes, textiles and cement factories that were able to use locally produced inputs utilised well over 50 per cent of their installed capacity.

Following the contraction in industrial capacity utilisation, respondents in the manufacturing sub-sector modified their system of operation. For example, firms operating a single shift work system as a proportion of total industrial firms declined from 67 to 65 per cent while those operating three shifts fell from 33 to 29 per cent. However, firms operating double shift system rose from 20 to 26 per cent.

#### **Industrial Employment**

The overall culmination of these developments was a general decline in the level of employment in the responding companies. In the industrial group, total employment declined to 48,009 or by 6.2 per cent from its level in the same periods of 1984. (See

Table 1). Employment of Nigerians in the professional and managerial cadre declined by 3.2 per cent to 3,547. Similarly, employment of clerical and other workers fell by 4.8 per cent while the technical and operatives cadre fell by 7.3 per cent respectively compared with the corresponding half of 1984. As against this, employment of non-Nigerians declined by 16.4 per cent to 601. Total employment in the trading group declined by 3.1 per cent to 22,271. Employment of Nigerians declined to 22,347 by 2.9 per cent from its level attained in the comparable period of 1984. On the other hand, non Nigerian employment declined by 15.5 per cent to 374. Of the three sectors, the highest decline occurred in the building and construction enterprises where employment fell by 35.9 per cent to 1,874 during the period. Employment of Nigerians in this sector fell by 35.7 to 1,798 as against the decline of 39.7 per cent among non-Nigerians. (See Table 3).

#### **Business Outlook**

All the responding companies to the CBN survey claimed that they experienced problems during the review period which if not significantly reduced in the immediate future, would in all probability, affect business prospects adversely. For example, 85 per cent of the responding manufacturing companies claimed to have experienced shortage of raw materials and spare parts arising from inadequate import licence, delays in fund remittance abroad, and high costs of locally produced inputs. As for the building and construction enterprises, not only were new contracts unavailable, but also significant arrearages with uncertain time frame for recovery existed in respect of work already executed. Arising from these developments, a consensus exists among all the respondent companies that outlook for business in the immediate future remains clearly uncertain, if not bleak.

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## SELECTED STATISTICAL INDICATORS OF THE MANUFACTURING COMPANIES IN NIGERIA

| (Items 1-5 in N = million)               | JANUARY-JUNE |        |          |
|------------------------------------------|--------------|--------|----------|
|                                          | 1984         | 1985   | % Change |
| 1. VALUE OF PRODUCTION .....             | 576.4        | 646.0  | 12.1     |
| 2. COST OF OPERATION                     |              |        |          |
| Raw materials.....                       | 381.9        | 442.0  | 15.7     |
| Wages and Salaries .....                 | 161.9        | 121.1  | -0.25    |
| Other labour compensation .....          | 18.25        | 22.3   | 22.5     |
| Depreciation .....                       | 58.95        | 56.3   | -4.5     |
| Others .....                             | 214.7        | 155.7  | -27.5    |
| Total .....                              | 835.0        | 797.6  | -1.3     |
| 3. INVESTMENT EXPENDITURE                |              |        |          |
| Machinery and Equipment .....            | 210.56       | 166.7  | -20.9    |
| Vehicles .....                           | 9.33         | 11.4   | 22.2     |
| Residential Buildings .....              | 15.90        | 17.1   | 7.5      |
| Non-Residential buildings .....          | 139.40       | 128.6  | -7.8     |
| Total .....                              | 335.7        | 321.6  | -4.2     |
| SOURCES OF FUNDS                         |              |        |          |
| Local Banks .....                        | 55.4         | 59.8   | 7.9      |
| Company's Fund .....                     | 245.3        | 232.1  | -5.4     |
| Foreign Source .....                     | 5.5          | 5.2    | -5.5     |
| Increase in Equity Capital .....         | 28.7         | 23.7   | -17.4    |
| Total .....                              | 335.8        | 321.6  | -4.2     |
| 4. IMPORT LICENCE                        |              |        |          |
| Raw Materials .....                      | 171.5        | 208.3  | 21.5     |
| Spare parts, Components, etc. ....       | 14.6         | 22.5   | 54.1     |
| New Machinery.....                       | 3.1          | 8.5    | 174.2    |
| Total .....                              | 189.2        | 239.3  | 26.5     |
| 5. USE OF LOCAL RAW MATERIALS            |              |        |          |
| Raw Materials .....                      | 108.7        | 185.9  | 71.0     |
| Machinery, Spare parts .....             | 27.3         | 31.0   | 13.6     |
| Total .....                              | 136.0        | 216.9  | 59.5     |
| 6. AVERAGE CAPACITY UTILISATION (%)..... | 43.6         | 44.2   | 1.4      |
| Firms Operating:- One shift .....        | 67.0         | 65.0   | -3.0     |
| Two shifts .....                         | 20.0         | 26.0   | 30.0     |
| Three shifts .....                       | 33.0         | 29.0   | -12.1    |
| 7. TOTAL EMPLOYMENT.....                 | 51,184       | 48,009 | -6.2     |
| Nigerian (Number) .....                  | 49,727       | 46,642 | -6.2     |
| Professional and Admin. ....             | 3,437        | 3,547  | 3.2      |
| Clerical and Others .....                | 11,181       | 10,641 | -4.8     |
| Technical and Operatives .....           | 35,849       | 33,224 | -7.3     |
| Non-Nigerian (Number) .....              | 719          | 601    | -16.4    |
| Professional and Admin. ....             | 428          | 369    | -13.8    |
| Clerical and Others .....                | —            | 1      |          |
| Technical and Operatives .....           | 288          | 227    | -0.4     |

Table 2

## SELECTED STATISTICAL INDICATORS OF THE TRADING ENTERPRISES

| (Items 1-5 in ₦ Million)                              | 1984   | JANUARY-JUNE<br>1985 | % Change<br>Between<br>(1) & (2) |
|-------------------------------------------------------|--------|----------------------|----------------------------------|
|                                                       | (1)    | (2)                  |                                  |
| 1. SALES .....                                        | 1,797  | 1,972                | 9.7                              |
| 2. COST OF GOODS SOLD                                 |        |                      |                                  |
| (a) Opening stock .....                               | 346    | 311                  | -10.1                            |
| (b) Purchasing .....                                  | 872    | 902                  | 3.4                              |
| (c) Closing Stock .....                               | 323    | 365                  | 13.0                             |
| Total (A) + (b) - (c) .....                           | 895    | 848                  | -5.2                             |
| 3. TOTAL COST OF OPERATIONS                           |        |                      |                                  |
| (a) Labour                                            |        |                      |                                  |
| (i) Wages and Salaries .....                          | 61     | 59                   | -3.3                             |
| (ii) Other Labour compensations .....                 | 11     | 10                   | -9.0                             |
| (b) Merchandise                                       |        |                      |                                  |
| (i) Imported Merchandise .....                        | 150    | 100                  | -33.3                            |
| (ii) Locally produced .....                           | 1,154  | 412                  | -64.2                            |
| (c) Other Costs .....                                 | 632    | 822                  | 30.1                             |
| Total (a) - (c) .....                                 | 2,008  | 1,403                | -30.1                            |
| 4. INVESTMENT EXPENDITURE                             |        |                      |                                  |
| (a) New Machinery and Equipment .....                 | 132    | 134                  | 1.5                              |
| (b) New Vehicles .....                                | 3      | 2                    | 33.3                             |
| (c) Residential buildings .....                       | 7      | 11                   | 57.1                             |
| (d) Non-residential buildings .....                   | 17     | 22                   | 29.4                             |
| (e) Repairs and maintenance .....                     | 16     | 17                   | 6.2                              |
| Total (a) - (e) .....                                 | 175    | 186                  | 6.3                              |
| SOURCES OF FUNDS INVESTED                             |        |                      |                                  |
| (a) Company's own funds .....                         | 88     | 93                   | 5.7                              |
| (b) Local banks .....                                 | 34     | 35                   | 2.9                              |
| (c) Foreign .....                                     | 27     | 37                   | 37.0                             |
| (d) Increase in equity capital .....                  | 12     | 10                   | -16.7                            |
| (e) Other sources .....                               | 14     | 11                   | -21.4                            |
| Total (must equal (A) above) .....                    | 175    | 186                  | 6.3                              |
| 5. IMPORT LICENCE                                     |        |                      |                                  |
| (a) Value applied for .....                           | 736    | 597                  | -18.9                            |
| (b) Value of approved import Licence .....            | 190    | 136                  | -28.4                            |
| 6. TOTAL EMPLOYMENT                                   |        |                      |                                  |
| (a) Nigerian (Number)                                 |        |                      |                                  |
| (i) Professional, Administrative and Managerial ..... | 4,122  | 4,056                | -1.6                             |
| (ii) Clerical and other Office workers .....          | 11,189 | 10,834               | -3.2                             |
| (iii) Technical and other Operatives .....            | 5,265  | 5,069                | -3.7                             |
| (iv) Others .....                                     | 2,436  | 2,388                | -2.0                             |
| Total .....                                           | 23,012 | 22,347               | -2.9                             |
| (b) Non-Nigerian (Number)                             |        |                      |                                  |
| (i) Professional, Administrative and Managerial ..... | 400    | 344                  | -14.0                            |
| (ii) Clerical and other Office workers .....          | 3      | 1                    | -66.7                            |
| (iii) Technicians and other Operatives .....          | 39     | 28                   | -28.2                            |
| (iv) Others .....                                     | 1      | 1                    | 0.0                              |
| Total .....                                           | 443    | 374                  | -15.5                            |
| GRAND TOTAL (a) + (b) .....                           | 23,455 | 22,721               | -3.1                             |

## SELECTED STATISTICAL INDICATORS OF THE BUILDING AND CONSTRUCTION ENTERPRISES

| (Items 1 & 2 in ₦ million)           | 1984   | JANUARY-JUNE |          |
|--------------------------------------|--------|--------------|----------|
|                                      |        | 1985         | % Change |
| 1. VALUE OF WORK DONE.....           | 37.6   | 26.6         | -29.1    |
| Value of New contracts.....          | 11.8   | 6.8          | -42.5    |
| Total.....                           | 49.4   | 33.1         | -32.5    |
| 2. TOTAL COST OF OPERATION           |        |              |          |
| (1) Labour (wages and Salaries)..... | 10.5   | 5.7          | -45.7    |
| (2) Materials:.....                  | 9.6    | 11.4         | 18.8     |
| (a) Imported.....                    | 5.6    | 7.2          | 28.6     |
| (b) Local.....                       | 4.0    | 4.2          | 5.0      |
| (3) Rent and Rates.....              | 2.1    | 2.8          | 33.3     |
| (4) Power and fuel.....              | 0.7    | 0.4          | -42.9    |
| (5) Interest on loans.....           | 1.9    | 2.4          | 26.3     |
| (6) Depreciation.....                | 3.4    | 2.6          | -23.5    |
| (7) Other Costs.....                 | 8.3    | 9.1          | 9.6      |
| Total.....                           | 46.1   | 45.8         | -0.65    |
| 3. EMPLOYMENT                        |        |              |          |
| Nigerian                             |        |              |          |
| (a) Administrative/Managerial.....   | 344    | 193          | -43.9    |
| (b) Technicians.....                 | 1,598  | 1,017        | -36.3    |
| (c) Others.....                      | 854    | 588          | -31.1    |
| Total.....                           | 2,7961 | 1,798        | -35.7    |
| Non-Nigerian                         |        |              |          |
| (a) Administrative/Managerial.....   | 49     | 35           | -28.6    |
| (b) Technicians.....                 | 77     | 41           | -46.7    |
| (c) Others.....                      | —      | —            | —        |
| Total.....                           | 126    | 76           | -39.7    |
| GRAND TOTAL.....                     | 2,922  | 1,874        | -35.9    |