# DEVELOPMENTS IN THE INDUSTRIAL SECTOR DURING THE FOURTH QUARTER OF 1989

Industrial production increased significantly during the fourth quarter of 1989. At 259.2 (1972 = 100), the index of industrial production was 12.7 and 6.7 per cent higher than the levels in the third quarter of 1989 and the corresponding quarter of 1988, respectively. The increases in overall industrial production was reflected in the manufacturing and mining output as well as electricity consumption. The improvement in performance of the manufacturing subsector was largely due to increased supply of industrial inputs resulting from the SAP relief measures and the usual high demand associated with the quarter. The increase in mining production on the other hand was due to the boost in sales of crude oil and refined petroleum products as well as in the consumption of natural gas, while improved distribution system accounted for the rise in electricity consumption.

The index of mining production increased by 2 0 and 18.1 per cent over its levels in the third quarter of 1989 and the fourth quarter of 1989, respectively. The out turn in the review period was due largely to boost in the sales of crude petroleum and refined petroleum products as well as increase in the consumption of natural gas as a result of the significant improvement in the international oil market during the whole year. This development was attributable to the strict adherence by OPEC member countries to the November 1988 agreement on output and prices and the co-operation from non-OPEC producers. These factors were reinforced by the disruption to the North Sea production and the Alaskan oil spillage. As a result, OPEC production ceiling was revised upwards three times during 1989, from 18.5 million barrels per day (mbd) in the third quarter of 1989 to 20.5 mbd in the review period. Nigeria's quota was also increased to 1.501 mbd in the fourth quarter of 1989 from 1.424 mbd during the third quarter. Apart from coal whose production increased during the period, output of all the other solid minerals — cassiterite, columbite, limestone and marble — declined.

The index of electricity consumption rose by 6.7 and 12.7 per cent over the levels in the fourth quarter of 1988 and the third quarter of 1989, respectively. The increase in electricity consumption, which was reflected mainly in industrial consumption, was attributable largely to improvement in the distribution network.

At 563.0 (1972 = 100), the index of manufacturing production showed increase of 18 and 2.7 per cent over the levels in the third quarter of 1989 and the corresponding quarter in 1988, respectively. According to CBN survey of 228 manufacturing establishments in Lagos area during the period, for which a response rate of 49.1 per cent was achieved, the improvement in manufacturing production was most significant in beer and stout, textiles, paints, petroleum products, cement, vehicle assembly and soap and detergents, which accounted for the bulk of the increase in manufacturing output. Apart from the vehicle assembly group, where performance was due to increased procurement of component parts, following government's SAP relief measures, other sub-groups owed their improved output to increase in local sourcing of a substantial proportion of their raw materials. The production of sugar confectionery, soft drinks, footwear, roofing sheets as well as radio and television, declined in the review period.

Average capacity utilization rates operated by the entire sub-sector was 42 per cent, showing a 2 percentage point increase over the level in the corresponding quarter of 1988. Inspite of the sharp increases in production costs, the respondent firms attributed the improvement in their production to increased supply of raw materials and the improvement in the demand for most manufactured goods during the period. Industries that depended mostly on locally made inputs operated above the average rate of capacity utilisation. These included beer & stout (79.3%); textiles (69.7%); cement (67.5%); other chemical and petroleum products (57.0%); leather products (55%); plastic products (54.0%); soft drinks (53.9%); sugar confectionery (50.6%) and drugs & medicines (43.0%). The sub-groups that operated below the average utilisation rate included paints (33.1%); radio, T.V & communication equipments (29.9%); glass & glass products (23.2%), printing & publishing (22.0%) and vegetable & grain (flour) milling (20.8%). About 53.6 per cent of the respondents operated one shift system, 35.0 per cent operated two shift system while 12.0 per cent operated three shift system.

The value of manufactured output and sales increased by 50.5 and 53.3 per cent, respectively over their levels in the corresponding quarter of 1988. The increase was attributable largely to the sharp rise in the cost of production during the period as imported raw materials accounted for over 60 per cent of the total cost of production in the review period. The increased cost of production in the period was attributable to the continued depreciation of the naira, the hike in electricity tarriff and interest rates, all of which created severe cash flow problems for most manufacturing establishments. Future prospects based on these experiences therefore looked grim for more than 70 per cent of the respondents. They advocated increased allocation of foreign exchange to the IFEM in order to reduce the rising costs of foreign exchange.

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Table 1

**INDEX OF INDUSTRIAL PRODUCTION**
(1972 = 100)

| Industrial Sub-Sectors | 4th Quarter 1988 (1) | 3rd Quarter 1989 (2) | 4th Quarter 1989 (3) |
|---|---|---|---|
| Manufacturing | 548.3 | 477.0 | 563.0 |
| Mining | 86.3 | 99.9 | 101.9 |
| Electricity | 464.2 | 498.0 | 519.0 |
| Total for all sub-sectors | 242.9 | 230.0 | 259.2 |

*Source*. Data derived from Federal Office of Statistics (FOS), Central Bank quarterly surveys, Federal Ministry of Mines, Steel and Power, and National Electric Power Authority (NEPA).