

PERFORMANCE IN THE MANUFACTURING SECTOR IN THE FIRST QUARTER OF 1988

Performance in the manufacturing sector during the first quarter of 1988 did not show any improvement over the performance in the last quarter of 1987. Although foreign exchange allocation through the Foreign Exchange Market (FEM) showed an increasing bias towards the industrial sector (which obtained 67 per cent of total FEM allocation during the first quarter of 1988 compared with 54.1 per cent in the corresponding quarter of 1987), utilisation of installed capacity remained, on the average, relatively unchanged at below 40.0 per cent.

According to Central Bank Survey of 200 manufacturing firms in the Lagos area where a response rate of 54.0 per cent was achieved, utilisation of installed capacity, at 38.8 per cent was only 0.1 per cent above the capacity utilisation rate in the last quarter of 1987. Compared with the corresponding quarter of 1987 however, there was a slight improvement of 3.7 per cent. According to the respondent firms, inability to improve on capacity utilisation was due to the problems of continued liquidity constraints, alleged high tariffs on raw materials, frequent interruptions in power supply, high production costs and low consumer demand.

Performance however varied among the different sub-groups of the manufacturing sector. Industries heavily dependent on imported inputs performed poorly compared with those whose raw material inputs were mainly locally sourced. Sub-groups that operated above 40 per cent of their installed capacities were basic industrial chemicals (93.3%) beer and stout (70%), textile (65.7%), miscellaneous food preparation (61%), other chemical and petroleum products (50%), plastic products (48.9%), soap and perfumes (48.6%), cement and cement products (45%), structural metal products (45%), and paper and paper products (44%). Capacity utilisation rates were very low in the other sub-groups and ranged from 7.3 per cent for auto assemble to 31.5 per cent in the printing and publishing sub-group. Vegetable and grain milling, meat and dairy products, bakery, sugar and cocoa confectionary, leather products, paints, glass and glass products all operated below 30 per cent of their installed capacities.

Total sales for the respondent firms declined by 4.3 per cent below the level in the fourth quarter of 1987 but represented a 42.8 per cent increase over the level in the corresponding quarter of 1987. The increase over the level in the first quarter of 1987 was due generally to increasing prices rather than increase in quantities sold. Specifically, sales declined sharply in the sub-groups — vegetable and grain milling (75.9%), leather products (18.6%), basic industrial chemicals (43.4%), tyres and tubes (18.4%), cement and cement products (56.0%), fabricated metal products (27.6%) and auto assembly (34.0%).

For most of the respondent firms, quantities produced slightly increased while the value of production also increased during the first quarter of 1988 by 25.0 and by 5.9 per cent over the levels in the corresponding and last quarters of 1987 respectively. The value of locally sourced raw materials used in production was lower by 14.2 per cent compared with the last quarter of 1987. The decline was

mainly attributable to cement and cement products and to plastic products. The total value of raw materials utilised by the respondent firms increased by 21.5 and 4.9 per cent over the raw materials utilised in the first and fourth quarters of 1987 respectively. Imported raw materials accounted for 60 per cent of the value of total raw materials used, thus showing the continued strong dependency of the manufacturing sector on imported inputs.

Finished goods inventory increased by 14.2 per cent over the level in the last quarter of 1987 as a result of sluggish sales after the December period. Investment expenditure on machinery and equipment however increased by 39.4 per cent compared with the last quarter of 1987 but declined by 41.1 per cent below the level in the first quarter of 1987. Expenditure on repairs and maintenance declined by 34.6 per cent but increased by 2.4 per cent for spare parts over the level in the last quarter of 1987. Total investment expenditure increased by 10.1 per cent compared with the last quarter of 1987 but declined by 21.7 per cent compared with the corresponding quarter of 1987. Expenditure on machinery and equipment accounted for 56.3 per cent of total investment expenditure.

Owing to the relatively high cost of credit, producers concentrated more on internally generated sources of funds which comprised 84 per cent of total funds utilised during the first quarter of 1988. The employment position did not show any appreciable change as employment increased by 1.0 per cent over the level in the fourth quarter of 1987 but declined by 1.7 per cent over the level recorded in the first quarter of 1987.

In general, while most of the respondents were in favour of the objectives and strategies of the Structural Adjustment Programme and in particular the easier access to foreign exchange through the FEM, almost all complained about some basic problems inhibiting greater utilisation of installed capacities.

These problems were:

- (i) relatively high tariffs on imported raw materials which raised production costs;
- (ii) continued liquidity constraints as a result of the relatively high rates of interest.
- (iii) alleged unfair competition of imported finished goods on which relatively low tariffs were paid.
- (iv) low consumer demand and therefore low turnover;
- (v) unstable and high rates of exchange which made planning and expansion difficult; and
- (vi) inadequate infrastructural facilities particularly irregular power supply.

Ninety-three per cent of the respondents complained of the inadequacy of the existing tariffs and would want the Tariff Review Board to streamline tariffs to encourage local production and discourage undue importation of finished goods. Other policy changes suggested by the respondents included stabilization of the FEM exchange rates, lower rates of interest and adequate reflation of the economy as stated in the 1988 Budget to stimulate consumer demand. Planning, according to 80 per cent of the respondents, could only be short term as they perceived the immediate future

as rather uncertain. About 13 per cent of the respondents viewed the future as bleak while only 7 per cent anticipated a promising business outlook.

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1988 FIRST QUARTER SURVEY OF MANUFACTURING SUB-SECTOR

Table 1

ITEMS	1st Qtr 1987 (1)	4th Qtr 1987 (2)	1st Qtr 1988 (3)	Percentage change between	
				(1) & (3) (4)	(2) & (3) (5)
1. Installed Capacity-Utilization Rates (%)	35.1	38.7	38.8	+3.7	0.1
2. Value of Production (₦ mill.)	315.5	374.9	397.1	25.9	5.9
3. Total value of raw materials used (₦ million)	278.3	322.3	338.1	21.5	4.9
(i) Value of Imported raw materials used (")	182.1	167.8	205.6	12.9	22.5
(ii) Value of locally sourced raw materials (₦ million)	96.2	154.5	132.5	37.7	-14.2
4. Sales (₦ million)	458.2	684.3	654.6	42.8	-4.3
5. Inventories of raw materials (")	458.9	502.7	461.1	0.5	-8.3
6. Inventories of finished goods (")	284.0	183.8	209.9	-26.1	14.2
7. Total investment expenditure (")	145.3	103.3	113.7	-21.7	10.1
(i) Machinery & equipment (")	108.7	45.9	64.0	-41.1	39.4
(ii) Spare parts (")	14.9	32.9	33.7	126.2	2.4
(iii) Repairs & maintenance (")	21.7	24.5	16.0	-26.2	-34.6
8. Sources of funds invested (")	145.3	103.3	113.7	-21.7	10.1
(i) Company's own funds (")	60.1	85.2	95.5	58.9	12.1
(ii) Local Banks (")	85.2	18.1	18.2	-78.6	0.5
9. Total number of employment (")	22,076	21,496	21,706	-1.7	1.0

¹ Figures refer to survey of 200 manufacturing firms in the Lagos Area, 54.0 per cent of which responded to survey questionnaires.