Macroeconomic Snapshot:

Unraveling the Price Puzzle

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Overview

As Nigerians grapple with soaring inflation alongside the plummeting local currency the Naira, households, firms, and Policymakers seek the magic wand to neutralize the adverse effect of the all-time high, multifaceted, and syndicated inflation levels. As termed by the International Monetary Fund (IMF), Inflation is the rate of price increases over a given period. Inflation is typically a broad measure, such as the overall price increase or cost of living over time in a Country. The persistent and sustained growth in the general prices continued to catapult higher becoming the most significant challenge for Nigerian households and businesses, exacerbating the impact on the cost of living, eroding the purchasing power, and knocking down to the state of poverty and uncertainty in routine economic decision-making.

Despite the current tide of inflation being on a steady upward trend, it cannot be unconnected to the graduated impact of the composite of the Cash crunch emanating from the Currency redesign exercise, election season, excess money supply, flooding, and, Insecurity. However, the combined effect of Fuel, energy subsidy removal (electricity tariff hike) and, the exchange rate/ unification exercise have accelerated the magnitude at which inflation is drifting. The decade-long fuel subsidy removal debate cut across the intersection between political will and economics, despite being a necessary Fiscal imperative was sub-optimally implemented given that no substantial buffers were put in place to cushion the impact on livelihood, transportation, household, and business routine expenditures. Similarly, the foreign exchange reform has led to a record-low depreciation of the naira alongside accompanied illiquidity which has hampered individuals and businesses who rely on foreign currencies for cross-border transactions. The reform was adopted with the end goal of closing /bridging the widening gap between the official and parallel market premium to an acceptable threshold and ensuring stable liquidity and fair pricing in the foreign exchange market.

The collective cobra effect of both Policy stances has triggered well-perceived unintended consequences that precipitated the plunge in household disposable income, exchange rate volatility, elevated inflation levels, and economic uncertainty. The Latest National Bureau of Statistics (NBS) CPI report for April 2024, printed the headline inflation to 33.69% slightly higher than 33.28% in March 2024. As compared with April 2023 the Y-O-Y stood at an 11.47% increase as compared to April 2023, conversely, the M-O-M inflation reveals…

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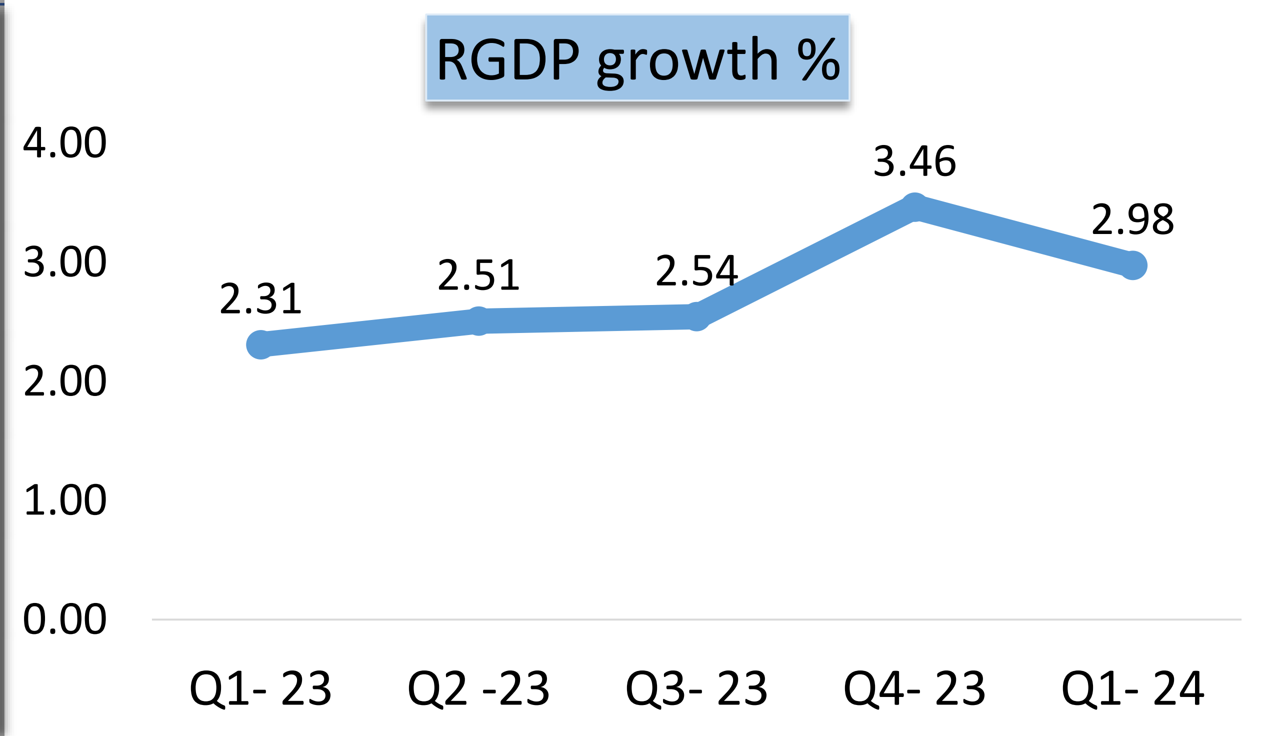
Macroeconomic Parameters

As the steady recovery from the periods of economic boom and burst in the aftermath of the 2007/2008 global financial crisis and COVID-19 Pandemic shocks continues, Nigeria's annual Real GDP grew by 2.74% in 2023 compared with 3.10% in 2022. Nigeria's economy grew by 2.98% (Y-O-Y) in real terms in the first quarter of 2024. This growth rate is higher than the 2.31% recorded in the first quarter of 2023 and lower than the fourth quarter of 2023 growth of 3.46%. Output growth during the review period was driven largely by non-oil production, particularly services and agriculture, contributing to 58% and 21%, respectively. The current growth trajectory is significantly lower than President Tinubu's vision of achieving annual growth of 6% and $1 trillion economy by 2030.

s/n	Parameter	Value
1	RGDP %	2.98%
2	Inflation	33.93%
3	MPR	26.25%
4	Exchange Rate	
5	Money Supply (M3)	
6		



Source –; NBS, CBN; FMDQ Researcher's Computation Computation

Theoretical Insights

Cosh- Push Inflation; The reduction in the aggregate supply of goods and services as a result of an increase in the cost of production. This means the spillover from the dynamics in the production function has a pass-through effect on the final price of final goods and services. The pass-through distorts the production capacity, availability of goods and services, and profit margins of industries. The dynamics might be in the form of a hike in feedstock prices, a rise in labor cost (wages/salaries), cost of imports, higher energy cost, and an increase in tax rates by the government.

Demand-pull; refers to an increase in aggregate demand driven by the combined sectors of the economy: households, businesses, government, and the foreign sector. This results in excessive demand for the limited quantity of goods and services, leading to heightened competition and higher bid prices, often described as "too much money chasing few goods." The surge in demand can be attributed to various factors including increased government spending, excess money supply, fiscal stimulus, local currency depreciation, and tax cuts.

Stagflation; Stagflation is a term used to describe an economic cycle in which there is slow growth, high unemployment, and inflation happening simultaneously.

This can be particularly challenging for policymakers because trying to address one issue can worsen another.

Philipps Curve; The Phillips curve postulates an economic theory that suggests an inverse and stable relationship between inflation and unemployment, meaning that higher inflation rates are correlated with lower unemployment, and vice versa. However, the stable trade-off between inflation and unemployment ceased to hold in the 1970s with the emergence of stagflation, which cast doubt on the credibility of the Phillips curve.

$$\pi_t = \alpha_1 \pi_{t-1} + (1-\alpha)\,\mathrm{E}\{\pi_{t+1}\} + \alpha_2 rmc_t + \varepsilon_t$$

$$rmc_t = \alpha_3 \hat{Y}_t + (1-\alpha_3)\hat{Z}_t$$

In macroeconomic modelling, the Philipp's Curve demonstrate how Manufacturers reset Prices based on previous inflation, rational expectations and marginal cost as approximated by the Real Marginal Cost (RMC). The real marginal cost index is a composite of output gap and exchange rate gap. The output gap here reflects the impact of increased aggregate demand for output, whilst the exchange gap measures the marginal cost associated with increased local currency depreciation.

Inflation continued its upward drifting, Prints 33.93% Y-0-Y

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Despite the current tide of inflation being on a steady upward trend, it cannot be unconnected to the graduated impact of the composite of the Cash crunch emanating from the Currency redesign exercise, election season, excess money supply, flooding, and, Insecurity. However, the combined effect of Fuel, energy subsidy removal (electricity tariff hike) and, the exchange rate/ unification exercise have accelerated the magnitude at which inflation is drifting. The decade-long fuel subsidy removal debate cut across the intersection between political will and economics, despite being a necessary Fiscal imperative was sub-optimally implemented given that no substantial buffers were put in place to cushion the impact on livelihood, transportation, household, and business routine expenditures. Similarly, the foreign exchange reform has led to a record-low depreciation of the naira alongside accompanied illiquidity which has hampered individuals and businesses who rely on foreign currencies for cross-border transactions. The reform was adopted with the end goal of closing /bridging the widening gap between the official and parallel market premium to an acceptable threshold and ensuring stable liquidity and fair pricing in the foreign exchange market.

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Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a significant role as the engine for economic transformation and industrialization for both developed and developing countries. Data from the National Bureau of Statistics (NBS) show that (MSMEs) account for 49.8% of Nigeria's Gross Domestic Product (GDP) and constitute a significant share of the total number of businesses in Nigeria. In terms of the labour force, they account for about 85% of total employment and are spread across all sectors of the economy. These businesses have been instrumental in facilitating social change, proffering creative solutions, innovative ideas, and value creation. Some of the leading important contributions of MSMEs include but are not limited to Improved income re-distribution (low-level capital required); Increased job creation & skills development (particularly for youth, women, and elderly); Increased adoption of technology & innovation (competitiveness); Industrial diversification and Stimulates local economy (demand down the value chain).

s/n	Category	Employees	Assets (₦)
1	Micro Enterprises	Less than 10 (>10)	Less than 5
2	Small Enterprises	10 -> 49	5 to less than 50
3	Medium Enterprises	50 -> 199	5o to less than 500

Source : SMEDAN

According to a joint survey by the NBS and the Small Scale Enterprises Development Agency of Nigeria (SMEDAN) in 2019, it was concluded that Micro enterprises, being 99% of MSMEs drive the trend for the entire category. Also, Small enterprises, grew 4.6% from 2013, while the number of medium-sized enterprises decreased significantly from 4,670 in 2013 to 1,793 in 2017 (61% drop), this is a clear reflection of macroeconomic turbulence in the country in the recent past.

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Macroeconomic Overview

The State Of Entrepreneurship In Nigeria Report 2021 by The Fate Institute ascertains that the entrepreneurial index for Nigeria stands at 0.69 out of 1. implying that entrepreneurship vivacity is relatively strong in Nigeria.

Agriculture is broadly divided into four sectors in Nigeria–crop production, fishing, livestock, and forestry. Crop production remains the largest segment and it accounts for about 87.6% of the sector's total output. This is followed by livestock, fishing, and forestry at 8.1%, 3.2%, and 1.1% respectively. Agriculture remains the largest sector in Nigeria contributing an average of 24% to the nation's GDP over the past seven years (2013 – 2019). In addition, the sector employs more than 36% of the country's labor force, a feat that ranks the sector as the largest employer of labor in the country. Between (2016 and 2019), Nigeria's cumulative agricultural imports between 2016 and 2019 stood at N3.35 trillion, four times higher than the agricultural export of N803 billion within the same period.

Agribusiness is the science and practice of activities with backward and forward linkage related to production, processing, marketing and trade, and distribution of raw and processed food, feed, and fiber including the supply of inputs and services for these activities. Agribusiness in Nigeria mainly encompasses four subsectors; agricultural Input, agricultural production, agro-processing, and agricultural marketing – distribution sector. These four major sectors act as Interrelated parts of a system the success of each subsector is dependent to a higher magnitude on the effective functioning of the other sectors. The Increased growth of departmental stores and shopping malls coupled with a broad middle-class spread the society, and the increased number of career housewives have accelerated the need for processed and packaged food thereby magnifying opportunities and potentials to profit from agribusiness engagements. The evolution of agribusiness here tones down the necessity of owning a physical farm space rather partaking in transactions across the entire value chain. The transaction might involve either a product, commodity, or service and encompasses items such as productive resources, e.g. Feed, seed, fertilizer equipment, energy, machinery, etc.; agricultural commodities e.g. food and fibre and facilitative services e.g. credit insurance, agro produce brokering marketing, consulting, storage, processing, transportation, packing, distribution, etc.

The agribusiness sector plays a pivotal role in Nigeria's economy, contributing significantly to employment, food security, and overall economic growth. However, access to finance remains a critical challenge for agribusinesses, hindering their growth and potential impact. This research proposal aims to investigate the barriers to financial access for agribusinesses in Nigeria and propose policy recommendations to address these challenges.

Contact Details

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