

## Navigating the Economic Recession: A Comprehensive Examination of The Impact on Nigeria's Construction Industry

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### Abstract

A recession is a significant decline in economic activity that lasts for months or even years, experts equally declare recession as when a nation's economy experiences negative gross domestic product (GDP), rising levels of unemployment, falling retail sales, and contracting measures of income and manufacturing for an extended period. The survey research design was used in this study and the result of the analysis shows that among 10 causes of recession, Sudden changes in the prices of the inputs used in producing goods and services ranked 1<sup>st</sup> with a mean of 3.00, Forces of political factors ranked 2<sup>nd</sup> with a mean of 2.96, Reduction of inflation by employing contractionary monetary or fiscal policies and Speculation ranked 3<sup>rd</sup> and 4<sup>th</sup> respectively with mean value of 2.89 & 2.84. All the causes having mean values clustering around the same value shows how all the causes listed are important to be taken into consideration. Also, among 8 effects of economic recession was carried out and the effect ranking 1<sup>st</sup> is the High rate of bankruptcy with a mean value of 2.99, and poor wages of laborers ranked 2<sup>nd</sup> with a mean value of 2.96. The fluctuation in the cost of construction raw materials, Reduction in construction works, and Unbearable credit condition ranked 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup> respectively with a mean of 2.87, 2.85, and 2.80. The table shows that economic recession has a great effect on the construction industry and needs to be guarded against to reduce these effects. Among preventive measures for recession, Diversification of the Economy ranked 1<sup>st</sup> with a mean of 3.11, effective monetary and fiscal policies ranked 2<sup>nd</sup> with a mean value of 3.08, Reduction in unnecessary expenses and Establishment of a Realistic Budget both ranked 3<sup>rd</sup> with a mean value of 3.02. Strengthen Purchasing Power ranked 4<sup>th</sup> with a mean value of 2.78. It also revealed a positive relationship between economic recession and the construction industry with  $R^2$  having a value of 0.657943. The government should invest in large-scale public infrastructure projects, transparency and check unethical behavior among workers, well-prepared and planned budget, technological innovation, stabilize the exchange rate, strengthen weakness opportunities threat (SWOT), better communication, diversification of the economy, and save for the future.

**Keywords:** *Economic Recession; Construction Industry*

### Introduction

A recession is defined as a period between a peak and a trough in the business cycle where there "is a significant decline in economic activity spread across the economy that can last from a few months" to more than a year (1). A recession is a significant decline in economic activity lasting months or years, characterized by negative GDP, rising unemployment, falling retail sales, and contracting income and manufacturing measures. It is an unavoidable part of the business cycle

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and is defined by the International Monetary Fund as two consecutive quarters of decline in a country's real GDP. The recession is further opined by (2) as a general decline in economic activities, with Nigeria's economy contracting in Q1 2016 and recording a negative GDP.

Since 1950, the world economy has experienced several recessions, including 1975, 1982, 1991, and 2009, causing a contraction in real income per capita global GDP. The coronavirus pandemic has caused a severe contraction, with the World Bank Group reporting a 5.2% shrink in 2020, the deepest recession since World War II. Advanced economies shrank by 7% while emerging markets and developing economies shrank by 2.5% (3).

The Second World War and its aftermath significantly impacted monetary policy, with the Federal Reserve System operating as the nation's central bank. A publication by (4) stated earlier that the Nigerian construction industry's organized building practices began in 1930, before then buildings existed but they were not organized, building have evolved from cave dwellings to skyscrapers. The primary cause of the shift is the evolution of our requirements, which are known to alter as people mature to accommodate new tastes. One of the first known mud constructions was that of the Bini kingdom, while another was that of the Urhobo kingdom. The economic recession was discussed to have impacted the Gross Domestic Product (GDP) growth rate in the first quarter stood at -0.36% while the second quarter stood at -2.06% indicating economic recession in Nigeria (5). They further stated that the effect of economic recession is noticed in the high unemployment rate, high rate of bankruptcy, and reduction in the mortgage lending rate were ranked as some of the effects of this economic recession

Economic recession became pronounced in the years 2008 and 2009 when the annual growth rate of Nigeria dropped from over 9% to 6.7% leaving macroeconomic variables such as the GDP growth rate, oil price, exchange rate, unemployment, and underemployment, inflation, and external reserve relatively unstable (6). Therefore, the construction industry in every nation contributes substantially to both domestic capital accumulation and the gross domestic product (GDP) of that nation's economy.

This research explores Nigeria's economic recession, highlighting its causes, impact, and recovery interventions. It suggests a robust approach to all sectors of growth such as raw materials recovery, savings, blockage of fiscal leakages, corruption, inconsistent policies, and political unrest, and implementing technical economic knowledge in policymaking.

## **Literature Review**

### **Economic Recession**

Economic recession is the destabilization of both the economic policies and monetary policies of a nation which causes a decline in economic activity that alters spending. The construction industry in Nigeria is categorized as the building construction industry, heavy construction industry, and special trade construction industry. The building contractors engage in the construction of residential, industrial, and commercial buildings while the heavy construction contractors engage in the construction of bridges, sewers, railways, irrigation projects, etc. and the special trade contractors provide specialized services like the construction of mobile homes and nonbuilding projects (7).

The economic recession has caused a lot of havoc between clients and contracts regarding extension of time and the associated loss and expense claims leading to abandonment. The client

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is forced not to apply liquidated and ascertained damages (LED) to contractor delays and the contractor is faced with a lot of variation claims which are often advised to be bored by the contractor and most times lead to determination if a common ground is not reached (8).

The COVID-19 pandemic led to an economic recession in the construction industry, requiring international arbitration to protect financial interests and ensure recovery for clients and contractors. The industry enforces stricter employment parameters, reducing projects and implementing division of labor. The Gross Domestic Product of the construction industry is evaluated quarterly to assess its recovery and challenges. Nigeria's real GDP growth rate decreased between 2015 and 2016, affecting macroeconomic indicators like growth, oil prices, exchange rates, unemployment, inflation, and external reserves. Unemployment rates increased significantly during recessions (9).

Like a wave in the water, the economy encounters highs and lows in cycles. As it develops, its crest hits a peak, lowers, and then starts growing again. A surge in the economy can be described as "economic growth," and a dip in the economy is termed as "economic contraction" (or "downturn").

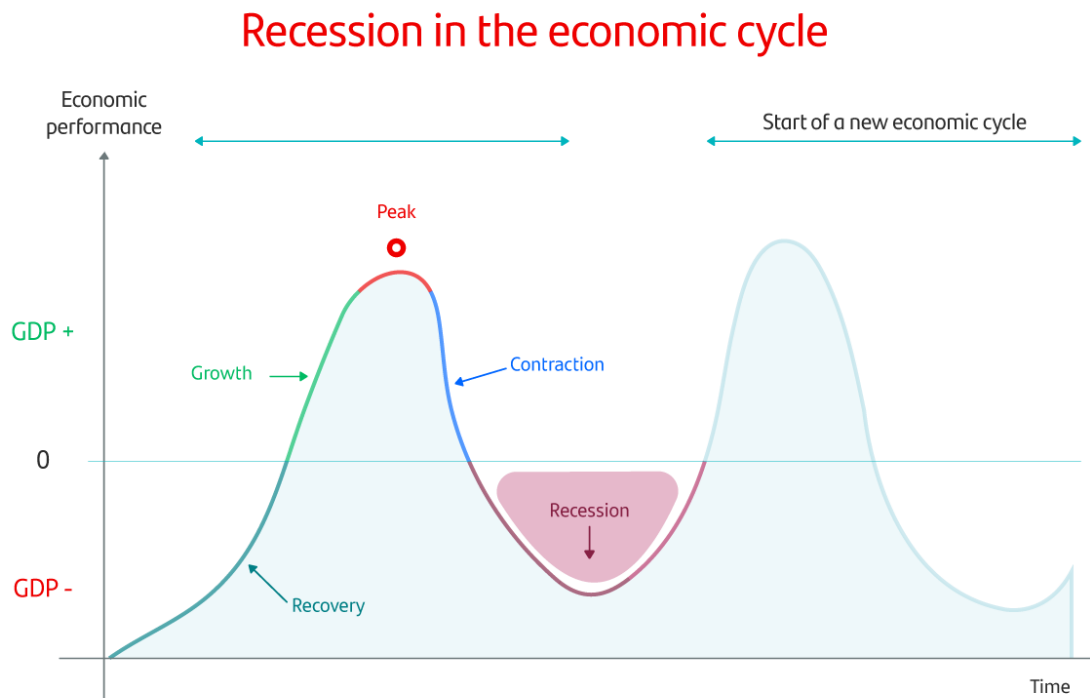


Fig. 1: Recession in the economic cycle; source: (10).

If the economy shrinks for two consecutive quarters, it is said to have gone into recession.

### Causes of Economic Recession

Both the effects and solutions to the economic slump might be lessened by understanding its origins. To comprehend the microeconomic and macroeconomic factors that have led to their development, the reasons must be effectively assessed and quantified. The United States and the United Kingdom July 2007 witnessed an extensive credit market standstill, which is when the

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global financial crisis first emerged (11). In the middle of 2008, the crisis started manifesting in countries like Nigeria as it spread rapidly resulting in a global downswing in economic activities. Economic instability is a global concern due to factors such as unrestrained corruption, subprime mortgage lending, uncontrolled capitalism, excessive funding for terrorism, and the wrong ideology of the "Free market" principle. Unsustainable growth is attributed to political instability, high inflation, foreign debt, poor governance, exchange rate volatility, trade imbalance, and energy and water shortages. Nigeria's economic recession is rooted in official corruption, a mono-product economy structure, and heavy dependence on crude oil exports.

### **Economic Recession Impact on Construction Industry**

The construction industry experienced a significant decline during the 2008-2009 financial year due to an economic recession, with a growth rate of only 0.2%. This led to a 2.5% decrease in employment growth in the EU and Euro region. Many construction companies went bankrupt, causing investors to delay investing in real estate. The 2007 global crisis in India resulted in many projects being abandoned due to the inability to finance and low demand. The crisis severely impacted the construction industry in Europe (12).

Strategies for engineering firms during the economic recession, highlighting the impact on Nigeria's economy, including SWOT analysis, survival, retrenchment, and aggressive growth was highlighted by (13); similar research was examined by (14) who evaluated Nigeria's economic recession from 1980 to 2017, highlighting its negative effects on growth and citizens' lives. It suggests structural, fiscal, and monetary reforms to stimulate growth through government-private partnerships, recommending diversification, avoiding oil dependency, attracting investment, and reducing corruption.

### **Possible solution to the effects of Economic recession on construction projects**

A recession, according to (15), is a period of decreased economic activity marked by increased joblessness, stagnating earnings, and a drop in retail sales. It is described as a decline or contraction in GDP that lasts for at least two quarters in a row.

Global recessions are primarily caused by political instability, wars, corruption, rising foreign debt, poor governance, and exchange rate volatility. These factors can negatively impact construction projects, leading to decreased speculation, project delays, and monetary requirements. To mitigate these effects, diversifying target markets, investing in large-scale public infrastructure projects, promoting transparency, and implementing cost-cutting strategies can help. Additionally, expanding framework speculation by states and implementing public-private partnerships (PPPs) can help revive the construction industry by allocating funds to critical infrastructure projects and reducing reliance on government budgets during economic downturns (16).

Construction projects' adaptability and flexibility can be improved by adopting agile project management methods. Light-footed approaches consider speedier reactions to showcase changes, empowering project groups to as need be changing systems. By facilitating quick decision-making, resource optimization, and project scope adjustments, this flexibility reduces risks associated with the global recession (17). In construction projects, embracing technological advancements like Building Information Modeling (BIM), drones, and robotics can boost productivity, cut costs, and boost efficiency.

Even in tough economic times, these technologies make processes more efficient, reduce waste, and attract. During global recessions, these solutions can help safeguard construction projects. By

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differentiating markets, expanding framework ventures, using PPPs, taking on coordinated projects with the executives, and embracing mechanical headways, partners in the development area can upgrade their strength, relieve gambles, and keep up with consistent advancement notwithstanding financial slumps (8).

## Methodology

A survey design was adopted for the research. The use of the survey research method makes the data generated directly from respondents to be more distinct. Data for the research was sourced through primary and secondary data. The data was collected expressly to help solve the research problems. The population of this study were the professionals in the built industry and economists. The sequential process involved first, a stratified random sampling for the administration of questionnaires in the survey aspect of the study then followed by the purposive sampling technique for the selection of participants for the interviews. Data collected for this research was analyzed with the aid of Statistical Package for Social Science (SPSS) version 22 software, EvIEWS8 software, and MS Excel. To portray the results for better understanding, the data was presented in tables and charts.

## Results and Discussion

*Table 1: Causes of Economic Recession in Nigeria*

S/N	CAUSES		EI	I	LI	NI	$\sum FX$	$\bar{x}$	Rank
1	Sudden changes in the prices of the inputs used in producing goods and services.	F	57	35	20	18	130	3.00	1 <sup>st</sup>
		WF	228	105	40	18	391		
2	Reduction of inflation by employing contractionary monetary or fiscal policies	F	49	38	23	20	130	2.89	3 <sup>rd</sup>
		WF	196	114	46	20	376		
3	The sharp increase in asset prices and a speedy expansion of credit	F	50	30	25	25	130	2.80	6 <sup>th</sup>
		WF	200	90	50	25	365		
4	Oversupply	F	22	18	55	35	130	2.20	9 <sup>th</sup>
		WF	88	54	110	35	287		
5	over-expansion of credit during the expansion period	F	45	35	18	32	130	2.71	8 <sup>th</sup>
		WF	180	105	36	32	353		
6	Speculation	F	39	49	25	17	130	2.84	4 <sup>th</sup>
		WF	156	147	50	17	370		
7	sudden changes in external economic conditions and structural shifts	F	44	34	28	24	130	2.75	7 <sup>th</sup>
		WF	176	102	56	24	358		
8	Forces of political factors	F	52	41	17	20	130	2.96	2 <sup>nd</sup>
		WF	208	123	34	20	385		
9	Failing exchange rate	F	47	36	24	23	130	2.82	5 <sup>th</sup>
		WF	188	108	48	23	367		
10	Excessive corrupt practices	F	18	21	30	61	130	1.96	10 <sup>th</sup>
		WF	72	63	60	61	256		

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**Key:** EI: Extremely Important; I: Important; LI: Less Important; NI: Not Important

Table 1 shows the ranking of 10 causes of recession in Nigeria, Sudden changes in the prices of the inputs used in producing goods and services ranked 1st with a mean of 3.00, Forces of political factors ranked 2nd with a mean of 2.96, Reduction of inflation by employing contractionary monetary or fiscal policies and Speculation ranked 3rd and 4th respectively with a mean value of 2.89 & 2.84. All the causes having mean values clustering around the same value shows how all the causes listed are important to be taken into consideration; this was in concordance with the previous report by (18).

**Table 2: Effect of Recession on Construction Industry**

S/N	CAUSES		EI	I	LI	NI	$\sum FX$	$\bar{x}$	Rank
1	High rate of bankruptcy	F	55	37	20	18	130	2.99	1st
		WF	220	111	40	18	389		
2	Fluctuation in the cost of construction raw materials	F	50	38	22	20	130	2.87	3 <sup>rd</sup>
		WF	200	114	44	20	374		
3	Unbearable credit condition	F	50	30	26	24	130	2.80	5 <sup>th</sup>
		WF	200	90	52	24	364		
4	Financial problems by construction companies	F	22	18	54	36	130	2.20	8 <sup>th</sup>
		WF	88	54	108	36	286		
5	High Unemployment rate	F	45	35	18	32	130	2.72	7 <sup>th</sup>
		WF	180	105	36	32	353		
6	Reduction in construction works	F	39	49	25	17	130	2.85	4 <sup>th</sup>
		WF	156	147	50	17	370		
7	Poor wages of labourers	F	52	41	17	20	130	2.96	2 <sup>nd</sup>
		WF	208	123	34	20	385		
8	increase in the use of substandard materials	F	44	34	28	24	130	2.75	6 <sup>th</sup>
		WF	176	102	56	24	358		

From Table 2, the ranking of 8 effects of economic recession was carried out and the effect ranking 1<sup>st</sup> is the High rate of bankruptcy with a mean value of 2.99, poor wages of labourers ranked 2<sup>nd</sup> with a mean value of 2.96. The fluctuation in the cost of construction raw materials, Reduction in construction works, and Unbearable credit condition ranked 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup> respectively with a mean of 2.87, 2.85, and 2.80. This table shows that economic recession has a great effect on the construction industry and needs to be guarded against to reduce these effects.

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**Table 3: Impact of Economic Recession on the Construction Industry Using Regression Techniques**

CI: Construction Industry (Dependent Variable)  
ER: Economic Recession (Independent Variable)

Dependent Variable: CI  
Method: Least Squares  
Date: 20/02/24 Time: 18:31  
Sample (adjusted): 10  
Included observations: 5 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CI	2.353014	1.104411	1.548173	0.2317
ER	7.252112	6.481032	3.347626	0.0226
R-squared	0.657943	Mean dependent var		4.52E+13
Adjusted R-squared	0.647003	S.D. dependent var		2.34E+14
S.E. of regression	1.86E+14	Akaike info criterion		64.74923
Sum squared resid	1.03E+30	Schwarz criterion		67.05813
Log-likelihood	-1240.486	Hannan-Quinn criteria		64.85670
F-statistic	4.049870	Durbin-Watson stat		1.355373
Prob. (F-statistic)	0.005243			

The coefficient of determination  $R^2$  from the regression result, the  $R^2$  is given as 0.657943 this implies that 65.79% of problems faced by the construction industry in Nigeria are explained by the level of economic recession in the country. Table 3 shows that there is a positive relationship between the construction industry's success and economic recession.

**Table 4: Economic Recession Preventive Measures**

S/N	Preventive Measures		EI	I	LI	NI	$\sum FX$	$\bar{x}$	Rank
1	Effective monetary and Fiscal Policies	F	60	35	20	15	130	3.08	2 <sup>ND</sup>
		WF	240	105	40	15	400		

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2	Reduction in Unnecessary Expenses	F	57	35	20	20	130	3.02	3 <sup>RD</sup>
		WF	228	105	40	20	393		
3	Diversification of the Economy	F	57	30	23	20	130	3.11	1 <sup>ST</sup>
		WF	228	90	46	40	404		
4	Establishment of a Realistic Budget	F	55	22	18	35	130	3.02	3 <sup>RD</sup>
		WF	220	66	36	70	392		
5	Strengthen Purchasing Power	F	54	26	18	32	130	2.78	4 <sup>TH</sup>
		WF	216	78	36	32	362		
6	Assistance to MSMEs	F	50	25	30	25	130	2.77	5 <sup>TH</sup>
		WF	200	75	60	25	360		
7	Availability of Emergency Fund	F	50	20	35	25	130	2.73	6 <sup>TH</sup>
		WF	200	60	70	25	355		
8	Long term Investment	F	47	23	35	25	130	2.71	7 <sup>TH</sup>
		WF	188	69	70	25	352		
9	Timely Identification of Possible Recession	F	45	22	38	25	130	2.67	8 <sup>TH</sup>
		WF	180	66	76	25	347		

Table 4 shows the ranking of 9 preventive measures for recession, Diversification of the Economy ranked 1<sup>st</sup> with a mean of 3.11, effective monetary and fiscal policies ranked 2<sup>nd</sup> with a mean value of 3.08, Reduction in unnecessary expenses and Establishment of a Realistic Budget both ranked 3<sup>rd</sup> with a mean value of 3.02. Strengthen Purchasing Power ranked 4<sup>th</sup> with a mean value of 2.78. This is in agreement with work by (19) that stated that Nigeria's construction sector is facing high costs, affecting economic growth and national development due to factors like corruption, inaccurate estimation, poor management, and insufficient professional utilization. Mitigation measures include financial transparency, accountability, and economic planning as reflected in figure 1.



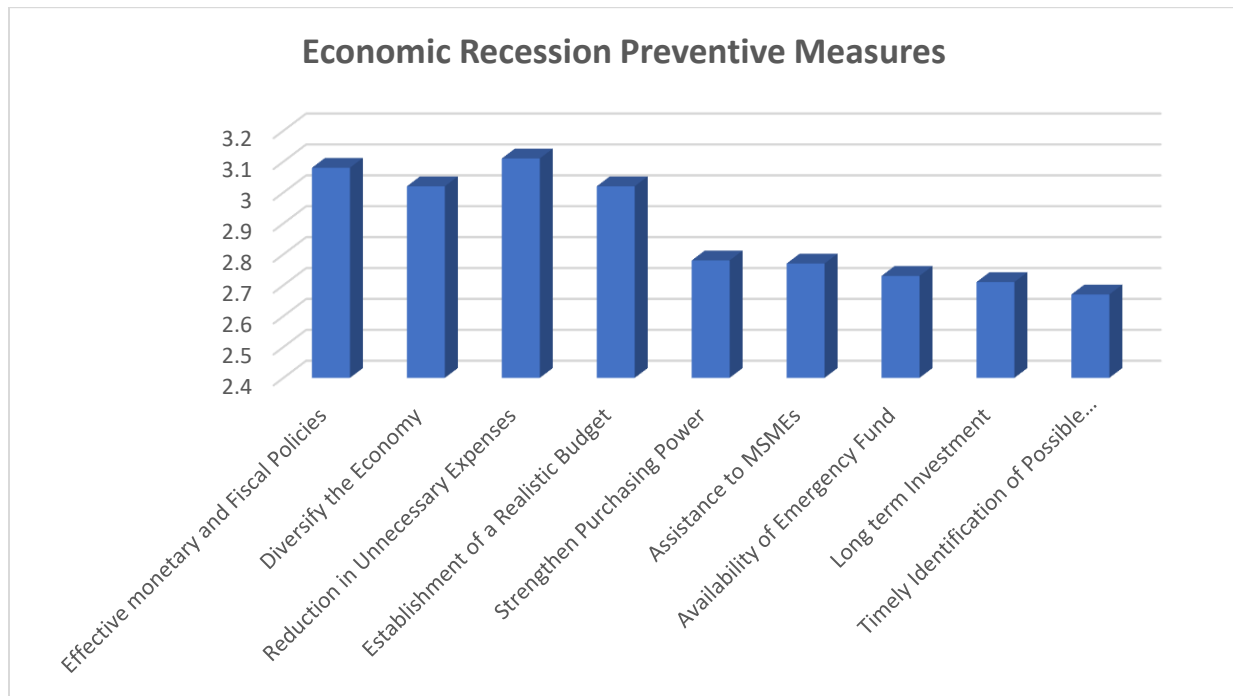


Fig. 1: Economic recession preventive measures

## Conclusion

Economic recession is a prolonged decline in economic activity, often characterized by negative GDP, rising unemployment, falling retail sales, and contracting income and manufacturing measures. In Nigeria, the main causes of recession were sudden changes in input prices, political factors, inflation reduction through contractionary monetary or fiscal policies, and speculation. The effects of the recession included high rates of bankruptcy, poor laborer wages, fluctuation in construction raw material costs, reduction in construction works, and unfavorable credit conditions. Preventive measures for recession include diversification of the economy, effective monetary and fiscal policies, reducing unnecessary expenses, and establishing a realistic budget. The study found a positive relationship between economic recession and the construction industry. To mitigate the effects, the government should invest in large-scale public infrastructure projects, monitor unethical behavior, and implement effective monetary and fiscal policies as agreed with the previous authors (20) as identified by (21), and (22).

## Contribution to knowledge:

This study has been able to establish a relationship between Nigeria's economic recession and the construction industry; thus giving mitigating measures to enhance efficient and effective infrastructural developments.

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