Determinants of Stock Market Performance and Manufacturing Sector Growth in Nigeria (1987-2013)

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Abstract

The paper attempts to evaluate the relationship between determinants of stock market performance and manufacturing sector growth in Nigeria using time series data (1987-2013).Secondary data was used and collected from the CBN statistical bulletin and national bureau of statistics. Hypotheses were formulated and tested using Ordinary Least Square (OLS) econometrics and the study reveals that there is a positive significant relationship between stock market performance and manufacturing sector in Nigeria. There is also a positive significant relationship between capacity utilization and market capitalization in Nigeria. There is a positive significant relationship between capacity utilization and new issues in Nigeria. The coefficient of determination indicates that about 88% of the variations in manufacturing sector growth can be explained by changes in stock market performance (variables). The study therefore recommends that market forces should be allowed to operate without any hindrance because interference in security pricing is inimical to the performance of the stock market and the manufacturing sector growth in Nigeria. The determination of stock prices should be deregulated for the purpose of achieving a sustained effort to stimulate productivity in the manufacturing sector of the economy. For any meaningful manufacturing sector growth, government should ensure that polices are consistent over time, as policy inconsistency in the past had led to closure of many manufacturing industries.
Keywords: Determinants, Stock Market Performance, Manufacturing, Sector Growth, Nigeria.

INTRODUCTION

Manufacturing sector is one of the most important sectors of every economy and at present, the manufacturing sector is highly import dependent with an average import content of 55 percent, contributing only 7 percent to GDP, with a growth rate of 5.8 percent in 2003 and generating total employment of 1.4 million Egbon (2008). Okeke (2002) stressed that, despite the poor statistics, manufacturing sector still presents one of the best prospects, opportunities and potential for growth and development within the Nigerian economy. Amaechi (2003) stressed that, Nigerian manufacturing sector has not been performing well, due to a myriad of reasons enunciated earlier; including inadequate funding that is why the manufacturing sector has failed to meet the expectations of the Nigerian society in terms of its contribution to the Gross Domestic Product and providing overall gainful employment expected from the private sector-driven economy. Rather than being a leading growth sector and a key factor in socio-economic transformation, the sector has remained a major consumer of foreign exchange, with a high level of depending on imported raw materials and capital goods, and making relatively minor contributions of foreign exchange earnings (Amadi and Odubo 2003).

According to Nzotta (2014) the relationship between stock market performance and manufacturing sector growth had been a subject for discussion and the question is whether the stock market performance encourages manufacturing sector growth or not? Adenuga (2012) noted that stock market has contributed to the mobilization of domestic savings by enhancing the set of financial instrument available to manufacturing sector-led economy to diversify their portfolios and by so doing they provide an important source of investment capital at a reduced cost. The overall growth of the economy depends on how efficient the stock market mobilizes savings and allocates a larger proportion of it to the firms with relatively high prospects as regards to the rate of returns and level of risks (Adeniyi, 2005). The efficient operation of this enhances economic growth in the economy and the size of the stock market is proxy to the market capitalization ratio while liquidity is proxy to total value traded ratio (Bernanke and Kutter, 2008). Ugwah (2011) earmarked that, for decades Nigeria's economy was characterized by the growth dominance of the public sector, over-reliance on a single commodity (oil) and the pursuit of a highly import dependent policy, and import substituting industrial strategy. While these policy thrusts were justified at their inception, expenditure, import substitution industrialization policy, and reliance on the export of a few commodities is neither efficient nor sustainable. Egbo (2008) posits that, manufacturing sector presents the easiest growth impetus based on our market opportunities and enormous resource endowments available locally. At present, the manufacturing sector is highly import dependent with an average import content of 55 per cent in 2003 and generating total employment of 1.4 million. Despite the above poor statistics, it still presents the best prospects, opportunity and potential for growth, employment creation and

particularly export-led growth within the ECOWAS sub-region (Okereke, 2001). In any free market economy, a vibrant manufacturing sector led-economy is a catalyst for stock market growth and development (Nzotta, 2014). Unfortunately in Nigeria, the sectors are still struggling under the shackles of under-development because of inconsistent government policy, inability to access long-term investment funds, political and economic instability, absence of workable long-term development plans, inability to implement the formulated policies, corruption at all levels of government etc. Therefore, these problems have raised doubts and criticisms on the performance of stock market and manufacturing sector growth in Nigeria. Consequently it is against this background that, this study attempt to assess the relationship between manufacturing sector and stock market performance in the Nigerian economy.

LITERATURE REVIEW
Theoretical Framework
This study is premised on the financial intermediation theory that explaining the role of credit in the economy by Gurley and Shaw (1960). According to them, the role of financial intermediation in any market free economy is to provide a mechanism to draw financial flows from financially exceeding agents to those having a financial need in the economy. Some recent studies by Allen and Santomero (2009), Levine et al (2009) and Fielding (2008) point out the role of intermediaries in risk- trading and their approach is focused on the bank specific and however it appears that banks are better managers of inter-temporal risk smoothing while financial markets are more efficient in cross-sectional risk sharing. At present, the manufacturing sector is highly import dependent with an average import content of 55 percent, contributing only 7 percent to GDP, with a growth rate of 5.8 percent in 2003 and generating total employment of 1.4 million. Okeke (2002) stressed that, despite the poor statistics, manufacturing sector still presents one of the best prospects, opportunities and potential fr growth and development within the Nigerian economy. Adenikinji and Chete (2002), concluded an empirical analysis of the performance of the Nigeria manufacturing sector over 30 years period and observed that the sector was performing with satisfactory growth levels from 1970 – 1980 despite the limiting factors, according to him, after that phase there was a sharp decline in the growth and profitability of the manufacturing sector. Adejugbe (2000) posits that, the climax of this was in 1983 due to the negative effect of the oil price, after the observation of the decline performance of the manufacturing sector, the government took a significant step to make the Nigerian trade regime liberal and also promote the manufacturing and import-export activities. Anyanwu (2000) also reaffirmed that, the collapse of the world oil market in the early 1980s and the prolonged economic recession led to a fall in the performance level of the manufacturing sector in the country. However, Manufacturing Association of Nigeria (MAN) also revealed that there was a general negative trend in the growth of the manufacturing sector during the period of 1980-1989. The question now is why this downward trend in the manufacturing sector? and the answer may be that the public policies are too heavy for the firms. Because the limiting factors are internal and external, does it actually have any relationship in the performance of the manufacturing sector? or there are other variables that impeded the activities of manufacturing industries that are still unidentified? If these factors are the causes of the downward trend in the growth and performance of the manufacturing firms in the economy and what measure should be adopted to overcome them.

The nature and magnitude of the crisis in Nigeria manufacturing sector would be better appreciated with an analysis of the structure of the Nigerian manufacturing sector. The Nigerian manufacturing sector was characterized by high geographical concentration, high production costs, low value-added, serious capacity under- utilization; high import content of industrial output and low level of foreign investment in manufacturing. The structure can be broadly classified into three categories: there are those multinational manufacturing companies that are controlled and managed from abroad, either by having their nationals at the helms of affair or through their Nigerian surrogates and they employ substantial number of workers and these companies rely predominantly on imported technology. They recruit their technical professionals from abroad and create the myth that many highly skilled indigenous employees are only good enough to handle routine task. These companies also rely on imported raw materials with little or no interest in backward linkages. These are typical of the companies in oil and gas industries. These state enterprises that are supposed to act as ancillary feeder industries and expected to aid production of raw inputs (e.g. iron rods and sheets, steel, etc) needed for manufacturing in other parts of the sector. For instance the oil refineries and the liquefied gas projects were built to provide basic inputs for downstream manufacturing and service with the result that their non-performance is seriously constraining the growth of the manufacturing sector (Ahmad, 2010). The third and the largest category consists mostly of public quoted manufacturing companies in Nigeria that produce products ranging from food, beverage, leather footwear, chemical, pharmaceuticals and textiles. The manufacturing profile in Nigeria has undergone three erratic decades. As a means of giving credence to this, throughout most of the post-independence era, especially the early independence years, Nigeria pursued an industrialization strategy based on import substitution. However, since the late 1960's the Nigerian economy has been based mainly on the petroleum industry. The initial introduction of the import substitution strategy to work relatively well, with the

share of manufacturing to GDP increasing from 2 per cent in 1957 to 7 per cent in 1967 (Soderbom & Teal, 2002). With the series of windfall from the crude oil sales during the commodity boom, private sector investment in manufacturing grew by taking advantage of an array of government incentives available such as the pioneer status, Approved Users Scheme and Indigenization Decree (Ishola, 2006; Soderbom and Teal, 2002).

While this implied rapid expansion of the industrial sector, subsequent returns on investment projects were typically much below expectations because the oil price boom led to stagnation of the manufacturing and agricultural sector.

There was an economic rent-seeking on a large scale, while government schemes designed to curtail imports combined with the windfall revenues generated massive rents that were available for a select few. Comparing Nigerian to other nations, Ahmad (2010) says the experience of Indonesia is an example of a country that clearly understood the role of the manufacturing sector as an engine of growth. He explained that the similarity between Nigeria and Indonesia has not reflected in the structure of their manufacturing sector. Both countries are agrarian in nature and experienced oil boom at the same time in 1972, but the percentage growth in manufacturing is on the increase in Indonesia while it has been declining in the case of Nigeria. The main reason for this difference he explained to be massive diversification of the economy, while Nigeria has since depended on oil. Likewise, Malaysia is the largest producer of palm oil in the world such that her foreign earnings from palm oil is more than what Nigeria earns from crude oil export (Ahmad, 2010).The most striking fact is that the first palm oil seedling which Malaysia now produces was taken away from Nigeria and Malaysia is now one of the industrialized nations in the world with an annual GDP higher than Nigeria's GDP. The comparison between Nigeria and these countries indicate that Nigeria has no genuine reason to be backward in manufacturing, but it has been over the years, even before the global economic meltdown.

Empirical Evidence

A study conducted by Egbon (2004) discovered that, a country cannot be termed developed if its industrial sector, especially manufacturing is not performing according to the capacity of a country industries output because manufacturing makes it not only developed, but also less dependent on the country's output. Amaechi (2003) stressed that, Nigerian manufacturing sector has not been performing well, due to a myriad of reasons enunciated earlier; including inadequate funding that is why the manufacturing sector has failed to meet the expectations of the Nigerian society in terms of its contribution to the Gross Domestic Product and providing overall gainful employment expected from the private sector-driven economy. Rather than being a leading growth sector and a key factor in socio-economic transformation, the sector has remained a major consumer of foreign exchange, with a high level of depending on imported raw materials and capital goods, and making relatively minor contributions of foreign exchange earnings (Andabai, 2010). Adenikinji and Chete (2002) conducted a study and also discovered that manufacturing's contribution to GDP about 8% but it is the sector with the potential to drive rapid economic growth and development. According to Boardman et al (2000), the Regional Programme on Enterprises Development (RPED) survey, Africa Region, by the World Bank, returned interesting results for Nigeria. The survey conducted in 2001 showed that, the domestic private sector's performance is below that of the foreign owned firms operating in Nigeria and that the large number of micro-small firm have value added that are below the average for all firm analyzed. Another investigation carried out by Andabai (2011), observed that, firms with foreign equity do better than firms without foreign equity; the most value added per worker is achieved in the food processing sub-sector which appears the least complex; capacity utilization is not up to 70% in any firm group and average 53% for all firms surveyed. The best performers, very large firms, have the most foreign participation. Over a ten-year period, manufacturing employment has been declining in all firm categories (Egbon, 2004).

Anyanawua (2000) asserted that, in any economy whether developed or developing, the role of private sector for sustained economic growth and development is always at the foremost because the present global economic experiences reaffirmed the place of the market in accelerating growth process in a sustained manner. Amaechi (2003) stressed that, some transition economics in Eastern Europe and other parts of the world, the conviction that five market allocations through increased private sector prominence, contrary to central planning, guarantees higher efficiency, grows output and ensures better living standards, has been the driving force behind the desires to transform their economy. Boardman et al (2006) in their cross-sectional studies discovered that, many countries the new private sector has played a major role in recovery and growth especially in countries like Albania (before the crisis of 1997-98), Croatia, Estonia, and Hungary, Lithuania (since 1996), Mangolia (since 1995), Poland and Slovenia. In the Commonwealth of Independent States (CIS) the sector made up of mainly small and medium companies in the sector, contributed in the economy's overhead. In the Baltic States and Central Asian Republic of Azerbaijan, Kyrgyzstan and Uzbekistan such policy became satisfactory too, and spurred the recent recovery Dipak and Ata (2003). Jhingan (2004) asserted that, the rapid growth of resilient and competitive manufacturing sector is a key component of a sustainable economic reform programme. Nzotta (2014) stressed that, the present democratically elected government in Nigeria has put in a lot of efforts to

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diversify the nation's economic base, reduce the relative dominance of the oil sector and strengthen the linkages between the formal and informal sectors. Furthermore, since it indicate its desire to increase the share of manufactured goods in total exports and generally create a vibrant private sector that can respond to the rigours of market forces as its engine of growth. Government has taken a number of steps towards realizing these objectives Egbon (2004).

Research Questions
1. Is there any relationship between market capitalization and the manufacturing sector?
2. Is there any relationship between new issues and manufacturing sector?

Research hypothesis
The following hypotheses will be tested:
H1: There is no significant relationship between market capitalization and the manufacturing sector.
H2: There is no significant relationship between new issues and manufacturing sector.

RESEARCH METHODOLOGY
This section provides information about the research design, source of data, population and sample selection, research variables, and model specification.
1. **Research Design:** the study adopted the analytical research design to study the nature of relationship between financial deepening and economic growth. The analytical procedure adopted in this study are: description of variables, sources of data, the empirical model, and method of model estimation and analysis.
2. **Sources of data:** Secondary data was used and collected from the Central Bank of Nigeria (CBN) statistical bulletin, and national bureau of statistics for the period (1987 – 2013). The study also considered using annual data, because quarterly data may not be accessed for some of the variables. The capacity utilization was employed as the depended variable to measure the manufacturing sector growth, while market capitalization and new issues ratios were also employed as the independent variables to measure stock market performance as indicated in **Table 1**
3. **Population and sample:** the population and sample size of the study are concentrated in the activities of stock market performance and manufacture stock growth in Nigeria (1987-2013)

Table 1: Performance of the Economy (1987-2013)

Year	Capacity utilization from the manufacturing sector (CPU)	Market capitalization (MAC) (N'Billion)	New issues(NIS) (N'Billion)
1987	7178.3	9088.0	16266.2
1988	7062.6	11720.8	18783.4
1989	5983.6	8920.6	14904.2
1990	17861.7	30360.6	48222.3
1991	21445.7	31192.8	52638.5
1992	30860.2	57971.2	88831.4
1993	45717.9	109886.1	155604.0
1994	87020.2	121535.4	208555.6
1995	145911.4	207266.0	353177.4
1996	166100.4	218770.1	384870.5
1997	162.788.8	206,059.2	368,848.0
1998	755127.7	950661.4	1705789.1
1999	562626.6	1309543.4	1872170.0
2000	845716.6	1241662.7	2087679.3
2001	837418.7	751856.7	1589275.4
2002	860523.3	1189006.5	2051531.8
2003	692232.8	2287433.0	2979633.1
2004	1240241.3	2006498.9	3346740.2
2005	1,311,382.9	1882668.2	571285.3
2006	1,356689.6	2924134.9	1,567,445.3
2007	1,474518.2	3,143800.8	1,669,282.6
2008	3772963.72	7246534.80	11019498.5
2009	4247349.17	7324680.63	11572029.8
2010	4349676.31	8120148.07	12469824.4
2011	4991393.74	8495056.53	13486450.3
2012	5243578.54	8903456.65	14147035.2
2013	3456789.43	9834521.56	13291311

SOURCES: (i) Central Bank of Nigeria Statistical Bulletin (various issues)
(ii) National Bureau of Statistics (various issues).

Model Specification: koutsoyianis (2003) Greene, (2002), Wooldridge, (2006); Asterious and Hall, (2007); Brooks (2008); Gujarati and Porter, (2009); Kozhan, (2010) report that model specification is the determination of the endogenous and exogenous variables to be included to be included in the model as well as the a priori expectation about the sign and the size of the parameters of the function. And this study applied Levine (2000) standard growth Ordinary Least Square (OLS) regression model. **CAP = f(MAC, NIS)**

Therefore, the modified model for this study is stated as:

$$CAP = a_0 + a_1 MAC + a_2 NIS + \mu$$

Where:

CAP = Capacity utilization from the manufacturing sector

MAC = Market capitalization

NIS = New issues

(a_0, a_1, a_2) = Regression parameters or intercepts.

μ = stochastic estimate

DATA PRESENTATION AND ANALYSIS

The concern of this study is the determinants of stock market performance and manufacturing sector growth in Nigeria using time series data (1987-2013) and data was collected from CBN statistical bulletin and national bureau of statistics.

Table 2: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	55.95770	7.960191	7.029692	0.0001
MAC	3.072834	0.966368	-3.179776	0.0130
NIS	-0.433403	0.343352	1.262268	0.2424
R – squared	0.880991	Mean dependent var		54.86846
Adjusted R-squared	0.776238	S.D. dependent var		5.023003
S. E. of regression	3.635216	Akaike info criterion		5.646215
Sum squared resid	105.7184	Schwarz criterion		5.754732
Log likelihood	-28.05418	R – correlation		0.837810
F – statistic	5.546330	Durbin – Watson stat		1.992339
Prob (F-statistic)	0.030824			

Source: Econometrics-View – 3.1

From table **1,** since the coefficient of correlation is R = 0.837810 (83%), this means that stock market performance and manufacturing sector growth in Nigeria are related and the relationship is strong and positive. However, the positive relationship here means that an increase in stock market performance will lead to an increase in manufacturing sector growth in Nigeria and vice versa. The coefficient of determination indicates that about 88% of the variations in manufacturing sector growth in Nigeria can be explained by changes in the stock market performance variables (MAC and INS) in the economy. This implies that a good portion of economic growth trends in the economy is explained by the stock market performance variables. The F-statistics of 5.54633 which is significant at 5% confirms the impact of stock market performance on manufacturing sector growth in Nigeria and furthermore, the influence of the explanatory variables on the dependent variable is statistically significant and this is also confirmed by the F-probability which is statistically zero and finally, the value of Durbin–Watson (DW) signifies the absence of autocorrelation.

TEST OF HYPOTHESES

The null hypotheses for this study are stated thus:

Ho$_1$: There is no significant relationship between market capitalization and the manufacturing sector.

Table 3: F-Test

Model	Sum of squares	Df	Mean square	F	Tab-value
1. Regression	436462.27	2	436462.272	11.771	.006[a]
Residual	551025.49	25	36735.033		
Total	987287.76	27			

a. Predictors: (Constant), MAC

[b] Independent Variable: B$_1$

D.F. = 2, 25

Table-value = - 0.008 ≥ F ≤ 0.006

F Cal = 11.771.

Decision: Since the computed F of 11.771 is greater than the table-value of 0.008, we fail to accept the null

hypothesis. None acceptance of the null hypothesis has led to the conclusion that, there is a positive significant relationship between market capitalization and the manufacturing sector growth in Nigeria.

Ho_2:　　There is no significant relationship between new issues and manufacturing sector.

Table 4: F-TEST

Model	Sum of squares	Df	Mean square	F	Tab-value
1.　Regression	206766.69	2	206766.689	2.971	.007[a]
Residual	780721.08	25	52048.072		
Total	987487.76	27			

a. Predictors: (Constant), NIS

b. Independent Variable: B_2

D.F. = 2, 25

Table-value = - $0.067 \geq F \leq 0.067$

F Cal = 2.971.

Decision: Since the computed F of 2.971 is greater than the table-value of 0.067, we fail to accept the null hypothesis. None acceptance of the null hypothesis has led to the conclusion that, there is a positive significant relationship between new issues and manufacturing sector growth in Nigeria.

CONCLUTION AND RECOMMENDATIONS

The findings from this study raise some policy issues and recommendations, which will reinforce the link between the stock market performance and manufacturing sector growth in Nigeria. Therefore the study recommends the following: The determination of stock prices should be deregulated for the purpose of achieving a sustained effort to stimulate productivity in the manufacturing sector of the economy. Market forces should be allowed to operate without any hindrance because interference in security pricing is inimical to the performance of the market and the manufacturing sector growth in Nigeria. The cost of raising funds in the Nigerian stock market is however, regarded to be very high and there should be a downward review of the cost, so as to enhance its competitiveness and improve the attractiveness as one of the major sources of raising funds for the manufacturing sector in Nigeria. For any meaningful manufacturing sector development, government should ensure that polices are consistent over time, as policy inconsistency in the past had led to closure of many manufacturing industries. Government should embark on development programs and also improve on infrastructural services that will enable the environment conducive for manufacturing sector growth and development in the county. An effective training programmes should be encouraged for the manufacturing sector-led economy, this will educate and improve investors on existing business opportunities in manufacturing industries. An improved and sustainable legal framework should be put in place by Government to enable the stock market and manufacturing sector to strive effectively in the economy also discourage the importation of substandard products at the expenses of local manufacturers.

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Appendix II

Table 4: Extent of Nigeria's Participation in International Trade (1970-2010)

Year	Import (M) (N'million)	Export (X) (N'million)	(M + X) (N'million)	GDP at Current Mkt Price (N'million)
1987	7178.3	9088.0	16266.2	63608.1
1988	7062.6	11720.8	18783.4	72355.4
1989	5983.6	8920.6	14904.2	73061.9
1990	17861.7	30360.6	48222.3	108,885.1
1991	21445.7	31192.8	52638.5	145243.3
1992	30860.2	57971.2	88831.4	224796.7
1993	45717.9	109886.1	155604.0	260636.7
1994	87020.2	121535.4	208555.6	324010.0
1995	145911.4	207266.0	353177.4	54980.8
1996	166100.4	218770.1	384870.5	697090.5
1997	162.788.8	206,059.2	368,848.0	914940.5
1998	755127.7	950661.4	1705789.1	1977740.0
1999	562626.6	1309543.4	1872170.0	2823900.0
2000	845716.6	1241662.7	2087679.3	2939650.0
2001	837418.7	751856.7	1589275.4	2881310.0
2002	860523.3	1189006.5	2051531.8	3352650.0
2003	692232.8	2287433.0	2979633.1	4980943
2004	1240241.3	2006498.9	3346740.2	5639865
2005	-1,311,382.9	1882668.2	571285.3	6398907.7
2006	-1,356689.6	2924134.9	1,567,445.3	6255470
2007	-1,474518.2	3,143800.8	1,669,282.6	6665040
2008	3772963.72	7246534.80	11019498.5	14572240
2009	4247349.17	7324680.63	11572029.8	18564598
2010	4349676.31	8120148.07	12469824.4	20657320
2011	4991393.74	8495056.53	13486450.3	24296323
2012	5243578.54	8903456.65	14147035.2	29724726
2013	3456789.43	9834521.56	13291311	34567847

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