

## Causes and Effect of Food Inflation on Nigeria's Economy

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DOI: [10.36347/sjahss.2019.v07i03.015](https://doi.org/10.36347/sjahss.2019.v07i03.015)

### Abstract

### Original Research Article

Food price inflation emerges as a main challenge in the economy of Nigeria from the last few years. Sharp Rising in prices of food has increased the cost of living which hurts the economy of the country. Having looked at the present trend in the Nigerian economy it is very obvious that price of items has continued to raise especially food related items. The study gives a special reference to the impact of food inflation on Nigeria's economy. The objectives of the study are Analyse factors causing food inflation rate; Find out the effect of inflation on Nigeria economy; Identify the major food items that inflation affects most; and Determine solution to the problem of food inflation in Nigeria. Data for the study was collected using a structured interview question and also generated from various issues economic survey of Nigeria. Descriptive statistics, Correlation analysis and Likert type scale was used for the study.

**Keywords:** Food Inflation, Economy, Nigeria.

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## INTRODUCTION

The increase in global food prices has received renewed attention in recent years due to its negative impacts on household's welfare [1]. It is a truism that food inflation is common in this era of globalization and agricultural industrialization especially with occurrence of shocks. Nigeria has not been spared from the positive and negative consequences. Various governments and development partners have considered robust policy interventions to offset negative impacts of food price inflation on the poor masses [2]. The reality of its impacts on immeasurable groups of the society across the world has left many people and interest groups to be interested in understanding dynamics of rising food prices [3].

Nigeria is a net importer of food. Among the various food commodities imported, rice, wheat, and sugar rank very high. In the context of globalization, any crisis that occurs in the international market regarding these commodities will be felt in Nigeria and indeed anywhere in the world. Thus it is in the context of the international dimensions of the 2008 food crisis that its nature and impact, and policy responses in Nigeria can be understood. Although the prices of many commodities slumped during the first couple of years of the new millennium, some commodities (coffee, cotton, sugar, rubber, cocoa, rice, etc.) started to witness a rebound thereafter. The main causes include the shifting fundamental trends in supply and demand, poor harvests, policy changes, episodic shocks arising from

climatic fluctuations, and a variety of other natural and political factors. In 2006, the increases in commodity prices in Africa were regarded as a commodity boom being driven by growth in other developing countries, especially China and India, the influence of taste and preferences, climatic fluctuations, conflicts in crop-producing countries, high energy costs, and price speculation [4].

## OBJECTIVES OF THE STUDY

The main objective of the study was to analyse the implications of food price inflation on the economy of Nigeria. The specific objectives were to:

- Analyse factors causing food inflation rate;
- Find out the effect of inflation on Nigeria economy;
- Identify the food items that is mostly affected by inflation in Nigeria from July, 2015 to June, 2016; and
- Determine solution to the problem of food inflation in Nigeria

## Statement of the Problem

Nigeria has experienced continuous price escalation of staple food commodities in the last decade that has resulted into food insecurity and decrease in economy. The price of rice and tomorrow in Nigeria has increased by 150 percent between 2014 and 2016, and has since risen further causing food price inflation. Inflation is a problem in all facets of life and in all

economic entities. The government of any nation is concerned with the responsibility of ensuring that her plans and programme are not frustrated by unpredictable and galloping prices. Every firm desires a stable macro-economic environment that is devoid of unrepentant price change that can bring about reliable forecast and planning. An individual also strives that he is not worse off by unexpected price increase [5].

## LITERATURE REVIEW

### Inflation

Inflation is defined as a generalised increase in the level of price sustained over a long period. It is one of causes of growing food insecurity in the poor countries. An economy [6]. According to Umaru and Zubairu [7] the concept of inflation can be define as a persistence rise in the general price level of broad spectrum of goods and services in a country over a long period of time. "Inflation is too much money chasing too few goods". Badreldin [8].



FAO 2016 price index

Source: FAO, 2016

### Effect of Food Price Inflation on the Economy of Nigeria

Food inflation is undeniably one of the leading macroeconomic issues that threaten the development of any modern economy [9]. Like many developed and developing countries, one of the most fundamental objectives of macroeconomic policies in Nigeria is to sustain high economic growth together with low food price inflation. Nigeria has had different policy instruments aimed at reducing food inflation such as fertilizer subsidy program with more allocations of budgetary resources. At macro level, exchange rate, trade, fiscal, and monetary policies are affected by high food prices through different ways [10, 11].

## METHODOLOGY

### The Study Area

The study was done in Nigeria, using monthly and annual data which were collected from different institutions in Northern and Southern regions of the country and Data were also collected from secondary sources (published and unpublished) in different organisations and institutions and utilized. The data collected include: domestic imports and exports, Rice

prices, annual Rice production, prices from National Bureau of Statistics (NBS). Data collected from the different sources were edited, coded, entered into a computer and cleaned to ensure accuracy, consistency, uniformity and completeness. STATA, SPSS and Excel computer programs were used to analyze the data to test the study.

### Analytical Methods

Descriptive statistics  
Correlation analysis  
Likert type scale

## RESULTS AND DISCUSSION

### Effect of food inflation on Nigeria's economy

To investigate factors that affect food inflation correlation analysis. A negative relationship between foreign exchange rate which has led to increase in import rate and the output was seen as effect of inflation as high food prices are counterproductive to growth of the economy. Haszler *et al.* [12] claimed that high food prices act as incentive to boost agricultural output especially by producers who are net sellers of food. As

such, there is a certain point when food price inflation can increase the growth of the economy.

A negative relationship was between real interest rates and output, because low interest rate *ceteris paribus* motivates investment in the agricultural sector which in turn increases agricultural production and lowers food price inflation. Similarly, Headey and Fan [13] observed that low interest rates were responsible for high food production in most developing countries.

It was asserted that exports especially food products and agricultural commodities or produce positively influence the economic growth of the country, since producers and traders get more foreign earnings that are invested in the country. On the other hand, net food imports impede economic growth of the country.

### Causes of Food Inflation in Nigeria

Food supply shocks induced by environmental shocks like adverse weather conditions (drought, floods) has been rated as the major cause of food inflation in Nigeria, Input prices for fertilizer, seeds and other input machinery has been rated has the second major cause of food inflation in Nigeria, Poor Foreign Exchange rate is one of the major causes of food inflation in Nigeria, Weather conditions (Amount of monthly rainfall in millilitres) leads to an unpredictable output and has led to food inflation in Nigeria. Other factors that cause food inflation in Nigeria include: low interest rates, high oil prices, domestic policies, export restrictions and bans, market structure, insecurity in agrarian areas, CBN monetary policy, austerity measures, political instability and weather shocks.

### Food items mostly affected by Inflation in Nigeria

Major Food items (1Kg) and inflation rate in Nigeria from July, 2015 to June, 2016. The study identifies some major crops been consumed by Nigerians and the inflation rate as indicated in Table 1 below:

**Table-1: Distribution of inflation rate of basic food items in Nigeria (Naira)**

Food Items (1kg)	July& August 2015	September& October 2016	November& December 2015	January & February 2016	March & April, 2016	May & June 2016	Differences	Percentage increase	Rank
Rice	300	350	400	400	550	600	300	100	2 <sup>nd</sup>
Beans	250	300	350	350	500	500	250	100	2 <sup>nd</sup>
Tomato	100	100	150	150	200	250	150	150	1 <sup>st</sup>
Palm oil	200	200	250	350	400	400	200	100	2 <sup>nd</sup>
Beef	800	800	900	1000	1000	1000	200	25	6 <sup>th</sup>
Yam	300	300	400	400	450	500	200	66.67	5 <sup>th</sup>
Average Total								90.28	

### Market Survey, 2016

The mostly affected crop is Tomato which increased by 150 within a space of one year, followed by Rice, Beans and Palm oil which increased by 100% within a space of one year, followed by Yam and Beef which increased by 66.67% and 25% respectively. The Study indicates there is high rate of food inflation in Nigeria as the average percentage of the mostly consumed food item inflation is 90.28%. This justifies the words of Adeosun, 2016 that states "The economy of Nigeria is technically in recession".

### Solutions to Food inflation in Nigeria

The study identifies some solutions to the Problem of food inflation in Nigeria as follows;

#### Import ban

Nigeria imports half its requirement of edible oils, an element of imported inflation would seep through as global prices are on the rise.

### Increase in farm productivity

There are limitations in expanding agricultural acreage. So there is great significance in improvement of yields, from the available land. Urgent focus is needed to enhance farm productivity by way of technology transfer in seeds, advanced agricultural practices including farm mechanisation and drip irrigation and other agri-inputs. Lower the cost of inputs and fertilizers: Government should take immediate measures on

### Improve storage and processing infrastructure

Inefficient and insufficient post-harvest storage infrastructure results in loss of over 10 percent of food grains and fruits & vegetables produced. Improvement in post-harvest processing and storage utilities can also significantly contribute to reduction in losses and longer shelf life for perishable.

### Improvements in supply chain

Incentives should be given to processors and organised retailers to procure directly from the farmer

groups and minimise the layers in supply chain which add to the prices of agri-commodities.

### **Reduce food import taxes and other import barriers and protections**

Food prices in some countries are artificially inflated due to import taxes and other kinds of protections.

### **Stimulate research and investments in innovation from all possible sources**

But mostly in genetics, in order to find new solutions for food and bio-fuels production and consumption. In trying to solve the sustainability equation, seeds are a problem today, due to shortages.

### **Other solutions include**

Credit Control and Price Control, Demonetizations of Currency, Reduction in Unnecessary Expenditure, Increase in Taxes and Increase in Savings and Rational Wage Policy

## **CONCLUSION**

Inflation should be fought by using all the weapons at the command of the government. This study investigated the causes and trend of food inflation rate in Nigeria. The results showed that Foreign exchange rate, Weather Condition, Import duties and high rate of import significantly and positively influenced high food inflation rate which has remained high in Nigeria, Higher foreign exchange rate resulted in skyrocketing food inflation. This is crucial to Nigeria's economy. Food inflation, imports, exports; real interest rate influenced both real agricultural output and the economy of Nigeria.

### **Recommendations**

The study hereby recommends the following:

- Government and private sector need to invest in agricultural inputs
- Government and development partners should initiate and promote pro-poor organic farming practices
- Irrigation farming should be encouraged in order to ensure consistent supply of the grain
- Government also needs to regulate rice prices and supply of important food items
- Government should provide adequate security for the rural dwellers and farmers

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