

The Consumption Pattern and Food Supply

Since the economic meltdown in 2016, consumer spending has remained at suboptimal levels amid declining disposable income and high unemployment rate. A report by the National Bureau of Statistics revealed that 56.65% of total household expenditure was spent on food and 43.35% on non-food items in 2019. This reflects the current consumption pattern and highlights the declining capacity of the people to meet discretionary items and savings. Given this significant proportion of food to total household expenditure, Nigeria remains susceptible to food price spikes and COVID-19 induced supply chain disruptions. In this commentary, we analysed household consumption as a key component of economic growth, the current consumption pattern and food supply, plus the CBN's initiatives at boosting the agricultural sector amid current realities.

Household Consumption as a Key Component of Economic Growth

The domestic consumption of goods and services is a primary component of the economic wellbeing of a country and as such, an indicator of the living standards of its people. In other words, household spending depicts the level of aggregate demand for goods and services in a country, which is a key measure of the country's strength of economic growth. In developed countries like the US, about 69.10% of Gross Domestic Product (GDP) growth is fuelled by household consumption, same as the UK, with 65.90%. In Sub-Saharan Africa, major economies like South Africa also have household consumption accounting for 62.70% of GDP.

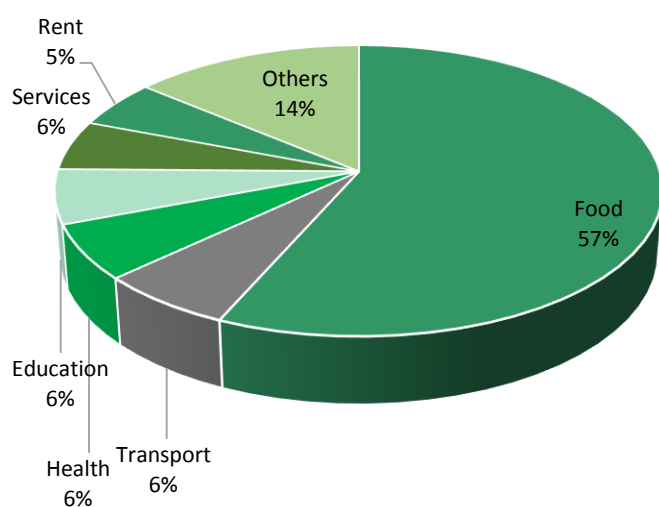
Likewise, in Nigeria, household consumption has accounted for the largest portion of GDP over time, an average of 60.47% in the last two years. However, in 2019, final household consumption's contribution to GDP dropped to 58.68% from 61.49% in 2018 – an offshoot of the respective declines (5.43%, 1.33% and 3.70%) posted in Q1, Q2 and Q3 2019. This slowdown in household consumption, mirrors the declining disposable income and the high unemployment rate (23.10%) of the people. According to the 2019 Poverty and Inequality report by the National Bureau of Statistics (NBS), on an average, four (4) out of (10) individuals in Nigeria have real per capital expenditures below NGN137,430 per year. This translates to over 82.9mn Nigerians who are considered poor by national standards and that constitutes about 40.10% of the total population.

An Examination of the Current Consumption Pattern

An analysis of the Household Expenditure report released by the NBS, revealed that total household expenditure on food and non-food items in 2019 was NGN40.21trn. Interestingly, of this total expenditure, 56.65% was spent on food, with the rest spent on non-food items. This ranks Nigeria as one of the topmost countries whose citizens spend the larger portion of their income on food. On an average, citizens of advanced/developed economies spend about 10-15% of their disposable income on food, with the U.S at 9.70%. Conversely, household expenditure on food in most African countries account for a larger portion of household income, with countries like Kenya (52.20%) and Ethiopia (51.20%) leading the list.

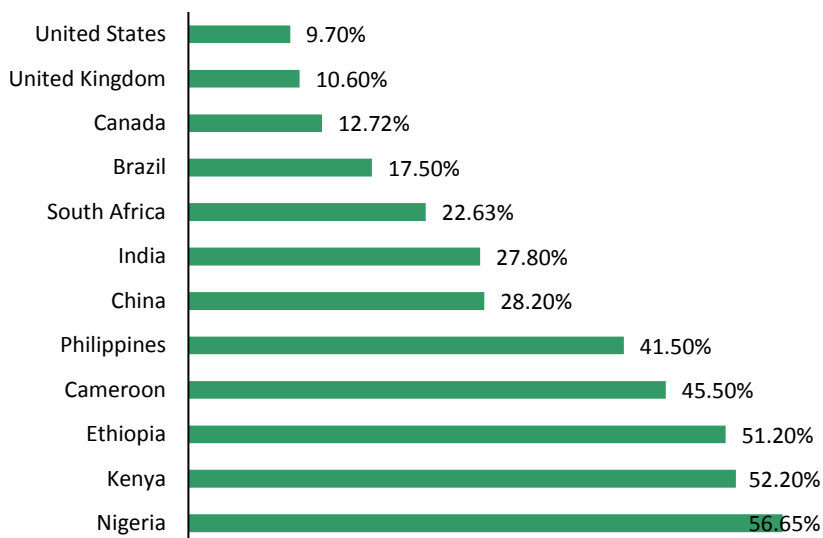
A deeper delve into the consumption expenditure report shows that foods consumed outside of home accounts for 20.19% of the food component of household consumption, followed by starchy roots and tubers (11.09%), rice (8.69%) and others (60.03%). With the inflationary tendencies inherent in these commodities, the data reinforces that a lot more people are susceptible to the periodic spikes in prices of these commodities without a commensurate increase in income. Thus, households within the lowest income quintile will continue to expend more on food, with a declining capacity to afford discretionary items and savings.

Chart 1: Components of Household Consumption Expenditure



Source: National Bureau of Statistics, Meristem Research

Chart 2: Proportion of Household Expenditure on Food Across Countries



Source: USDA, Data from Statistical Agencies, Meristem Research

Inflationary Pressures Remain High

While we acknowledge that recent government initiatives have helped to gradually wean the country off dependence on food imports, we note that a major supply gap still exists which has primarily contributed to the inflationary pressures. Furthermore, the imposition of export restrictions by some major food producing countries in response to the pandemic, increases the risk of imported inflation particularly on items like wheat and rice. Headline Inflation has continued to spiral out of control, with the most recent reading for April 2020, showing that food index advanced by 5bps to 15.03% YoY, driving headline inflation to the highest point since April 2018 at 12.35% (vs. 12.26% in March 2020).

The persistence of the COVID-19 pandemic further amplifies risks of food-price spikes, which poses significant threat to the country given our proportion of food to total household consumption expenditure. Therefore, it has become imperative for Nigeria and many other African countries to implement policies to avert disruptions to their food supply chain, while supporting their economy with fiscal buffers to mitigate the damaging effect of food supply shocks.

Initiatives at Supporting the Agricultural sector

Amidst current realities, CBN's initiatives at promoting the agricultural sector have not been left unrecognised, with the creation of policies aimed at reinvigorating financial support for the sector. One of which is the promotion of the establishment of InfraCo Plc., an infrastructure development vehicle in Nigeria, with take-off capital of NGN15trn. This fund will be deployed to support the FG in building the transport infrastructure required to move agriculture products from raw inputs to finished goods. Furthermore, the CBN has implored deposit money banks to restructure loan terms for businesses and households most affected by the pandemic especially in the Oil and Gas, manufacturing and agricultural sectors. We expect these initiatives to give support to, and mitigate the risks in the agricultural sector in the short to mid-term.

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