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## Impact of persistent Rise in Food Prices on the Nigerian Economy

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**Citation:** Udochukwu Victor Echebiri, Josephine Olohije Abode, Aigbe Eric Andrew, Isibor Andrew Onaghise, Onyebuchi Benedicta Amolo (2022) Impact of persistent Rise in Food Prices on the Nigerian Economy, *International Journal of Business and Management Review*, Vol.10, No. 8, pp.21-29

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**ABSTRACT:** *When the price of food increases uncontrollably, and some variables like transport fare, fuel prices, insecurity rises, this will affect almost everything else such as house rent, school fees, consumption, mentioning just but a few. The study adopts a survey research design approach to examine the effect of rise in food prices on the Nigerian economy. The population of the study is made up of Civil Servants (CS), food vendors (FV), other consumers (OC), and private sectors' workers (PS) concerned with food consumptions. A sample size of 248 persons was selected at random, and was divided into 36 civil servants, 118 food vendors, 59 other consumers, and 35 private sector workers. The paper adopted questionnaire design with 5-likert scale response, structured in line with the questions and hypotheses. The paper further uses the Pearson correlation coefficient to test the hypotheses. The study showed that the recent rise in food prices has a negative significant impact on the economic growth in Nigeria, and that there is no improvement on Nigerian economy because the rise in food prices has a significant effect on the purchasing power, and finally the finding showed that there is a significant relationship between rise in food prices in Nigeria and food security. The study recommends that government should expand social protection programs for the poor household in both rural and urban, and also increase their medium-term and long-term investments in agricultural research and extension, rural infrastructure, and market access for small farmers.*

**KEYWORDS:** food price, persistent rise, economy, Nigeria

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## INTRODUCTION

Food price fluctuation is among the most significant sources of concern for food security in both developing and developed economies. The global food market has witnessed episodes of price shock in the last three decades with their resulting effects on individual economic agents (farmers, producers, retailers, and consumers) and governments. Many factors have been attributed to fluctuations in food prices in recent years including policy shocks, monetary factors, extreme weather events, demand shocks, and energy prices, price of oil (Tadesse et al, 2016). However,

Abbott et al. (2009) identified three key factors that drive food prices in the global market, namely, excess demand, energy prices, and value of the US dollar. For many Nigerians, life and living is becoming extremely difficult. Many of them go through hardship to acquire the crucially needed basic necessities of food, clothing and shelter.

The situation today is such that Nigerians are groaning under rising prices of food items, as well as other essential goods, thus making it difficult for many people to afford them. While the minimum wage of government workers remains N30,000, the ability of a worker to afford a bag of rice which goes for N28,000 becomes almost impossible. With the number of poor Nigerians rising daily, the World Bank even predicted that “the rising prices of food items in the country could push additional six million Nigerian into poverty.” The reason for this assertion is not far to seek, as Nigerians, like never before, continue to groan under the weight of inflation without a commensurate increase in their salaries. The rises in prices witnessed between June 2020 and June 2021 alone, according to the World Bank, “could push another six million Nigerians into poverty with urban areas disproportionately affected” (Abbott et al, 2009).

However, according to (Nwokoji et al, 2021), on the recent report on inflation, the National Bureau of Statistics said the Consumer Price Index (CPI), which measures the rate of change in prices of goods and services in the country, declined for the seventh consecutive time to 15.99 percent in October 2021. The bureau said further that the figure is 1.76 per cent points higher than the rate recorded in October 2020 (14.23) per cent. Incidences of spikes in food prices are not new in agricultural markets. However, the uniqueness of the current state of agricultural markets in Nigeria is the hike in prices of not only a few selected crops but nearly all major food and feed commodities. Thus, food price fluctuation increases the uncertainty faced by households, farmers and agribusiness firms. According to the Nigeria Bureau of Statistics (NBS), price hike of food items rose in May 2022 to 18.37 per cent, showing an increase of 17.2 per cent compared to previous month (Opayemi, 2022). Thus, this rise in the food index was caused by increases in the prices of staple foods, food products, and oil.

Price fluctuations in Nigeria affect farmers' investment decisions that have serious ramifications for the growing farm debt, farm incomes and productivity. the cost of transporting the materials and commodities from the point of purchase to the place of the business has increased, consequently patronage has dwindled as a result of ever increasing prices. Transporters on their part complained that getting their tanks filled in the face of fuel scarcity is very difficult as at times their vehicles are abandoned at the filling stations for days. At other times they have to patronize the black market at a very high cost which leads to a corresponding higher transportation costs. The problem also affects civil servants, businessmen, students and lecturers adversely. It is with this fact that we find it necessary to examine the impact of the persistent rise in food prices on the Nigerian economy. The study is set to examine the determinants of persistent rise in food prices, and its effect on the Nigerian economy. The objective of the study was guided by the following research questions: What effect has the recent rise in food prices on economic growth in Nigeria? To what extent have the effects of food price hike on purchasing power in Nigeria? And what are the implications of increase in food prices on food security in Nigeria? However, this study is

guided by the following hypotheses: hypothesis 1: There is no significant relationship between the recent rise in food prices and economic growth in Nigeria; hypothesis 2: Nigerian economy is not improving because of the effect of rise in food price on purchasing power, and hypothesis 3: There is no significant relationship between rise in food prices and food security in Nigeria.

### **Determinants of persistent rise in food prices**

The growing world population is demanding more and different types of food. Thus, rapid economic growth in many developing countries such as Nigeria has pushed up consumers' purchasing power and generated rising demand for food. There is growing consensus that food prices have increased due to fundamental shifts in global supply and demand. A lot of forces contribute to rising food prices, some of which are: COVID-19, war in Ukraine and Russia, insecurity, high energy prices, high transportation fare, increased income, high fuel prices

**COVID-19 emergence:** In fact, the whole world is trying to heal from COVID-19. The emergence of COVID-19 in 2020 affected some many things including food production, and this however, lead to shortage of food items and thus increase in the prices of many food items. In short, Nigeria is still facing the after effect of this pandemics, and it will take some time lag for this to stabilize.

**Ukraine and Russia war:** The issues of war in Ukraine and Russia could not be overemphasized, for the whole world is currently battling the consequences of this war; the supply of grains and wheat which constitute the highest percent of bread production reduced drastically, and this really affected Nigeria. For instance, bread that used to be sold at N200 is now sold at N350, which shows an increase rate of 150% in the price of bread.

**Insecurity:** For so many years now, Nigeria has been faced by insecurity. The attacks by terrorists and herders, especially in the North-West and North-Central of Nigeria, has affected the production of food items (leading to scarcity of food items), for many farmers are denied access to their farms, and this however, led to increase in prices of food items. According to the Nigerian Minister of Agriculture Rural Development, there is no significant drop in the production of food items in the country (Oge, 2022).

**Cost of transportation:** The cost of transporting the materials and commodities from the point of purchase to the place of the business has increased, the increase in prices has made the patronage of food to dwindle. Price increase in fuel has made transport operators all over Nigeria to increase the cost of transporting human being and goods in order to meet up with their operational and maintenance cost (Abimbola, 2022; Bolaji, 2022). This leads to poor distribution of food items all over the country, thus, compelling the food vendors that managed to obtain food items to increase the prices of available food items.

**Bad road:** Accessibility to markets and other places of business is one of the major aspects to be considered. Most roads in Nigeria are in very poor conditions, and some parts, do not have accessible roads. However, most of the roads connecting rural to urban or rural to rural are in poor conditions. Farmers and food items vendors find it very difficult to get their goods to the markets

and other destinations, for instance, some roads in the South-East of Nigeria are in very poor conditions, food vendors found it difficult to convey their goods from the north to the south-east. This has discouraged the smooth movement and distribution of food items to others where their demands are needed, and thus has led to limited supply of food and however increase in the prices. According to Banerjee and Duflo (2007), the persistent increase in food prices has led to extensive malnutrition and food insecurity among the poor, low investment due to insecurity and negative effect on trade balance in many of the developing countries.

### **Impact of persistent rise in food prices on economy**

Higher food prices have radically different effects across countries and their economy (Joachim, 2008). Nigeria as a net food importer (importing virtually everything) struggles to meet domestic food demand as food prices become very high, and this however affects the gross domestic product (GDP). Since there is insufficient food, money in circulation is affected because consumers that should be demanding for food, limit their demands, and thus, the total money made on food that should be included in the calculation of GDP is also reduced. Again, majority of households in Nigeria are net buyers of food, and majority of them are poor, and when the surging and volatile of food prices hit in Nigeria, many households suffer the impact. As this situation presents itself, only the few households in Nigeria that are net sellers of food will benefit from the persistent rise in food price, and those households that are net buyer of food are harmed (their cost of living will increase, their living standard will reduce drastically). In addition, the adjustments in the economy which can create new income opportunities in Nigeria will take a longer time to reach everyone especially the poor households.

### **Impact of persistent rise in food prices on purchasing power**

Purchasing power is the amount of goods or services that a unit of money can buy. When the prices of food increases, definitely the number of goods that can be bought automatically reduces. Purchasing power affects every aspect of economics from consumers buying goods down to a country's economic growth. However, when a country's purchasing power decreases due to persistent rise in food price, there is always significant consequences, such as high cost of living, higher interest rate and lower credit ratings on the economy of a country. The increase in the prices of food will automatically reduce the purchasing power of Nigerians. It will increase their fears and deteriorate their health status. Food, water and housing are three important parameters to measure the values of our lives and these things have become elusive to the masses in Nigerians. Gyoh (2012) has argued that a persistent rise in food price of such magnitude in the present Nigerian economic context is, without doubt, a process that is either inadvertently or deliberately conceived to slip away money from the pockets of all Nigerian income earners, where more than 70 per cent of households in Nigeria are classified poor. However, these households end up in one way or the other spending at least 50 per cent of their daily income on transportation, and the remaining on family feeding, health, education and other social expenses.

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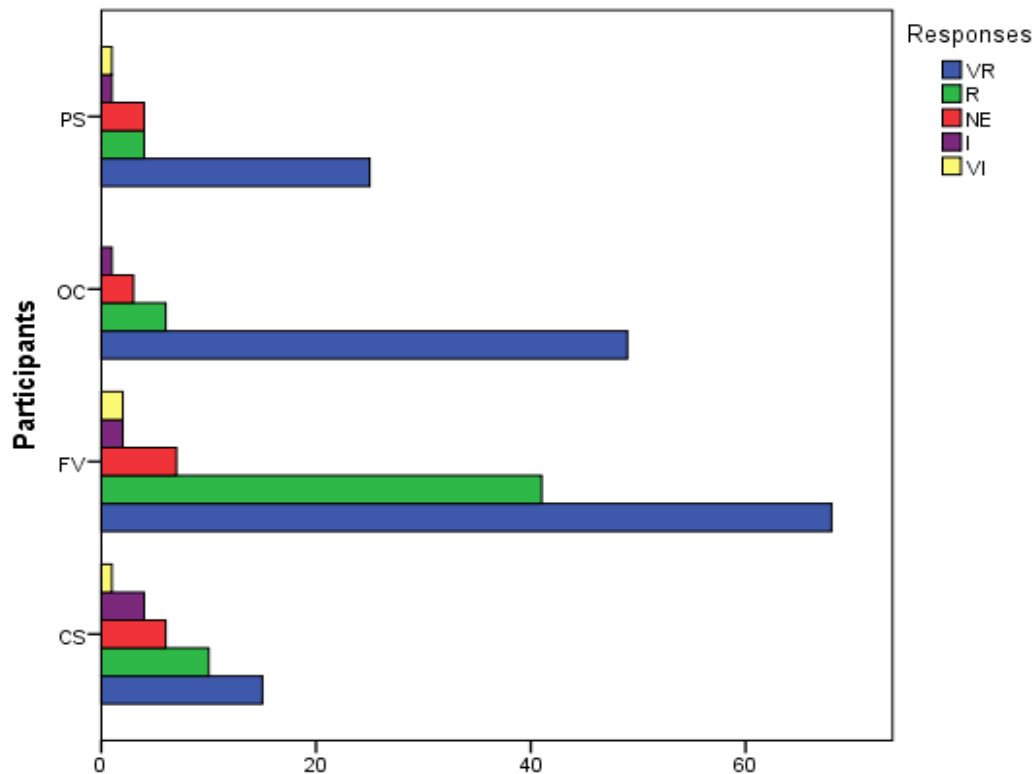
**Federal Government involvement**

The Nigerian government is taking various steps to try to reduce the rising trend of price hike of food, and to minimize the effects of higher prices for domestic prices and to mitigate impacts on its citizens. However, some of these actions by the government are likely to help stabilize and reduce the persistent rise in food prices, while other actions may be a zero sum game, where some category of people are helped at the expense of others, or it might also make food prices more volatile in the long run and seriously distort trade. In April 2022, the Nigerian president Muhammadu Buhari approved a release of 40,000 metric tons of assorted grains to needy Nigerians from the nation's Strategic Grains Reserves (SGR), through the minister of Agriculture and Rural Development, Dr. Mohammed Abubakar in conjunction with the ministry of Humanitarian Affairs, Disaster Management and Social Development that handled about 12,000 tons (Thisday, 2022). In June 2022, the federal government in a Federal Executive Council (FEC) meeting gave approval for the National Food Security Council to address the issue of persistent rise in food prices, and to provide a plan and some methods that will help reduce the price of food in order to help its people (Gboyega, 2022).

**METHODOLOGY**

This paper adopts a survey research design approach to evaluate the level of effect the food price increase has caused on the Nigeria economy. This method is chosen in order to generate reliable empirical data upon which recommendation and conclusion will be based. The population of the study is made up of all civil servants (CS), food vendors (FV), other consumers (OC), and private sectors' workers (PS) concerned with food consumptions. A sample size of 260 persons was selected at random, of which 36 are civil servants, 118 are food vendors, 59 are other consumers, and 35 are private sectors' workers. A pre-test was conducted and the result from it gave  $r = 0.94$ , indicating a high degree of consistency and reliability. The instrument was 8- term survey questionnaire with a 5-Likert scale response options of Very Relevant (VR), Relevant(R), No Effect (NE), Irrelevant (I), and Very Irrelevant (VI). The questionnaire was structured in line with the research objectives, questions and hypothesis of the study. The Pearson product moment correlation coefficient was used to confirm formulated hypotheses.

## RESULT/DISCUSSION

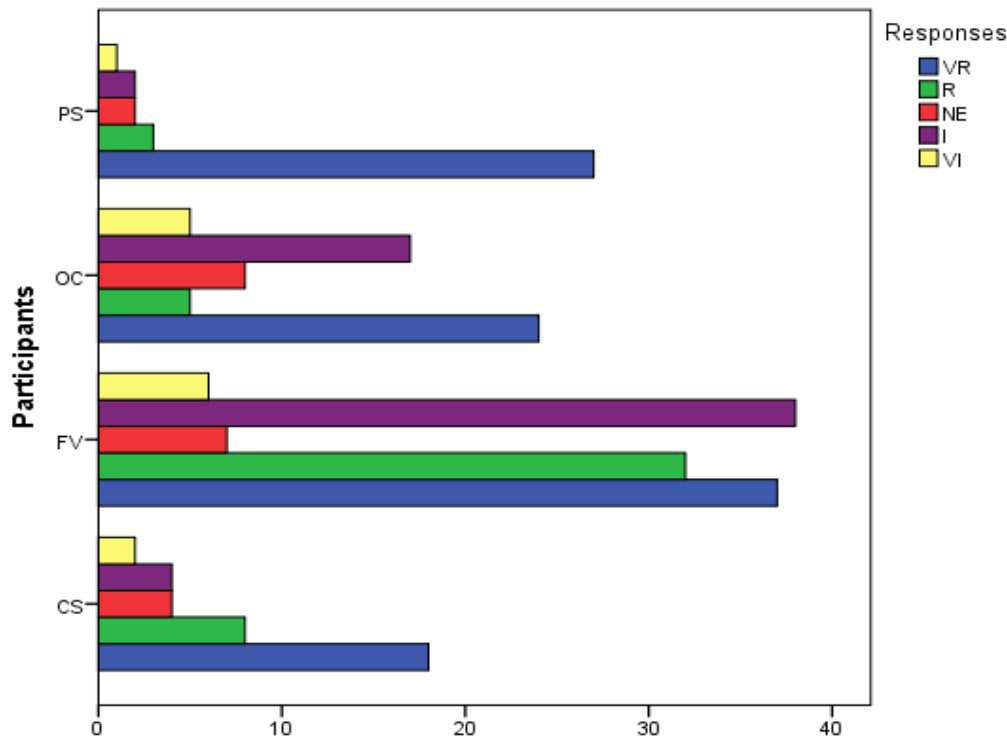


**Figure 1. Bar chart showing the number of responses by participants based on hypothesis one (There is no significant relationship between the recent rise in food prices and economic growth in Nigeria)**

**Table 1. Result for hypothesis one: There is no significant relationship between the recent rise in food prices and economic growth in Nigeria**

Symmetric Measures		Value	Asymptotic Standardized Error <sup>a</sup>	Approximate T <sup>b</sup>	Approximate Significance
Interval by Interval	Pearson's R	-.188	.072	-3.019	.003 <sup>c</sup>
Ordinal by Ordinal	Spearman Correlation	-.246	.065	-3.994	.000 <sup>c</sup>
N of Valid Cases		248			
a. Not assuming the null hypothesis.					
b. Using the asymptotic standard error assuming the null hypothesis.					
c. Based on normal approximation.					

In Table 1, the Pearson correlation coefficient is -0.188 and the approximate significance (p-value) is 0.003 (less than 0.05). This implies that the recent rise in food prices has a negative significant impact on the economic growth in Nigeria.

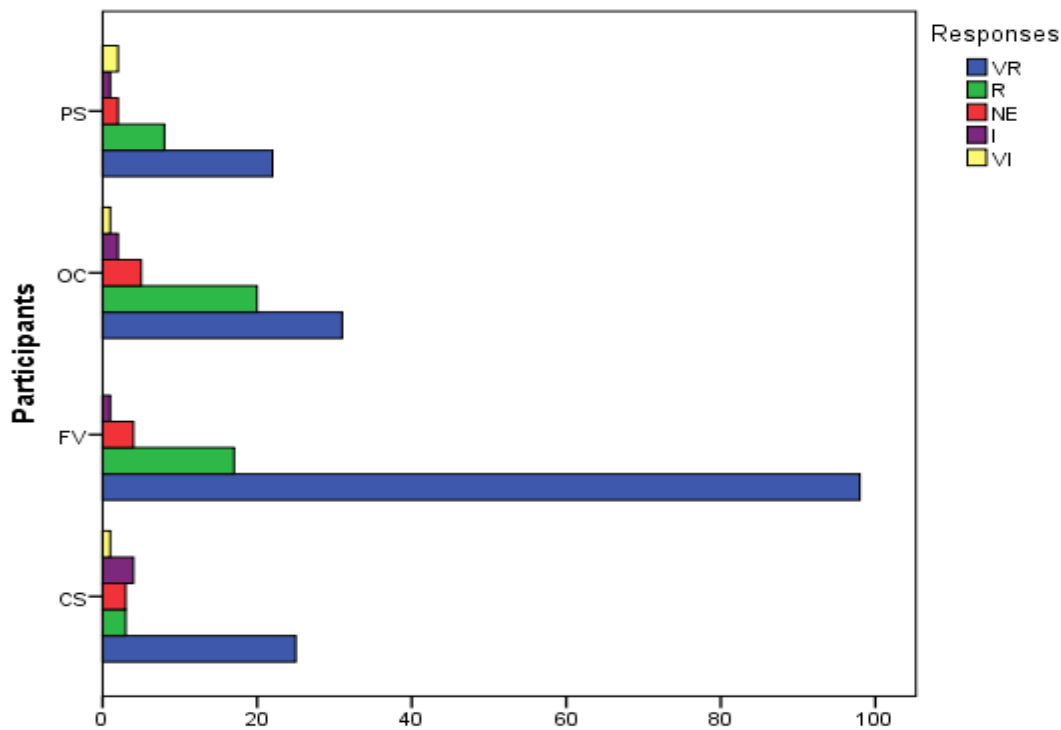


**Figure 2.** Bar chart showing the number of responses by participants based on hypothesis two (Nigerian economy is not improving because of the effect of rise in food price on purchasing power)

**Table 2. Result for hypothesis two: Nigerian economy is not improving because of the effect of rise in food price on purchasing power**

Symmetric Measures		Value	Asymptotic Standardized Error <sup>a</sup>	Approximate T <sup>b</sup>	Approximate Significance
Interval by Interval	Pearson's R	-.105	.060	-1.668	.097 <sup>c</sup>
Ordinal by Ordinal	Spearman Correlation	-.105	.064	-1.664	.097 <sup>c</sup>
N of Valid Cases		248			
a. Not assuming the null hypothesis.					
b. Using the asymptotic standard error assuming the null hypothesis.					
c. Based on normal approximation.					

In Table 2, the Pearson correlation coefficient is -0.105 and the approximate significance (p-value) is 0.097 (greater than 0.05). This implies that there is no improvement on Nigerian economy because the rise in food prices has a significant effect on the purchasing power.



**Figure 3. Bar chart showing the number of responses by participants based on hypothesis three (There is no significant relationship between rise in food prices and food security in Nigeria)**

**Table 3. Result for hypothesis three: There is no significant relationship between rise in food prices and food security in Nigeria**

Symmetric Measures		Value	Asymptotic Standardized Error <sup>a</sup>	Approximate T <sup>b</sup>	Approximate Significance
Interval by Interval	Pearson's R	.092	.079	1.461	.045 <sup>c</sup>
Ordinal by Ordinal	Spearman Correlation	.148	.070	2.351	.019 <sup>c</sup>
N of Valid Cases		248			
a. Not assuming the null hypothesis.					
b. Using the asymptotic standard error assuming the null hypothesis.					
c. Based on normal approximation.					

In Table 3, the Pearson correlation coefficient is 0.079 and the approximate significance (p-value) is 0.045 (less than 0.05). This implies that there is a significant relationship between rise in food prices in Nigeria and food security.

## CONCLUSION

Uncontrollable rise in food prices have been for some decade now a matter of concern in Nigeria, because it has a dominant role in increasing inflation. The persistent rise in food price has affected

almost everything in Nigeria, it has affected the economy, living standard of households, purchasing power of households, and it has reduced money in circulation. Despite the government's effort and necessary steps to reduce price hike of foods and minimize the effects of higher prices on the people, Nigerians keep up suffering the effect of persistent rise in food prices. We recommend that the government should expand social protection programs especially for the poor households in both rural and urban. Again, for government to achieve long-term agricultural growth (which could increase food supply and reduce food price), it has to increase their medium-term and long-term investments in agricultural research and extension, rural infrastructure, and market access for small farmers.

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