

THE CURRENT ECONOMIC SITUATION AND ITS IMPACTS ON THE BUILT ENVIRONMENT CONTRIBUTION TO THE GROSS DOMESTIC PRODUCTS IN NIGERIA

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ABSTRACT

The paper did a review on the performance of the built environment sector and its contribution to Nigeria Gross Domestic Product (GDP). It uses secondary data that were available online. The review shows that between 2010 and 2014 there was a growth in the contribution of the built environment sector to Nigerian GDP. However, a decline was noticed from 2014 to the third quarter of 2016. It is hopeful that the government policy of Vision 2020 which is targeting infrastructural development will, in turn, create employment for the teeming population of Nigerians and increase its contribution to the GDP.

Key words: Recession, Construction Industry, Unemployment, Gross Domestic Product

INTRODUCTION

The Nigerian economy is currently not stable, and most organizations and firms are finding ways to survive the impact of the recession. The built environment industry in Nigeria could be said to be hard hit because it is a major employer of labor. A report by Chinedum, et al. (2016), shows that "Construction sector in Nigeria is the single largest economic activity and the biggest industrial employer." The common and easier thing to do in a recession by employers of labor is by shading work force or creating alternative and cheaper ways of doing things.

The Nigeria construction industry has contributed a lot to its GDP in the past years. In fact, the building industry has outgrown all other sectors of the Nigerian economy. The National Bureau of Statistics (NBS) has put Nigeria's post-re-basing contributions of the construction industry to the real Gross Domestic Product for the year 2010 was N54, 612,264.18 million in which construction sector's share of 2.88% was N1, 570,973.47million. The construction sector grew by 21.30% to reach N1, 905,574.90 million in 2011. A slowdown in growth rate of the construction sector by 14.86% resulted in the area closing at N2, 188,718.59 million in 2012, hence the share of construction in GDP that same year stood at 3.05%. The Construction activities captured in the report include construction of buildings, roads, railways as well as civil engineering projects. Others are the construction of utility projects, demolitions as well as site preparations, among others.

Ukwu, (2016) stated that the Federation of Construction Industry (FOCI) said the ongoing recession had caused redundancy in Nigeria's construction industry while many construction companies have practically laid off their staff. It added that the story is also that of uncertainty especially for the unions of artisans and concrete casters in the country. Many construction



workers, who were used to daily or weekly pay before now are waiting endlessly for works to come their way. The unions include Association of Building Consultants and Artisans of Nigeria (ASBAN) and Association of Construction Workers of Nigeria (ACWN). Therefore, the aim of the study is to review the current economic situation and its impacts on the built environment contribution to the gross domestic products in Nigeria.

METHODOLOGY

The research work is in the current economic situation, and its impacts on the built environment contribute to the gross domestic products in Nigeria. Data were collected through secondary sources e.g. books and online materials on the built environment with special focus on the construction industry. The study did a review on the current economy situation and its impacts on the construction industry majorly between the periods 2012- 2016. Most of the data covers the formal Construction establishments, which are defined as those, that are registered and have audited accounts only. The researchers restrict the study to data capture by the national bureau of statistics, Retrieved from nigerianstat.gov.ng/pdfuploads/nbsNigerianConstructionreport2010_2012.pdf. Nigerian Construction Sector, Summary report: 2010-2012. The data were extracted through the internet on 12/04/2017. The data used in this report include Construction of the building, Construction of utility project, construction of Roads and Railways, Construction of another civil engineering project, Demolition and site preparation.

LITERATURE REVIEW

Concept of Recession

The recession is a period of reducing economic activities, defined as a contraction or reduction in the GDP for two consecutive quarters or longer, marked by high unemployment, stagnant wages, and fall in retail sales. A recession does not last longer than one year and is much milder than depression. John, et al., (2010) define a recession as where "output in the economy declined: in other words, growth becomes negative" and that it is associated with low-level consumer spending. Lipsey and Chrystal (2011), sees it as "a fall in real GDP for two-quarter in succession. Although recessions are considered a normal part of a capitalist economy, there is no unanimity of economists on its causes. In The Case of Nigeria, the International Monetary Fund (IMF) and the Central Bank of Nigeria (CBN) have all agreed that the Nigeria economy might regain stability in the early quarter of 2017 with low growth rate of 1.5% (Noko, 2016)

However, a survey of almost 2000 families in 1976 title Making Ends Meet: How Families Cope with Recession found that 59 percent had fallen behind rising prices and nearly as many, 52 percent, were hurting because of recession. The families most affected by inflation and recession were the less privileged ones, those of low income, the retired, the semiskilled and unskilled, and members of minority groups (David,1981). The construction sector is one important area that employed both skilled and unskilled labor at part time or full time, therefore in a recession; they are the most affected. The study further reveals that one-third of the respondents reported that they



had several hitches ranging from financial pressures from the recession, problems in their matrimonial homes, and more than one fourth said that financial pressures had affected their mental health. The problems of inflation and recession generated resentment toward government and politicians, who were blamed for the economic misfortunes. Confidence in government was virtually non-existent among that hard hit by the recession (David, 1981).

The growth of construction industry and the recent recession in Nigeria

The Nigerian built environment is believed to have grown since the 1940s when it was thought to have officially become an organized sector with few foreign companies. And since then the construction companies have increased in size. In fact, the construction sectors of the economy as the post-rebasing data in the construction industry shows a much more optimistic picture, as more modern construction activities have been captured, and prices correctly deflated.

As recession occurs, so many sectors are affected, while some sectors are seriously affected some are mildly affected. Since the built environment is a major employer of labor, most recession changes it drastically. According to Nwannekanma, (2016), the economic infraction and recession, has forced investors and stakeholders to pull out from equity market leaving government as the primary player, who borrowed extensively at a ridiculous rate. This subdued the real estate business and therefore might not compete because of Foreign Exchange problems. In the first and second quarters, the real estate witnessed respite in the house, retail, and office space prices. For example, Nwannekanma and Victor, (2016) writes that real estate business has seen a 70% drop in the transaction, this can be evident as a lot of companies are no longer employing, no more accommodation for staff as businesses are no longer paying. Before now accommodation for staff are being paid by the companies they worked for, but right now such gestures have been monetized because the resources are not there anymore.

Construction Sector Contribution to GDP 2010-2012

The NBC 2012 reports that the Nigerian economy has experienced a great change with the contribution of the construction sector. Figure1 below shows the contribution of the construction sector to the GDP 2010-2012 period.

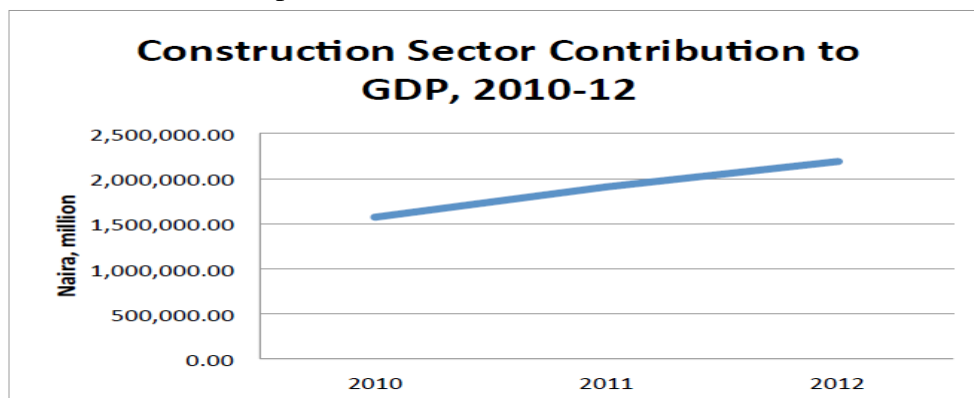


Figure 1. Construction sector contribution to GDP, 2010-2012



Source: NBS, 2012

It's shows that the real GDP for the year 2010 was N54, 612,264.18 million in which construction sector's stake of 2.88% was N1, 570,973.47million. The construction sector grew by 21.30% to reach N1, 905,574.90 million in 2011. Part of the reason for the increase in the contribution of the construction sector to GDP is the better capturing of all the economic activities in the construction industry. However, there was a reduced growth rate of the construction sector by 14.86% which resulted in the sector closing at N2,188,718.59 million in 2012, hence the share of construction in GDP that same year stood at only 3.05%.

Furthermore, the industry is dominated by foreign companies since the 60s, and the 70s are generating revenues and jobs for the citizenry. It engaged in the importation of resources and even skilled labor as well as the purchase of inputs from manufacturing sector within the country. The gross output of the construction industry makes available incomes from imports tariff, profit tax, harbor dues, rents, royalties, the wages and salaries of employees which invariably inflate the value of GDP positively; this tends to attract more foreign direct investment (FDI) (Oladinran and Ogunsemi, 2012).

Employment Size in the Construction Industry 2010-2012

Figure 2 below shows the construction size of Nigerian construction sector for both male and female employees including non-Nigerians. Although Nigerian culture has a serious support for male working in this sector, the table shows a progression of women involvement in this critical sector.

EMPLOYMENT SIZE	2010	2011	2012
NO. OF PERSONS ENGAGED (Nigerian Male)	5,861,845	6,065,033	6,327,377
NO. OF PERSONS ENGAGED (Nigerian Female)	398,403	396,602	420,779
NO. OF PERSONS ENGAGED(Non-Nigerian Male)	147,633	150,719	157,664
NO. OF PERSONS ENGAGED (Non-Nigerian Female)	7,202	8,488	7,716
TOTAL	6,415,082	6,620,842	6,913,536

Figure 2: construction size of Nigerian construction sector

Source: NBS, 2012

The figure 2 above also shows that there was a steady increase in the number Nigerian male workers for all three years; the females saw a decline in their numbers by 0.45% between 2010 and 2011, but an increase of 6.10% for 2012. These indicate that gender does not matter; each person has a capability to perform when given the opportunity. Furthermore, the total number of



persons engaged in Construction’s formal sector where 6,415,082 persons involved in 2010, the total number of persons increased by 3.21% or 205,760 to reach 6,620,842 in 2011 and it also grew by 4.42% or 292,694 to reach 6,913,536 in 2012. The Nigerian male employee constitutes a substantial portion of the total number of persons employed in the construction sector representing 91.38% in 2010, 91.61% in 2011 and 91.52% in 2012. The Nigerian female employee stood at 398,403 in 2010, 396,602 in 2011 and 420,779 in 2012. With this statistics, the Nigerian woman would be more confident that they also have a role to play in contributing to the nation GDP through the construction sector.

	2010	2011	2012
EMPLOYEE COMPENSATION WAGES/SALARY ONLY	127,911.28	253,225.12	224,235.46
EMPLOYEE COMPENSATION OTHER PERSONNEL BENEFITS (EXCLUDING PER DIEM)	4,160.57	6,574.38	16,968.57
TOTAL	132,071.85	259,799.50	241,204.03

Figure 3 Employment compensation
Source: NBS, 2012

In figure 3 above shows the total employee compensation, in the form of wages and salary and other personnel benefits (OPB) summed to N132, 071.85 million in 2010, with an increase of 96.71% to reach N259, 799.50 million in 2011. It fell by N18, 595.47 million or 7.16% to close at N241, 204.03 million in 2012. It becomes apparent that some people escape the indignity of transitory poverty as income is being generated as a result of boost demand among employees thereby creating cycles that promote the economy by increasing the volume of the GDP. This increase consumer confidence and accelerate the investment.

Evident of Recession Affecting Nigerian Construction Industry between 2014-2016

Figure 4 below shows the NBS graph of evidence of recession 2014-2016 in the construction sector. It was obvious from the graph that as at the first quarter of 2014, the real construction sector year on year growth was at about 18%. It began to slide down up to 0 % as at the third to the fourth quarter of 2015, showing a severe decline. At the third quarter of 2016, it was already at a negative growth rate of -6%. The impact is that the employee compensation in forms of wages, salary and others benefits that were shown in figure 3 will be severely affected as the sector has plunged.



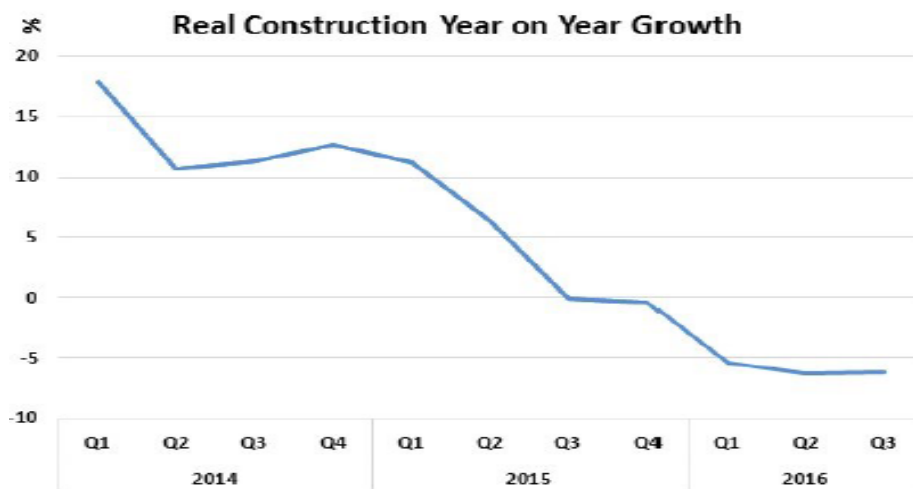


Figure 4 Construction sector real growth/decline

Furthermore, graph of Nigerian construction sector gross domestic products report of third quarter 2016 which said that construction grew by 2.81% in nominal terms (year on year) in the third quarter of 2016, a decline of 2.53% points compared to the rate of 5.34% recorded in the same quarter of 2015. There was also a decrease of 0.96% points when compared to the rate recorded in the preceding quarter. Nominal growth quarter on quarter was –20.64%. Construction contributed 2.96% to nominal GDP in the third quarter of 2016, lower than the rate of 3.15% it contributed a year earlier and 4.22% added in the previous Quarter of 2016. Figure 4 below shows a severe decline in the construction sector year on year growth.

Table 1. Gross Domestic Product at Current Basic Prices (=N=Million)

	2015					2016		
ACTIVITY SECTOR	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3
Construction	879,044.02	956,146.71	765,817.81	871,246.60	3,472,255.13	889,059.58	992,157.05	787,336.72

Source NBS 2016

Table 1 above, shows Gross Domestic Products at current basic prices of the activity within the construction sector for the period 2015 to the third quarter of 2016. The fluctuation in the prices has shown how the recession has affected the construction sector as the third quarter of 2016 is showing low performance than the first and the second quarter of the same year.

The Impact of Recession on the Built Environment

In figure 1, shows a rise in the contribution of the construction sector to the Nigerian economy while figure 2 shows the Employment size in the building industry from 2010-2012, with a steady increase in the total number of employees from 6,415,082 in 2010 to 6,620,842 in 2011 and



6,913,536 in 2012 and figure 3 also shows a steady rise in employee compensation in the form of wages and salary from the same period.

However figure 4 shows the NBS, (2016) third quarter report of Nigerian gross domestic products. The chart has shown and decline from 2014 to the third quarter of 2016. What this chart indicates is a massive loss of profits by the construction company during the period stated above. These losses in earnings have a chain reaction, and one is shading work, second is the possibility of inadequate or substandard work and third is the low morale of those who will remain working. The impact manifest in the form of massive unemployment and disengagement of some employees of the construction sector resulting from low profits culminating in little investment and demand.

The Future of Built Environment in Nigeria

Despite the facts that the statistic from the National Bureau of statistics which shows a serious decline or fluctuation in construction industry contribution to the Nigerian GDP, it, however, shows from government policies and programs that in the future the construction industry will be back on track and contributes to GDP positively. It is believed that the Nigerian construction industry will grow over the prediction period 2016–2020 (Reportbuyer, 2016), and that to continue to drive growth in the economy, investment in infrastructure construction, healthcare, manufacturing plants, education facilities and housing projects is necessary.

Furthermore, the development will also be supported by the Nigeria's Vision 20:2020, under which the government aims to develop the nation's rail tracks, road, airport, and other related infrastructure. This, in turn, will create employment for the teeming population of Nigerians and increase its GDP.

FINDINGS

The data collected for this work has shown clearly that Nigerian construction industry is experiencing difficulty in the present economy situation. This is because, from 2010-2012, the data has shown that the construction sector of the Nigerian economy has contributed 2.88%, 21.23%, and 14.86% respectively to the economy GDP. This achievement was as a result of better capturing of all the economic activities in the construction sector couple with the stable price of international currency used for doing businesses as heavy duty construction equipment, and other kits are not produce in Nigerian. Hence they have to be imported.

Furthermore, there was a steady rise in employment in this sector, between the same periods as was stated above. However, a decline in the GDP and the Nominal growth quarter on quarter in 2016 was –20.64%. The implication is that majority of the construction company who were employing both skill and unskilled labor cut back workforce. Retrenchment was the distinct options for the industry in other to meet up with the challenges which also affect its contribution to the Gross Domestic Product because they are making huge losses in their business.

The impact of the recession on the economy of Nigeria did not only affects employment and wages, but it also affects the prices of construction materials like cement, blocks, iron bars/rods, sand, stones, woods, roofing sheets, etc. which make construction work more expensive.

As a result, the scenario is reflecting demand deficiency regarding diminishing construction activities in the nation.

The decline in the real construction sector year on year growth from 2014 to the third quarter of 2016 has confirmed the poor performance of the construction sector as a result of the economic recession. The good thing, however, is that the economy has not gone into depression and therefore, there is a tendency for the construction sector to recover and contributes to the economy.

Furthermore, hope is not lost because it is most likely that the economy will revive very soon, this is evident from the way naira is gaining value over Dollar recently, at least it is 1 dollar to 350 Naira as at 30 June 2017, previously it has gone well above 400 nairas to a dollar and also improve in the price of barrel of oil from 44.5 dollars which Nigeria budgeted her 2017 budgets to at least 46.04 dollar as at 30 June 2017. Also, government policy on Vision 2020 which is targeted at investment in infrastructures like the construction of healthcare facilities, manufacturing plants, education facilities and housing projects will drive the growth of the economy. An example of housing projects are the 1000 housing units propose by the Buhari administration to be constructed in all the state of the federation, in fact, the construction of the housing project in Lafia, along Shandam road is already on.

CONCLUSION

It is very confident that the Nigerian economy has gone into recession and one of the sectors of the economy that was greatly hit by this recession is the construction sector. This was seen in the area of staff retrenchment and increase in the cost of construction material which in turn affects the sector contribution to the GDP. There was a great fall in construction sector contribution to Nigerian GDP especially from 2012-2016. It is also important to note that since construction sector is a major contributor to Nigerian GDP, investing in the sector by private and government alike can assist in stabilizing and diversifying the Nigerian economy. It is hoped that the recession would not last long as government policy of vision 2020 and other policy affecting the built environment might revive the sector sooner than expected.

RECOMMENDATION

Nigerian construction sector is heavily dependent on foreign expatriate, therefore to succeed in this sector, more of indigenous construction company should be supported to meet up to international standard. Also, the need to use advanced technology for construction in Nigeria is critical so that in a period of recession the impact will be less on the company and hence make a profit without a necessarily shading workforce. Furthermore, research on new methods of construction should be sponsored by the government and the construction industries itself to create new and cheaper ways of doing construction activities, and such method could be adopted by other construction companies elsewhere. This means Nigerians will set up their expatriate and indigenous technology that will be required worldwide which in turn will bring foreign earnings that will improve the economy.



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