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Movement of Consumer Prices Between 1960 and 1968

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MOVEMENT OF CONSUMER PRICES BETWEEN 1960 AND 1968

In Nigeria, one of the major policy objectives of the Government is the maintenance of a non-disequilibrating domestic price level generally. This has been repeated often enough in successive Federal Government Budget messages. However, and in the context of prevailing economic philosophy, prices of goods and services are left to be determined by market forces. Monetary policy is to intervene for the purpose of achieving price stability.

In the first part of this paper, we examine the movement between 1960 and 1968, of consumer prices of goods and services purchased by the low income group¹ and assess the impact of such movement on their cost of living. Further an attempt is made to explain the price movement in terms of other variables in the economic system. Finally, implications which emerge from the study are considered and, where necessary, recommendations are made with regard to Government policy. The second part of the paper describes the methods employed to construct an all-cities consumer price index for the lower income group; the series of this index are used for the analysis in the first part of the paper.

MOVEMENT OF CONSUMER PRICES

During the nine-year period, 1960 to 1968, the all-cities consumer price index followed a generally upward course. This is shown in Chart I. Over the period, the average rate of increase in the index was 2.4 per cent per annum. The rise was particularly pronounced in 1961, 1962 and 1966, with increases of 6.4, 5.3 and 9.7 per cent, respectively. The changes in the index in the other years ranged between 3.9 per cent in 1965 and -3.7 per cent in 1967.

A study of the contribution of the constituent groups to the total price change (change in the all-cities index) reveals that the price rise recorded by the all-cities index during the review period was shared by all the constituent groups, except tobacco and kolanuts whose contribution to the index was negative. The highest rates of contribution were recorded by food, clothing, drinks and rental cost of residential space. As indicated in Table 1, nearly 62 per cent of the total price rise was accounted for by food, clothing and rental cost of residential space. This is explained by the relatively high weightage of these groups in the consumption expend-

TABLE 1
Percentage Contribution of Groups to
All-Cities Consumer Price Index Change
(1966-68)

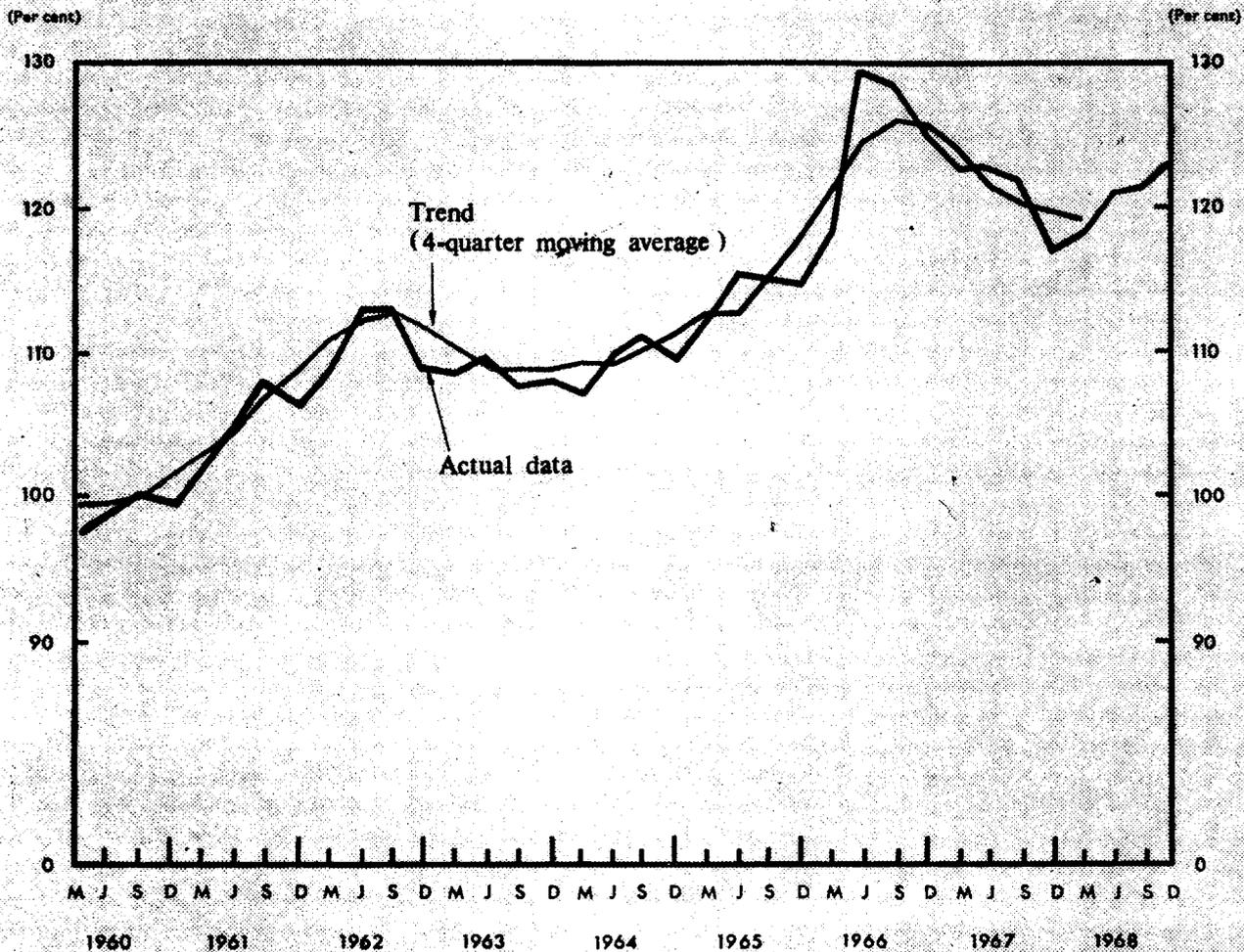
<i>Groups</i>	<i>Weight</i>	<i>Average change per annum</i>	<i>Weight multiplied by price change</i>	<i>Percentage contribution</i>
Food	455	1.8	819.0	33.8
Clothing	94	4.0	376.0	15.7
Drinks	81	3.9	315.9	13.2
Accommodation	112	2.6	291.2	12.1
Transportation	65	3.3	214.5	8.9
Miscellaneous purchases	86	3.2	179.2	7.5
Other services	63	2.4	151.2	6.3
Fuel and light	37	3.3	122.1	5.1
Tobacco and kolanuts ...	37	-1.5	-55.5	-2.3
Total	1,000.0		2,413.6	100.3 ¹

¹ The excess of 0.3 per cent is due to an error of approximation.

¹ The lower-income group, for the purpose of this paper, is limited to the urban wage earners and clerical workers whose basic earnings are not greater than £N450 per annum.

CHART I
MOVEMENT OF ALL-CITIES CONSUMER PRICE INDEX FOR THE LOWER INCOME GROUP

(Quarterly averages)





iture of the low income group. In absolute terms, however, clothing, drinks, transportation and fuel and light registered the highest rates of price increase per annum.

FACTORS UNDERLYING THE PRICE MOVEMENT

Although the movement of consumer prices was also influenced by some special factors during the review period, the most persistent element was the strong demand pressures inevitably created, among other things by higher money incomes and increased urbanisation. The relatively low rate of price increase — 1·8 per cent per annum registered by the cost of foods — was probably a reflection of the comparative adequacy of food supplies in response to the demand pressure. Of special significance, however, is the observed behaviour of food prices during the period of unsettled political conditions in the country. This was amply demonstrated in 1966, particularly in the first half of that year by the phenomenal increase in the index of food prices. Over that year, the index averaged 20·5 per cent higher than in 1965, accounting for approximately 93 per cent of the total price change recorded by the general index. This spectacular rise in food prices was caused by the artificial shortages created by the speculative hoarding of foodstuffs at the retail level following the military coup in January 1966. The rise was such as

to invite the Government to intervene openly in the market for the first time in recent years. 'Action taken consisted of campaigns against speculative hoarding of foodstuffs and the eventual prohibition of their exportation.' The general decline in food prices in 1967 was associated partly with an expansion in food supplies, as a result of the high prices that prevailed in the preceding year, and partly with an improvement in the system of distribution.

With regard to most of the non-food components of the consumer price index, a major factor underlying the movement of their prices apart from the general ones already mentioned was the effect of government fiscal policy. In recent years, import duties have been continuously revised upwards by the Federal Government for purposes of obtaining revenue, protecting domestic industries and improving the balance of payments by curtailing domestic spending on imported goods. Also, for revenue purposes, excise taxes have been increased on many occasions. These increases in both import and excise duties have, to a large extent, been passed on to the consumers in higher prices. In this context, the most affected constituent groups of the index were clothing, drinks and miscellaneous purchases. This partly accounted for the relatively high rates of increases in the price indices for these

TABLE 2
Percentage Annual Variation in Output and Prices¹

	COTTON TEXTILES		DRINKS ²	
	Per cent change in output	Per cent change in price ³	Per cent change in output	Per cent change in price
1961 over 1960	+15·2	+4·0	-0·7	+7·9
1962 over 1961	-26·4	+4·8	-29·7	+6·1
1963 over 1962	-12·4	+7·5	+124·7	Nil
1964 over 1963	+54·0	+4·2	+6·3	+3·4
1965 over 1964	+15·6	+2·0	-1·0	+6·0
1966 over 1965	+3·0	+2·3	+9·3	-2·0
1967 over 1966	+28·8	+1·5	-4·7	+0·2
1968 over 1967	-16·6	-6·1	+16·7	+9·9
Average	+7·7	+4·0	+15·1	+3·9

Source : Derived from figures obtained from the Federal Office of Statistics

¹ Domestic production plus imports.

² Beer, stout and mineral waters.

³ Price index for clothing.

¹ Central Bank of Nigeria Annual Report and Statement of Accounts for the year ended 31st December, 1966.

² Domestic production plus imports.

groups during the review period. As indicated in Table 2, the price indices for clothing and drinks registered increases of 4.0 and 3.9 per cent per annum despite increases of 7.7 and 15.1 per cent per annum respectively in the supplies of cotton textiles and drinks.

The impact of government fiscal policy on consumer prices assumed greater dimensions in 1967 and 1968 as a result of the civil war. Measures introduced by the Government not only restricted but, in certain cases, prohibited the importation of a wide range of consumer goods. For many commodities, the shortages created by the measures were partly offset by increases in domestic production, and therefore exerted a minimal impact on prices. However, for some commodities, the shortages were fully reflected in higher prices. The overall effect of the measures was a rapid rise in the price index of non-food items and, to a lesser degree, in the price index for food towards the close of the review period. (See Chart II).

While government fiscal measures did contribute to the rise in the cost of living, other aspects of government's fiscal and monetary measures did contribute to the moderate rate of increase in the consumer price index during

FLUCTUATIONS IN CONSUMER PRICES

Of the major consumer items examined (see Table 3), clothing and food prices showed the highest degree of variation during the review period. In the case of food, the variation is explained substantially by the seasonality in the quantum of food supply particularly of locally produced staples. Because of the great importance of the food and clothing components, the variability of the general price index was strongly associated with movements in the prices of these items.

EFFECT OF CONSUMER PRICE MOVEMENT ON THE COST OF LIVING

The movement of the cost of living is a function not only of prices but also of other variables such as changes in money incomes and especially in the case of the lower income group, family composition. Unfortunately, it is not possible at present to determine the effects of these other variables

TABLE 3
Valuability of the Consumer Price Index and of Major Component Indices

	Consumer price Index	MAJOR COMPONENT INDICES		
		Food	Accommodation	Clothing
Mean	113.1	111.9	111.2	119.2
Variance	62.2	106.0	49.9	146.0
Standard deviation ...	7.9	10.3	7.1	12.1
Coefficient of variation (in percentage) ...	7.0	9.2	6.4	10.1

the period. Some of the fiscal measures were instrumental in curtailing the rate of expansion of aggregate consumer demand, and had therefore lessened the upward pressure on consumer prices generally. Furthermore, the maintenance by the Central Bank of the policy of selective credit control in favour of productive sectors of the economy must also have exerted a downward pull on prices.

quantitatively. However, as indicated by price changes, there was a marked upward shift in the cost of living of the lower income group over the review period. Available evidence (see Table 1) shows that the most affected consumption items, in terms of their impact on the cost of living, were food, clothing and drinks. The least affected were fuel and light, and tobacco and kolanuts.

1960 1961 1962 1963 1964 1965 1966 1967 1968

MOVEMENT OF FOOD AND NON-FOOD PRICE INDICES BETWEEN 1966 AND 1968

(Base: Average 1960 = 100)

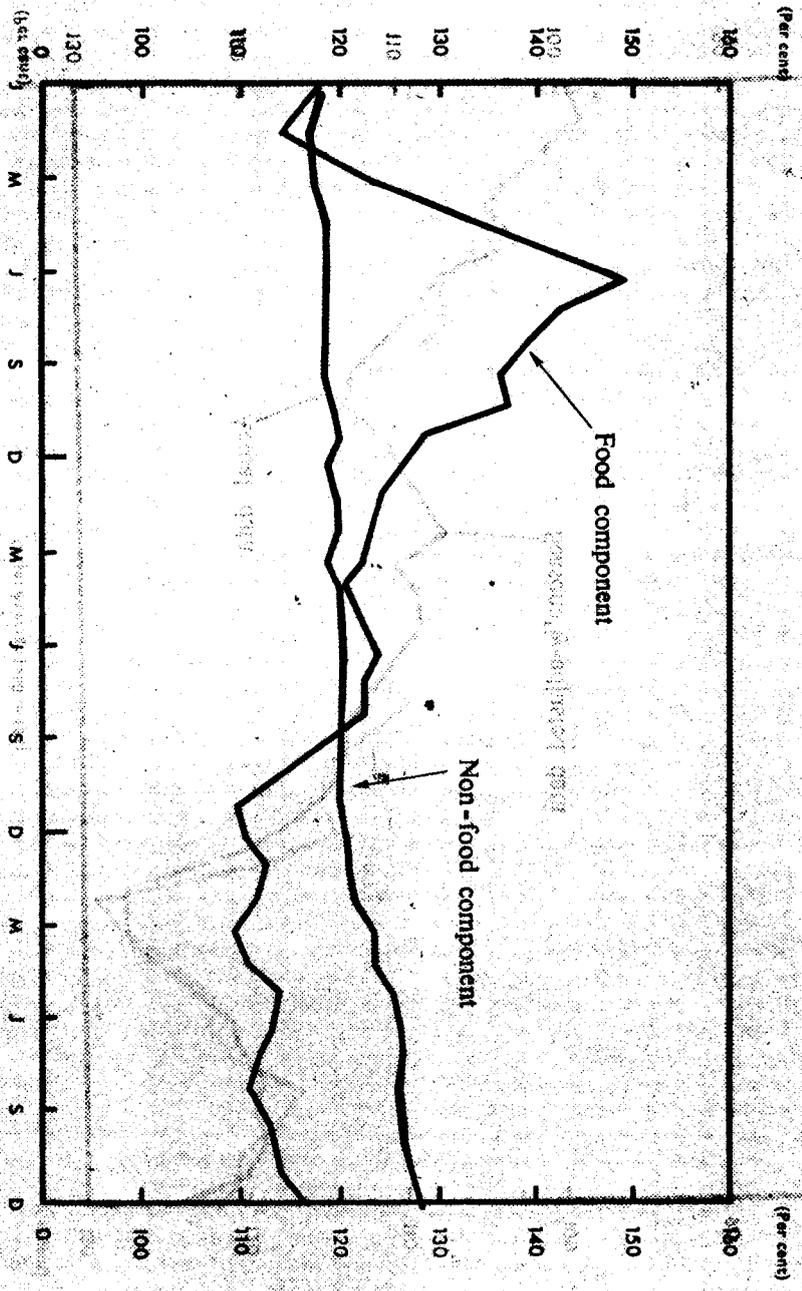


CHART III
**ALL-CITIES CONSUMER PRICE INDEX
 FOR THE LOWER INCOME GROUP**

Seasonally adjusted
 (Base: Average 1960 = 100)

