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IMPACT OF INFLATION AND EXCHANGE RATES ON FINANCIAL PERFORMANCE OF CONSUMER GOODS SECTOR OF THE CAPITAL MARKET IN NIGERIA

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ABSTRACT

This study assesses the impact of inflation and exchange rate on the financial performance of consumer goods sector of Capital market in Nigeria. The study uses purposive sampling technique and elimination method to determine the considered consumer goods companies in Nigeria Capital market over a period of 2012-2023 and *analyzed the impact of inflation and exchange rate on the financial performance of these companies measured by earnings per share as the indicator. Regression analysis was used to analyze the data. The result specifically shows that there is inverse relationship between fluctuations in inflation rate, exchange rate and the financial performance of consumer goods sector in the capital market in Nigeria.. The study recommends implementation of price stability programme to regulate inflation and adjustment of exchange rate stabilization policy to reduce import costs and improve the bottom line profitability of the consumer goods companies in Nigeria Capital market.*

Keywords: Earning per Share, Financial Performance, Inflation Rate, Exchange Rate, Consumer goods, Capital Market.

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1. Background of Study

The financial performance of companies in consumer goods sector of capital market is influenced by a variety of factors, and these challenges can be unique to specific regions and also have global implications. In Nigeria and broader Africa, issues such as economic volatility, infrastructure deficiencies, and political instability, regulatory issues are prominent. Globally, companies in consumer goods sector of capital market face challenges from global economic uncertainties, trade tensions, supply chain disruptions, technological changes, and sustainability pressures but they remain the backbone of economic growth of nations. Abiola (2024) states that the manufacturing sector is not merely a cog in the economic machine, it serves as the very fulcrum upon which a nation's prosperity pivots.

Inflation and exchange rate can play crucial roles in addressing the financial performance issues of firms in consumer goods sector of capital market in Nigeria by influencing the economic environment in which these firms operate. Monetary policy affects manufacturing firms through inflation and interest rate channel (Hassan&Ahmad, 2022). Exchange rate fluctuation impacts on a country's prices directly and significantly influences production cost of domestically produced goods (Manyok, 2016). Monetary policy which has elements of inflation and exchange rate has been debated as indispensable tools to industrial sector growth(Osakwe,*et al*, 2019). As prices rise due to inflation, consumer goods firms may face higher production costs, which can lead to decreased profit margins.To maintain profit margins, consumer goods firms may increase prices, which can lead to reduced demand and a decrease in sales which will eventually reduce the profit of the firm.Exchange rate fluctuation could lead to depreciation of the domestic currency (i.e. a decrease in the value of the currency) which can increase the cost of imports, leading to higher production costs for consumer goods firms that rely on imported raw materials or components. A well-designed monetary policy can help control inflation, maintaining a stable and predictable price environment, which can benefit consumer goods firms.Ufoeze,*et al*, (2018) states that there are various regimes of monetary policy in Nigeria where at times it is tight and at other time it is loose, mostly used to stabilize prices.

The study aims at providing valuable insights that can lead to more effective framework on inflation and exchange rates management for improved financial performance of firms in consumer goods sector of the capital market which will ultimately benefit the broader economy and society.

1.1 Statement of the problem

Consumer goods firms are vulnerable to fluctuations in the macroeconomic environment, including changes in inflation rate and exchange rate. This has raised concerns about the impact of these changes on the financial performance of consumer goods firms listed on the Nigerian Exchange. The financial performance of listed consumer goods firms in Nigeria has far-reaching implications for society. Poor financial performance of Consumer goods firms can lead to job losses, reduced consumer confidence, and economic instability.

Conducting research on the impact of exchange rate changes on the financial performance of consumer goods firms in Nigerian Capital market is justified by its significance for economic stability, business decision-making, risk management, investor confidence, policy formulation, regulatory compliance, academic advancement, and societal welfare.(Ufoeze,*et al*,2018).

Evaluation of the effect of inflation rate fluctuations on the financial performance of consumer goods firms inNigeria capital market is critical for promotion of sustainable growth, provides effectiveness of monetary policy transmission channels, helps firms to develop effective cost management strategies,identify vulnerabilities and implement risk mitigation measures. (Egbe, *et al*.2021). This will also help firms in optimizing their capital structure and investment decisions to minimize financial risk and maximize shareholder value.

1.2 Objective of Study

The main objective is to assess how inflation and exchange rates influence the financial performance of companies within the consumer goods sector in Nigeria's capital market

The specific objectives of the study are as follows;

a) To evaluate how fluctuations in the inflation rates affect the financial performance of companies in the consumer goods sector of Nigeria's capital market
b) To analyze the impact of exchange rate changes on the financial performance of companies in the consumer goods sector of Nigeria's capital market

1.3 Research Questions

The following research questions will be answered during the research;

a) How do fluctuations in the inflation rates affect the financial performance of companies in the consumer goods sector of Nigeria's capital market?
b) In what ways do changes in exchange rate impact the financial performance of companies in the consumer goods sector of Nigeria's capital market?

1.4 Research Hypotheses

The following are the hypotheses of the study;

a) $H_0 1$:Fluctuations in inflation rates do not have a significant impact on the financial performance of companies in the consumer goods sector of Nigeria's capital market
b) $H_0 2$:Changes in exchange rate do not significantly influence the financial performance of companies in the consumer goods sector of Nigeria's capital market

1.5 Significance of the study

The significance of this study can be viewed from the following perspectives;

Significance to Agencies of Government and policy makers. The research findings will assist agencies of government and policy makers such as Central Bank of Nigeria, Ministry of Finance , Securities and Exchange Commission and so on. Central Bank of Nigeria will find the study useful in refining and improving the effectiveness of policies related to inflation rate and exchange rate for implementation. It will be useful to Ministry of Finance in proper aligning the fiscal policies with monetary policies to achieve wider economic goals while Securities and Exchange Commission will use the finding to understand the impact of inflation rate and exchange rate on the performance of firms in consumer goods sector in Capital Market in Nigeria

Significance to Firms in Consumer Goods sector of Capital market. The management and Executives of the firms will find the study useful in taking informed decision regarding investment strategies, risk management, capital structure, strategic planning and operational amendment to mitigate the effect of the monetary policy variations.

Significance to Researchers and Academia. The research will contribute to the body of academic knowledge on inflation rate and exchange rate related policies which will serve as basis for additional studies. Also, the findings will be used as teaching materials for students in areas of Finance, Economics and other business related courses.

Significance to Consumer goods industry. This study will assist the Consumer goods association to advocate for policies to support the growth of the industry. Also the suppliers and distributors will understand how inflation rate and exchange rate affect the financial performance of the consumer goods industry which will eventually affect their businesses.

Significance to Financial Institutions. The study will assist financial institutions in making proper lending decisions and credit risks on consumer goods companies having understood the impact of inflation rate and exchange rate on their financial performance.

2. LITERATURE REVIEW

2.1 Conceptual Review

This review aims to conceptualize the relationship between inflation and exchanges rates fluctuations and the financial performance of consumer goods sector in Capital market in Nigeria, a developing economy with unique financial and economic dynamics. Financial performance of manufacturing firms could be ascertained by the stability of monetary variables (external characteristics) such as inflation, money supply, lending rate and exchange rate among others.(Ahmad,*et al,* 2022). The financial performance of firms in consumer goods sector can be evaluated using a variety of financial metrics and ratios. These metrics provide perceptions into different aspects of a firm’s financial wellbeing, including profitability(Return on Assets, Return on Equity), liquidity(Current Ratio, Quick Ratio), solvency(Debt to Equity Ratio,Interest Coverage Ratio), and market performance(Earning Per Share, Price to Earning Ratio).Lebas andEuske, 2006 provided views that defined performance as it is multifaceted and encompasses elements describing both the results and the processes creating the results. It exists only if outcome and results can be described or measured.

2.2 Theoretical Review

This study is connected to Purchasing Power Parity Theory. The Purchasing Power Parity (PPP) theory is an economic concept that states that the exchange rate between two currencies should adjust to equalize the purchasing power of those currencies. In other words, it suggests that the same basket of goods and services should cost the same in different countries when priced in a common currency.If inflation is higher in Nigeria compared to its trading partners, the Nigerian Naira should depreciate to maintain purchasing power parity. This depreciation affects import costs for consumer goods firms, impacting their financial performance.

This study is also connected to Cost-Push Inflation Theory. Cost-push inflation is an economic concept where the overall price levels in an economy rise due to increasing costs of production. It occurs when there are supply-side constraints that increase the cost of inputs, thereby reducing the supply of goods and services while maintaining demand. The key drivers of this theory are;increased wage costs,rising raw material prices,supply chain disruptions,higher energy costs,regulatory changes andexchange rate depreciation. Consumer goods firms benefit from low and stable inflation, which helps maintain purchasing power and consumer confidence. High inflation can lead to increased costs and reduced consumer spending, negatively impacting financial performance.(Adaramola& Dada, 2020)

2.3 Empirical Review

The empirical review of themonetary policy and financial performance of consumer goods manufacturing firms: evidence from Flour Mills Nigeria Plc ,(Hassan& Ahmad ,2022) was done. The study examined the effect of monetary policy on the financial performance of Flour Mills Nigeria plc using quantitative secondary data (annual time series data)t from 1990 to 2021. The data were sourced from the Central Bank of Nigeria Statistical Bulletin and annual financial reports of Flour Mills Nigeria plc. The variables incorporated in the model are financial performance (measured as Return on Assets which was profit after tax to total assets), monetary policy (measured by monetary policy rate), exchange rate, inflation rate and managerial efficiency (measured by total revenue to total assets). The study concluded that monetary policy has a significant negative influence on the financial performance of flour mills plc while the exchange rate and inflation rate have no significant influence on the financial performance of the company. The study also concluded that managerial efficiency has a significant positive influence on the financial performance of the sampled firm.

Using Secondary data obtained from Central Bank of Nigeria CBN) statistical bulletins, the National Bureau of Statistics (NBS), and annual financial statements of selected firms, Idaka,*et al*, (2023) examined the effect of changes in economic variables on the performance of manufacturing firms in Nigeria from 2004 to 2022. The variables used as proxy variables to measure changes in the economy are the average consumer price index and average exchange rate and the proxy variable for performance was earnings per share (EPS). The panel data were analyzed with the aid of ordinary least squares (OLS), and descriptive statistics in order to examine and estimate the effect of the economic parameters on the performance of firms producing consumable goods listed on the Nigeria Exchange Group (NEG). Based on the results obtained, it was discovered that a significant relationship exists between the average consumer price index and earnings per share, but the average exchange rate showed no significant relationship between Exchange rate and earnings per share.

Egbe,*et al*,(2021) analyzed the effect of economic variables on the financial performance of listed firms manufacturing consumer goods in Nigeria using secondary data that was gotten from Central Bank of Nigeria statistical bulletins and the firm's annual reports for the various years from 2004-2020.The study showed strong correlation between Consumer Price Index, interest, exchange rates and net asset per share. Consumer Price Index has significant effect on net asset per share and there is short run relationship based on the coefficients ARDL, exchange and interest rates showed no significant effect on net asset per share.

2.4 Gap in the Study

The review of literatureon the assessment of impact of inflation and exchange rates on the Financial Performance of consumer goods sector of the capital market in Nigeria are not too common.Using the two critical macroeconomics factors of Inflation rate and exchange rate for analyses by researchers against the performance of firms in consumer goods sector of Nigeria capital market are rare.

While there are substantial literatureon the general impact of monetary policy such as inflation rate and exchange rate on macroeconomic indicators and the financial sector,(Osakwe, *et al*,2019), (Onakoya, *et al*,2017), (Odondo, 2021),specific studies focusing on the consumer goods sector in Nigeria capital market are limited.The years covered in this study are recent(2012-2023).

Most of the researches in this area did not link the research to relevant United Nations Sustainable Development Goals. The study filled that gap. The study is linked to United

Nations Sustainable Development Goals 8,12 and 17 which are Decent Work and Economic Growth, Responsible Consumption and Production, and Partnerships for the Goals respectively.

3. METHODOLOGY

3.1 Data Source and Description

The research assesses the impact of Inflation and Exchange rate on the Financial Performance of companies within the consumer goods sector in Nigeria's capital market. The study analysed the impact of inflation rate fluctuations and exchange rate fluctuations on Earning per shares of consumer goods companies in Nigeria capital market. The research was based on Ex-post facto research design as the direct control of variables is not feasible. The researcher retrospectively studies the explanatory variable to establish the effect on the dependent variable. Since it is a panel data, the Ex-post facto research design was judged to be appropriate to use. This will enable the researcher to assess and give details of the past outcomes that are relevant for better and more dependable prediction of the future results of the variables under study. The population of the study is twenty (20) companies in consumer goods sector in capital market as at December 31,2023 while the sample size is nineteen (19) using Taro Yamani formula of sampling picking. Purposive sampling technique was used. The total sampling size of firms and elimination method were used remove firms not considered in this study. The study used three conditions in order to get the sample size – a firm must be listed on or before 2012, firm must have complete financial statements for the period under consideration and firm financial year end must be 31 December every year. It was realised that only one firm did not satisfied the listing requirement, three firms did not have complete financial statements and seven firms do not close their accounts at 31 December. Hence the sample of our study stood at eight firms. The study covered twelve years from 2012 to 2023 for the eight selected firms. There are 96 firm year interpretations for this study.

The secondary and quantitative data were obtained from Nigerian Exchange Group, Central Bank of Nigeria Statistical Bulletins,African financials site and annual financial reports of the firms during the twelve-year(12) period covered by the study(2012-2023). Regression analysis and other econometrics tests were used in analysing the data

3.2 Model Specification

The model used for this research is represented as Y which is the dependent variable (financial performance) as it is measured by Earning Per shares (EPS) and independent variables X1 and X2 which represent Inflation and Exchange rate . Inflation is measured by Consumer Price Index (CPI).

The empirical analysis of the impact of inflation and exchange rate on financial performance of consumer goods sector of the capital market in Nigeria is often accomplished using regression analysis which can be explicitly or implicitly based on a theoretical framework of endogenous models (King & Levine, 2004).

Thus, for the purpose of the study inflation rate and exchange rate were used as the independent variables (X_1, X_2) while earning per share was used as the dependent variable (Y). The multiple regression analytical technique was adopted and specified thus:

$Y = f(X_1, X_2)$

Where;

Y is the dependent variable proxied by earning per share (EPS)

X_1 is the inflation rate proxied by consumer price index (CPI)

X_2 is the exchange rate (EXR)

More specifically the above equation can be written in a non-stochastic implicit form as:

$EPS = f(CPI, EXR)$

Econometrically, this equation can be specified thus:

$EPS = \beta_0 + \beta_1 CPI_1 + \beta_2 EXR_2 + \mu_t$

Where;

μ_t = stochastic error term; β_1& β_2 = parameter estimates

β_0 = regression constant

transforming the above equation into a log linear form, we obtain:

$EPS = \beta_0 + \beta_1 LCPI_1 + \beta_2 LEXR_2 + \mu_t$

Where; LCPI = Log of consumer price index and LEXR = Log of exchange rate

Thus, the transformed log linear econometric equation was estimated using the Ordinary Least Square (OLS) regression technique. The use of the log-linear method improves the validity of the estimates. This method also reduces, if not completely the heteroscedasticity errors, which may result from unscaled magnitudes on both sides of the equation (Amadi &Osaro, 2000).

4. DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Data Analysis

Table 1: Descriptive statistics of variables

Variables	LEPS	LINFL	LEXR
Mean	-6.7928	5.4425	16.54015
Median	6.924831	2.271384	8.613436
Std. Dev.	0.5142	0.8454	10.83403
Skewness	0.5647	0.3821	0.899626
Kurtosis	2.1887	2.1696	2.167578
Jarque-Bera	1.7725	1.1675	0.668546
Prob.	0.0001	0.0352	0.0001
Observation	96	96	96
Source: Authors computation using Eviews 9			

The descriptive statistics of the data are shown in table 1. The mean is a measure of the data's central tendencies, and the values of the mean suggest that exchange rate has the highest mean value, inflation rate also has a positive mean value while earning per share has a negative mean value. The standard deviation measures the data set's dispersion from its mean values. The higher the standard deviation values, the more dispersed the data is; and the results show that exchange rate is more evenly distributed than earning per share. The skewness coefficient is a measure of the data set's distributional nature (the nature of normality). The results show that the data set is positively skewed across the board. The kurtosis coefficient on the other hand determines the nature of the data distribution's weakness. The values of kurtosis coefficient are all greater than zero in absolute terms. The results also indicate that all the variables are not normally distributed at 5% level of significance as shown by the probability values.

4.2 Unit Root Test

Table 2: Augmented Dicker Fuller Unit root test

Variables	Level	Prob.	First difference	Prob.
LEPS	4.865157	0.0000*	3.548490	0.0004**
LINF	2.945047	0.0001*	3.540328	0.0001**
LEXR	4.687903	0.0051*	3.204699	0.0000**
Note: ** and * indicate significant at 5% and 1% respectively				
Source: Authors extract from *Eviews* 9 output				

The Augmented Dicker-Fuller (ADF) unit root test was used to determine whether the variable was stationary or non-stationary in this study. These tests are necessary to avoid false or spurious regression, which is a common problem when estimating a regression line using data whose generating process is time-dependent. The Augmented Dicker-Fuller decision rule is to reject the null hypothesis of a unit root if the ADF t-statistic is more negative than the table value. The result as shown in table 2 above reveals that all the variables are stationary at both level and first difference. Therefore, we reject the null hypothesis of non-stationarity at 5% level of significance. The variables are stationary at 5% level of significance which makes it easier to proceed and estimate the variables using regression analytical technique.

4.3 Regression analysis

Table 3: Regression analysis results

Dependent Variable: LEPS				
Method: Least Squares				
Date: 25/07/24 Time: 13:42				
Sample (adjusted): 2012 2023				
Included observations: 96 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.869687	1.645038	0.863744	0.0025
LINF	-2.380750	0.742635	-3.043677	0.0351
LEXR	-1.696841	0.085394	-1.801462	0.0004
R-squared	0.896184	Mean dependent var		0.014728

Adjusted R-squared	0.879466	S.D. dependent var		4.564833
S.E. of regression	2.344746	Akaike info criterion		4.246372
Sum squared resid	68.55437	Schwarz criterion		4.675213
Log likelihood	13.74239	Hannan-Quinn criter.		5.642247
F-statistic	29.984657	Durbin-Watson stat		2.064753
Prob(F-statistic)	0.000000			

Source: Output of *Eview*9

The Ordinary Least Square (OLS) estimated findings are shown above, with the dependent variable being earning per share (LEPS), and the consumer price index (LCPI), and exchange rate (LEXR) as explanatory variables. The estimated regression result in the table 3 above reveals that consumer price index (CPI), and exchange rate (EXR) have a statistically significant negative impact on earnings per share of consumers goods sector in the capital market of Nigeria.

The result shows that inflation rate in Nigeria has a significant negative impact on financial performance of consumer goods sector at 5% level of significance. It has a coefficient of -2.380750 and a t-statistic of -3.043677 respectively. This implies that the higher the inflation rate, the lower the financial performance of consumer goods sector. The result is in tandem with the discovery of Mavikela's et al., 2018; Olusola et al., 2022; and Bachmann, Berg & Sims, 2015.

On the other hand, the exchange rate also reveals a statistically significant negative impact on financial performance of consumer goods sector. It has a coefficient of -1.696841 and t-statistic of -1.801462 respectively, which implies that a unit change in exchange rate will result to 169.6 unit change in financial performance of consumer goods sector in the inverse direction. The result shows that the t-statistic is statistically significant at 5% level of significance. The result of the analysis is in line with the findings of Moyo &Tursoy, 2013; and Manyok, 2016.

R-squared is estimated to be 0.896184 based on the regression results. This means that inflation rate, and exchange rate account for about 89.6% of overall fluctuations in the financial performance of consumer goods sector. The F-statistic is used to test the model's statistical stability, the estimated t-statistic is 29.984657 and probability value of 0.000000. As a result, we infer that the model is statistically stable and that the estimated model can be trusted.

4.2 Discussion of Findings

Based on the result of analysis conducted, we can easily infer that the inflation rate and exchange rate volatility impact negatively on the financial performance of consumer goods sector. This is because the coefficient of both inflation rate and exchange rate is negative and the t-value is also significant at 5% level of significance. It further shows that a continuous fluctuation in inflation rate and exchange rate will certainly impact negatively on the financial performance of consumer goods sector. This result is consistent with the previous studies that fluctuations in inflation rate and exchange rate volatility negatively affects financial performance of organizations in Nigeria (Adetiloye, 2010; Audu, Karimu, & Mensa, 2015). Therefore, based on the result of analysis it was discovered that inflation rate and exchange rate have a statistically significant negative impact on financial performance of consumer goods sector in the capital market of Nigeria.

5. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

This study investigated the impact of inflation rate and exchange rate volatility on financial performance of consumer goods sector of the capital market in Nigeria. The Augmented Dicker-Fuller statistic unit root was used to test for stationarity of the variables; and the result of the unit root showed that all variables were stationary at both level and first difference at 5% critical level.

Using the regression analytical technique to estimate variables, the results revealed that there is inverse relationship between fluctuations in inflation rate, exchange rate volatility and financial performance of consumer goods sector in the capital market of Nigeria. The results suggest that there is a statistically significant direct relationship between inflation rate, exchange rate and financial performance of consumer goods sector in an opposite direction. The coefficients of both inflation rate and exchange rate is found to have a negative correlation with earnings per share and significant at 5% critical value.

Therefore, the study concludes that there is a statistically significant inverse relationship between inflation rates, exchange rates, and the financial performance of consumer goods sector in the capital market of Nigeria.

5.2 Recommendation

The study focused mainly on the impact of inflation rate, and exchange rate on the financial performance of consumer goods sector of the capital market in Nigeria. Based on the findings of the study, we recommend thus; the CBN and/or government should introduce tight monetary policies by implementation of price stability programmes to help sustain and regulate inflation rate in Nigeria; and also, an exchange rate stabilization policy should be adjusted by the government to help businesses improve competitiveness, reduce import costs and increase demand for Nigerian consumer goods thereby leading to higher sale volumes and revenue for the firms.

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