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EFFECT OF CHANGES IN ECONOMIC VARIABLES ON THE PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT: *The study examines the effect of changes in economic variables on the performance of manufacturing firms in Nigeria with two research objectives that were used to formulate the two hypotheses used. The study used data gathered from selected manufacturing firms and from the Central Bank of Nigeria statistical bulletins 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). 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 the independent variable and dependent variable. Based on the findings, it was concluded that the relationship between the average consumer price index and EPS occurs as a result of price adjustment by manufacturers to cushion the effect of price increases in the cost of production, thereby increasing their profit margins. The insignificant effect of the average exchange rate on EPS is in line with the economic reality of Nigeria, but manufacturers shift the burden of the exchange rate to the end users in the form of price adjustment. It was recommended that for Nigeria's economy to experience the desired level of prosperity, the government must be deliberate in its decision by ensuring that local firms are encouraged by patronizing their products to reduce the level of import-dependent on foreign products.*

KEYWORDS: Average CPI, Average Exchange Rate, Earnings Per Share, Changes in Economic Variables, Performance.

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INTRODUCTION

All over the world, a producing economy always performed better because of the capacity to produce for local consumption and for export thereby resulting in economic prosperity. The capacity to produce both for local consumption and export helps to boost foreign reserves and keeps the local currency competitive with other foreign currencies in the international market. That is why policies that are geared towards the sectors that drive an economy are carefully formulated by looking at the pros and cons devoid of political sentiment about the location because good economic policies ought to protect both the consumers and the manufacturers to have a good balance. The goal is to keep the prices of goods under control and in the vein encourage producers to produce quality products at affordable prices by formulating economic policies that address current economic issues in order to encourage innovations for rapid improvement of trade (Mlambo 2020). The key economic variables are inflation which is measured using the consumer price index (CPI), exchange rate, interest, and other factors all contribute to the increase in the cost of production. Failure of any government to have well-articulated economic policies that address national problems would in the short-run and long-run cause a devastating negative effect on both end users and producers of that economy which would exacerbate the problems of any fragile economy.

Manufacturing firms play crucial roles in controlling the activities of the Nigerian economy because the sector serves as the life wire of the economy that helps to accelerate other economic activities (Sanusi, 2011). Firms operating in this sector comprise large, medium, and small firms working together to enhance economic activities. Firms listed in this sector accomplish their production process through the combined utilization of four factors of production: capital, land, labor, and entrepreneurship. For this sector to thrive, there is a need for the government to ensure its monetary policies are well-formulated to not curtail the sector's progress despite the changes in economic policies resulting in manufacturers increasing the cost price per product due to changes in the production costs which might not at times add to the profit margin. Many economists and financial analysts used the economic indices of the manufacturing sector to measure the progress of the economy, measuring government economic policies with the level of performance of the firms. If economic policies are well formulated – they serve as propellers for the manufacturing sector which is the life wire of the economy to operate effectively and efficiently because positive policies help mitigate the negative effect of some uncontrollable economic forces.

In addition, the Nigerian manufacturing sector is a catalyst that stirs other sectors, and other sectors all work together to create a vibrant economy not only for domestic consumption but also for export. Such a system poses a systemic challenge to the entire economy in terms of economic interaction within the system affecting value addition and job creation (Aganga, 2012). The mixed opinions among researchers and financial analysts about the changes in the prices of consumables during inflation and the effect on financial performance which is often measured using the CPI is a recurrence issue that is worthy of empirical analysis and this is a poser that this article addresses.

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Statement of the Problem

Inflation occurs due to a rise in the prices of goods and services in an economy, and every economy works hard to ensure that the impact on the economy is not exacerbated beyond control with well-articulated economic policies. But the obvious is that inflation which is the resultant cause of the changes in consumer price index hurts an economy because it results in erosion in the value of money whereby more nairas are spent without having real value which is commensurate with the amount spent for goods and services.

The current situation in Nigeria is unbearable due to the perennial increase in the rate of inflation resulting in a general inflation of 22.79 in July 2023, likewise, food annual inflation in 2021 was 22.04, and in 2022 it increased to 22.20 which is an indication of the current situation whereby fuel hike is causing a daily increase in prices of goods and services with no hope for the economic policies to abate the current situation. The inflation rate might worsen if urgent steps are not taken to assuage the situation on time. Despite manufacturers adjusting their profit margin to cushion the effect, they are also bemoaning daily about the negative impact of inflation on the cost of materials for production and the unbearable exchange rate that has become worse due to the recent policy of the Federal Government of Nigeria through Central Bank of Nigeria whereby the exchange rate is currently determined by the forces of demand and supply or willing buyer, willing seller in the market. The crux of this article is that it examines the effect of changes in the consumer price index (CPI) and exchange rate, on the earnings per share of manufacturing firms.

Objective of the Study

In order to proffer a solution to the posers of this study, the following research objectives were used:

1. To what extent is the effect of the changes in consumer price index (CPI) on earnings per share (EPS) of firms manufacturing consumable goods in Nigeria; and
2. To evaluate the effect of exchange rates on the earnings per share (EPS) of firms manufacturing consumable goods in Nigeria.

Research Hypothesis

The specific research hypothesis arranged according to the variables is stated thus:

1. H_0 Changes in the consumer price index do not have any effect on the earnings per share (EPS) of firms manufacturing consumable goods in Nigeria, and
2. H_0 exchange rate does not have any effect on the earnings per share (EPS) of firms manufacturing consumable goods in Nigeria.

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REVIEW OF RELATED LITERATURE

Inflation

The term inflation is one of the economic indices that has continued to stimulate intellectuals to figure out the cause and the effect on economic performance, most times using the private sector that engages in productions and services to assess the effect on performance. However, the effect of inflation is assessed using either the Gross Domestic Product (GDP) Deflator or consumer price index (CPI) indicators (Akers, 2014). According to Akers (2014), the GDP Deflator is considered the economy's aggregate or broad inflation index. Inflation impedes the growth of a good economic system because it is a sign of deteriorating economic health where consumers spend without having the equivalent returns for the money spent. It is a period of hesitation whereby economic policies are hastily formulated or adopted to tackle the effect on economic activities without careful consideration of the economic peculiarities that characterize the system (Alimi, 2014).

The increase in the prices of goods and services occurs because of inflation which results in an increase in the CPI as a result of consumers chasing a few goods with plenty of money available in an economy (Bora, 2013). Inflation has an effect on accounting profit because not all firms have the capacity to manage inflation as firms increase their profit margin, so do suppliers increase theirs, and sometimes the increase in demands might not reflect on profit at the end of the accounting year (Boyd et al., 2001).

Nigeria's consumer price index, which measures the rate of the price of goods and services, has risen to 16.47 percent, which is the highest since April 2017; in the same vein, food inflation has also crossed the threshold of 20 percent (Nigerian Bureau of Statistics, 2021). The resultant effect is that the value of money will reduce because more money will be spent without getting good value for the huge expenditure. A rise in inflation results in a decrease in the value of money because more money will be used to procure fewer goods and services; the implication is that inflation also reflects an erosion in the purchasing power of money because of the loss of real value in the course of transactions and the effect on a unit of account within the economy (Bortis, 2004). When the inflation rate is low, companies can still operate efficiently within a certain level. However, high inflation impedes companies' performance because the price of input will skyrocket and demand for the output will also reduce which will result in a reduction in annual sales (Stewart, 2001).

Exchange Rate

The exchange rate is simply that unit of currency that can be exchanged for another unit of currency between two currencies, for example, 1 dollar for 700 naira which is an indication that the dollar is stronger than the naira. The upward movement of the dollar or pound against the naira can affect the price structure of an entity because of the increased cost input. The exchange rate affects how countries trade with one another. For individual firms, it determines the amount of money one firm will exchange for another in the course of business transactions. Appreciation in the naira is always a welcome development because firms will pay fewer units of the naira for the USD or pound depending on the country where the transaction occurs (Kirui et al., 2014).

The cost of imported materials or components will reduce when there is an appreciation of the naira against other foreign currencies—for example, the dollar and pound that are commonly

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used for transactions. The implication is that local companies with a lower financial base will benefit more from the naira appreciation for all imported materials because they have less capacity to hedge foreign exchange risk (Kuwornu, 2012). However, when more of the local currency is used in exchange for foreign currency, it will increase the price of foreign materials or components imported for production. The rate of change emanates because purchasing power parity has adverse consequences on the operating activities of the manufacturing sector.

In assessing economic performance, both the nominal effective exchange rate and effective exchange are very important. The nominal effective exchange rate (NEER) is described as the specific amount required by a customer to purchase another currency in the course of purchasing foreign products in the international market, while the real effective exchange rate (REER) is a tool used to calculate the strength of a country currency with other countries' currencies, and when it increases it to indicate a loss in competitiveness.

Effects of Inflation on Firms' Performance

The effect of inflation on businesses and end users can be very pervasive depending on the type of inflation either cost-push-inflation, demand-pull-inflation, or built-in-inflation which has an effect on production in one way or the other. Despite all firms adjusting their profit margin taking into consideration the effect on production, it hinders production which in turn affects productivity growth, some resulting in the problem of inefficient allocation of resources among competing needs due to the economic condition.

Economic activities are uncertain as such firms must put in place the defensive mechanism that mitigates the adverse effects of inflation by ensuring that during budgeting or allocation of resources to various projects, a percentage is added as an inflation rate because lack of proper planning can be very disruptive to production processes. Also, firms should as a matter of necessity always evaluate the risk of inflation to their businesses, have a good understanding of the economic environment they operate by studying the cost trend of inputs and outputs, develop an in-depth understanding of their real costs and prices and create strategies to protect their profit margins order to safeguard their investment projects (Ulrich et al., 2010).

However, inflation has both positive and negative impacts on firms which also depend on the financial capacity of the firms, and the strategies put in place in advance to protect the occurrence. Cost-push inflation affects both producers and end users due to other economic factors like high exchange rates, high-interest rates, and over-dependence on importation by a country, but demand-pull-inflation might be a bit favorable to producers that import a high percentage of their product because the demands are either as a result of an increase in the supply of money in an economic which might not really affect the cost of input if in the international market foreign exchange is moderate (Pettinger, 2016). Chioma et al. (2015) concluded in their study that the magnitude of the effect between inflation and profitability of banks using reported profit, return on equity (ROE), and earnings per share (EPS) as performance indicators of banks in Nigeria showed that inflation results in an increase in profit.

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Earnings Per Share

The International Accounting Standard 33 (IAS 33) is the standard that deals with EPS. The value is a function of profit after tax and the number of ordinary shares at the end of the accounting year. It is a very important matrix used by management and investors to make investment decisions. This is because investors are more interested in the naira per share when considering the performance indicators than the absolute figure or total profit as the income statement (Smart & Graham, 2012). Many researchers and analysts have supported the opinion that the value of earnings per share is a better accounting matrix for making investment decisions to buy, sell, or retain investment portfolios (Mlonzi, Kruger & Nthoesane, 2011). In line with the requirements of IAS 33, the figure used in the calculation of EPS is obtained after deducting all known liabilities to arrive at distributable profits. The value of the EPS is not static, and as such, it changes from one accounting period to another depending on the value of profit after tax (or loss) at the end of the accounting year. As such, internal and external factors also play an impact on the EPS. Earnings per share is the profit or loss expressed in Naira/kobo attributable to ordinary shareholders in relation to the distributable profit, which is based on the number of shares outstanding (Owen & Smullen, 2012). It is mathematically expressed as:

$$EPS = \frac{\text{Profit After Tax}}{\text{No. of ordinary shares}}$$

Inflation Theory

The inflation proposition was first coined by William Poole in 1976, and various opinions have emanated from economists in respect of inflation theory due to the different views of two opponents; the monetarists and structuralists. The different schools of thought that helped to advance the theoretical background of inflation theories broadly categorized inflation theory into two broad categories, namely: monetarists' and structuralists' points of view. Monetarists are of the view that inflation occurs as a result of monetary causes within an economy and suggest that for monetary policies to be adequately managed and controlled, there should be measures geared toward managing the inflation rates. The position of the structuralists is that economic activities change because of unfavorable economic policies, and they advocate the combination of fiscal and monetary policies to solve economic problems in order to proffer solutions to the persistent economic imbalance because inflation poses a threat to business activities (Asuquo, 2012).

The independent variables were anchored on this theory because, from the views of the two schools of thought, they all pointed to a lack of lucid economic policy, which is why the hypothesis used the consumer price index as the economic variable to examine the effect on firm performance. Inflation results in a rise in the consumer price index because the end-users are the burden-bearers since the increase in cost is shifted from the producers to wholesalers and retailers, and finally, the consumers.

In relation to the Nigerian economic situation, periods of inflation have always been periods when the citizens spent more, and it has been a recurrence situation that happened at times due to the expectation that the prices of goods and services might increase due to market

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information or insider information. Such a sudden surge in price is in line with the theory of expectation of inflation in which consumers and firms expect that there might be an increase in price before the actual occurrence of inflation in an economy this is very typical in Nigeria because an example is the current situation whereby the inflation for the month July 2023 increases to 22.97 due to hike in fuel pump price resulting in the skyrocketing consumables because of government decision about fuel subsidy. Consumers' and firms' inflation expectations are very relevant for any economy for many reasons. First, goods and services prices occur as a result of the intersection of supply and demand, emanating from the decisions of consumers and firms which might affect economic decisions greatly. Second, empirical evidence confirms that inflation expectations have an effect on actual inflation because of the sudden increase by firms in the prices of goods and services resulting in more spending from consumers. Third, inflation forecasting models that include expectations generate more accurate projections than those that do not (Schafer 2022).

Managerial Theory of the Firm by Bumole (1967)

The managerial theory of the firm was developed by Bumole in the year 1967 in his book titled "Business Behaviour, Value, and Growth". This theory is based on the presupposition that the manufacturing environment is very dynamic due to the nature of the modern manufacturing sector which changes as a result of changes in technologies, changes in economic activities, and changes in economic policies. The main objective of every firm is centered on the effective and efficient utilization of resources with the aim of minimizing costs in order to add value to the wealth of shareholders and other social responsibilities. Based on this premise, the theory asserts that the reason why owners employ managers is to ensure that revenue is maximized while minimizing cost, thereby adding value to every naira invested which is the primary objective of all business. This theory states that for a country to experience rapid development, such must be done through the establishment of enabling facilities and the creation of laws that encourage the expansion of existing and the establishment of new firms.

For performance to be relevant, there must be a process called "input and output" for the measurement of performance to be useful or to achieve the objective. Richard et al. (2009) in their view, stated that an organization's performance could be categorized into three major perspectives; a financial performance which is measured using the accounting performance variables such as; profit before tax or profit after tax, return on assets, return on equity and return on investment or capital employed, etc., Product market performance which is measured using the volume of sales and market share, and shareholders' return which is measured using total shareholder return and economic value added. Firm performance is an important variable that relates to the way and manner in which financial resources available to organizations are properly used to achieve the overall corporate objectives of organizations. It is a variable that is widely used by researchers to ensure that managers prioritize value creation for shareholders before the achievement of individual objectives. It is like a check, and it keeps the organization in business under control by evaluating past performance and creating greater prospects for future opportunities. Better performance is an indication that management was able to manage external and internal resources both financial and non-financial controls as a result of past events better in creating current financial performance.

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Review of Empirical Studies

Ezeaku and Modebe (2016) in their study *Dynamics of Inflation and Manufacturing Sector Performance in Nigeria: Analysis of Effect and Causality*, a period from 1982-2014, used progression analysis/vector error correction model with the help of secondary data from the Central Bank of Nigeria (CBN) and Nigerian Bureau of Statistics (NBS) revealed that inflation and interest rate have a negative and non-significant effect on manufacturing sector growth while exchange rate appears to positively and significantly influence on the growth of manufacturing sector value-added.

Idaka et al. (2021) researched the effect of economic variables on the financial performance of Listed Firms Manufacturing consumer goods in Nigeria using economic variables such as the Consumer Price Index (CPI), Interest Rate, Exchange Rate, and Net Asset Per Share comprised data gathered from CBN statistical bulletins and from the various manufacturing firms used in the study. The data of the 13 firms which covered a period of 17 years both for the independent and dependent variables were analyzed with the aid of regression, descriptive statistics, and we found a strong correlation between CPI, interest, exchange rates, and net asset per share. CPI has a significant effect on NAPS and there is a short-run relationship based on the coefficients ARDL, exchange, and interest rates showed no significant effect on NAPS.

Ezu et al. (2020) measured the macroeconomic variables and performance of the manufacturing sector in Nigeria (1981-2019) using data collected from the sampled firms and economic data from CBN and the National Bureau of Statistics (NBS). The researchers examine how macroeconomic variables such as real interest rate, exchange rate, and inflation rate relate to the performance of the manufacturing sector measured by the output contribution ratio to real gross domestic product and average capacity utilization covering a period of 36 years. The findings of this study revealed that macroeconomic variables significantly relate to performance at a 5% significance level. The Augmented Dickey-Fuller and simple regression analysis were used to test the time series data for stationarity and determine the level of correlation between the dependent and independent variables.

Ghareli and Mohammadi (2016) did research on the effect of macroeconomic factors and firm characteristics on the quality of financial reporting in Iran. The researchers used secondary data collected from the Ministry of Finance and the Central Bank between the period of 2005-2013. The elimination technique was used to select a sample of 91 companies quoted before 2005. The independent variables are exchange rates, inflation rates, interest rates, and gross domestic product, while the dependent variables are: working capital, size of the firm, and financial leverage. The results were analyzed using the multiple linear regression and Spearman correlation tests to examine the relationship between macroeconomic factors and firm characteristics. The researchers found, based on the results, that exchange rate, interest rate, and leverage were positive and significant, while gross domestic product had a negative and significant effect, the inflation rate was not significant, and the firm size was not significant.

Maimunah and Patmawati (2018) made use of secondary data from Malaysia listed in the main board of Bursa Malaysia as of June 2016 such as inflation, gross profit, and production costs obtained from the firm's financial statement for the period covered (2011 T0 2015). The cluster sampling technique was used. The total population of the study was 50 manufacturing firms. The findings of the study showed that inflation contributes to an increase in gross profit due to

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price adjustment to cushion the effect, but an increase in inflation results in an increase in the cost of production.

Nnado and Ugwu (2016) researched the empirical analysis of inflationary impacts on the profitability and value of selected manufacturing firms in Nigeria using profitability as the proxy variable for return on asset (ROA), firm value, and if an increase in profit during inflation result in economic value added (EVA). The proxy variable for measuring economics. All the data used were gathered from secondary sources both from economic bulletins and from financial statements of the companies used as the sample of the study. The findings showed that there was a strong negative relationship between inflation and firm value and an insignificant negative relationship between inflation and return on assets (a proxy for profitability). Further, the relationship between return on assets and economic value added is insignificant. It was concluded that inflation results in the decline of firm value due to a fall in fixed assets or the value of investment.

METHODOLOGY

The research design that was adopted is the ex-post-facto because the variables collected were quantitative data from Central Bank of Nigeria CBN) statistical bulletins, the National Bureau of Statistics (NBS), and from annual financial statements of the firms which covered 2004-2022. The population of the study is 20 firms producing consumable goods that are quoted on the Nigerian Exchange Group, and 12 sample size were selected using the purposive sampling method which represents 60 percent of the population. 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).

Model Specification

The model used for this paper is denoted as Y is the dependent variable, measured using EPS, and the independent variables; X1 and X2 were measured using average consumer price index and average exchange rate. The model is stated thus:

$$EPS = f\,(ACPI, AEX\text{-}R) \quad - \quad - \quad - \quad - \quad - \qquad (1)$$

Where:

EPS	=	Earnings per share
μCPI	=	average consumer price index
μEX-R	=	average exchange rate

The equation can be expressed as:

$$EPS = b_o + b_1\,\mu CPI + b_2\,\mu EX\text{-}R + e \quad - \quad - \quad - \quad - \qquad (2)$$

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Where:

bo = unknown constant to be estimated

b1& b2 = unknown coefficient to be estimated

e = stochastic error.

PRESENTATION OF RESULTS AND DISCUSSION OF FINDINGS

Table 1: Descriptive Statistics

	EPS	AVCPI	AVEXR
Mean	65.60041	167.3142	231.3379
Median	65.35000	134.9200	158.5500
Maximum	89.30000	421.0000	426.0000
Minimum	40.44584	52.56000	118.5700
Std. Dev.	14.33768	106.6610	109.1298
Skewness	-0.007794	0.968278	0.618564
Kurtosis	2.144259	2.944302	1.824611
Jarque-Bera	0.579924	2.971405	2.305353
Probability	0.748292	0.226343	0.315790
Sum	1246.408	3178.970	4395.420
Sum Sq. Dev.	3700.243	204778.3	214367.6
Observations	19	19	19

The descriptive statistics of the variables indicate that the mean values of EPS, AVCPI, and AVEXR are 65.60041, 167.3142, and 231.3379 respectively. The maximum values of EPS, AVCPI, and AVEXR are 89.30000, 421.0000, and 426.0000 respectively. The minimum values of EPS, AVCPI, and AVEXR are 40.44584, 52.56000, and 118.5700 respectively. The skewness of the variables revealed that EPS is negatively skewed whereas AVCPI and AVEXR are positively skewed. According to the kurtosis result, the distributions of EPS, AVCPI, and AVEXR are platykurtic in nature since they are all less than 3. The high probability values of the variables indicate that the variables are normally distributed.

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Table 2: Least Squares-Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.130678	0.616311	6.702267	0.0000
LOG(AVCPI)	0.699859	0.211649	3.306695	0.0045
LOG(AVEXR)	-0.641040	0.289730	-2.212545	0.0418

R-squared	0.592181	Mean dependent var	4.159722
Adjusted R-squared	0.541204	S.D. dependent var	0.228094
S.E. of regression	0.154498	Akaike info criterion	-0.753332
Sum squared resid	0.381914	Schwarz criterion	-0.604210
Log likelihood	10.15665	Hannan-Quinn criter.	-0.728094
F-statistic	11.61655	Durbin-Watson stat	1.530975
Prob(F-statistic)	0.000765		

From the ordinary least squares result, the estimated model has a positive intercept represented by the constant term (4.130678). This means holding the independent variables constant; there will still be an autonomous increase in earnings per share (EPS). From the estimated result, the average consumer price index (AVCPI) has a positive relationship with EPS during the evaluation period. This means that a one percent increase in AVCPI leads to a 0.70 percent increase in EPS. AVCPI is statistically significant at a 5 percent level of significance because its p-value value of 0.0045 is less than 0.05. However, from the result, an average exchange rate (AVEXR) has a negative relationship with EPS under the evaluation period. This means that a one percent increase in AVEXR leads to a 0.64 percent decrease in EPS. AVEXR is statistically significant at a 5 percent level of significance because its p-value of 0.0418 is less than 0.05.

The adjusted-squared of the model depicts a good fit. This means that 54.12 percent of the systematic change in earnings per share (EPS) is accounted for by the independent variables in the model. The other 45.88 percent left unexplained is attributed to other factors not captured in the model, but represented by the error term. The F – Statistics of 11.61655, which is the calculated value, is greater than the tabulated value (2.53) at a 5 percent level of significance. We then conclude that the overall estimated model is statistically significant. The Durbin – Watson statistics value of 1.530975 falls under the inconclusive region, implying that we cannot conclude that there is a presence of autocorrelation in the model

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DISCUSSION OF FINDINGS

The results of the study are based on descriptive statistics and the regression results are analyzed with the economic parameters. The findings of the study showed that the consumer price index has a significant effect on earnings per share (EPS) and the result is in line with the economic reality of the Nigeria economy based on the fact that manufacturers adjust their price per unit when the external factors rise. This finding is in line with the study of Ezu et al. (2020) on macroeconomic variables and the performance of the manufacturing sector in Nigeria. The result of their study showed that inflation has a significant effect on performance. The study of Maimunah and Patmawati (2018) on inflation and companies' performance: a cross-sectional analysis in Malaysia also indicates that inflation has a significant relationship with performance. The findings of this study contradict the findings from the study of Nnado and Ugwu (20016) on researched the empirical analysis of inflationary impacts on the profitability and value of selected manufacturing firms in Nigeria and showed that inflation does not have a significant relationship with profitability.

The findings of the study are not in line with the study of Ezu et al. (2020) on macroeconomic variables and the performance of the manufacturing sector in Nigeria which showed that exchange rate has a significant effect on performance. Also, the study is in agreement with the study of Ezeaku and Modebe (2016) in their study *Dynamics of Inflation and Manufacturing Sector Performance in Nigeria: Analysis of Effect and Causality* which also showed that the exchange rate has an insignificant effect on the growth of manufacturing firms in Nigeria.

SUMMARY, CONCLUSION AND RECOMMENDATION

Summary of Findings

The study examines the effect of changes in economic variables on the performance of manufacturing firms in Nigeria using variables from the economic index and firm performance index. The study used both descriptive statistics and regression analysis to measure the various parameters used as proxy variables for the economic index and performance index of the firms. Based on the result, the following findings are pertinent:

1. The average consumer price index showed that inflation results into increase in earnings per share which is a function of the accounting profit generated at the end of the accounting year;
2. The average exchange rate from the result showed that an increase in foreign exchange results in to decrease in the earnings per share which is an indication that it affects accounting profit, and
3. From the regression result, there is an indication that there is a relationship between the variables which is in line with the result of the F-statistic that showed that the independent variables significantly affect the dependent variable.

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Conclusion

Changes in the economic environment emanating from economic variables at times are very pervasive in business activities most especially changes in exchange rates which affect both imported items and local products thereby resulting in an increase in the cost of production. The increase in the cost of production is the root cause of inflation because the skyrocketing cost of products is a result of the rise in the cost of production because it is an import-driven country whereby a rise in exchange rate results in cost-push inflation due to an increase in labor and raw materials. This assertion is based on the result of the study which indicates that an increase in the consumer price index (CPI) results in a positive increase in earnings per share (EPS). This implies that the end users pay for every naira increase in the cost of production.

The Nigerian economic environment over the years has experienced a persistent increase in the exchange rate which is affecting production activities because Nigeria is an import-dependent country. As such, a rise in the exchange rate increases the cost of items in the market resulting in a rise in the consumer price index due to the erosion of the value of money. The country is bleeding profusely because of the scarcity of foreign currencies, especially the dollar which is commonly used by firms for international transactions.

Recommendations

1. For the Nigerian currency to appreciate in the international market, the government should be deliberate in encouraging manufacturing firms by creating an enabling environment that will enable local and foreign investors to utilize the huge mineral resources that will enable production in large quantities to encourage export in order to boost foreign reserves. Considering the current economic situation, a long-term plan is a key to addressing the current unabated rise in exchange rate by fixing the country refinery to reduce the importation of fuel and encourage small and medium businesses to strive with ease. This will help ameliorate the economic challenges because top countries around the world are driven by small and medium-sized businesses.

2. To control the inflation rate which is the cause of the rise in the consumer price index (CPI), the government must put adequate measures to mitigate the excessive importation of products because in Nigeria a rise in exchange rate affects everything in the market. For example, an increase in imported fuel results in an increase in the cost of commodities due to a rise in transportation costs, so addressing the problem of fuel importation would help assuage the current situation. It is obvious that the cost of running a business in Nigeria is very high which is the reason many start-up businesses fold up between 1 to 5 years.

3. For firms in Nigeria to improve their earnings per share, budget is one key factor in controlling activities, and firms must learn to adopt the value proposition budgeting system/priority budgeting system and activity-based budgeting which take into consideration the cost and benefit of each in the budgeting process and the activity-based budgeting which look at the activity that drive costs which must be done by factoring in internal and external factors.

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