

ASSESSMENT ON PRICE HIKES THROUGH EXPECTED INFLATION IN NIGERIA PERIODIC MARKETS

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Abstract

In recent times, price-hikes have become such global economic concern because of the ties it has with rising inflation in international economic parlance. Inflation and price hikes are differentiated on grounds that inflation is sustained rising prices across different commodities and that price hikes is just upward change in prices for single commodity. The realities in under-developing economies like Nigeria negate such proposition. This paper was structured to assess price hikes through expected inflation in Nigeria periodic markets. The indices have indicated that increase in a single product triggered price-hikes in other products of varying sectors like cost of education and medical treatment are also affected by a percentage increase in fuel just as it also affects price of food commodities. The issue of "Transaction-Velocity" in periodic markets also comes to play as no exact commodity in these markets assume same price over a second in time difference. Also, price hike is sustained by mechanism of expectations of Nigerians for price to continuously rise, which has worsened situation of the purchase of needed basket of commodities. Price hikes in Nigeria thus have consequences of shrinking household budgets; affects output capacity of the nation when not controlled because of expected inflations. Central bank of Nigeria, State and local government have been advised to invest in agriculture and also adopt safety nets to cushion effects of price hikes in periodic markets and society.

Keywords: Price-Hike, Expected Inflation, Headline Inflation, Periodic Markets, Transaction-Velocity and Central Banking Institutions

Introduction

Underwhelming years of great expectations and stability of prices of commodities in everyday market have been waning out. These days after policies and counter economic as well as financial blueprints (policy frameworks) have been rolled out in the face of worsening economic living standards in Nigeria, there had always been brick walls that unexpectedly submerge significance of articulated works and directives of government to achieving macroeconomic goals in the polity

Intentionality to defining price hikes in markets across the world parlance have unearthed severe and sun-burning hardships people in communities across world go and this is the perfect explanation to the ordinary citizen about the widening gap between the rich and poor in all societies. Though, advanced nations may be considerably fair to theirs, because they are better-off than third world nations which are deep-rooted in gross mismanagement of resources, misdirection and misplacement of priorities.

Price hikes have been established by United Nations Economic and Social Commission for Western Asia (UNESCWA) (2020) as percentage increase in cost of commodities and services as well as ideas in markets across the world. To this end, 10 percent price hike is simply 10 percent increase in prices of commodities, services and ideas within markets. In much considerations, price hike in economic parlanges are semblances of the concept of inflation

which in another sense is an economic woe bedeviling global transactions and markets. So much literatures have discussed on causes and looked into above conceptualization as global concern.

No wonder, All-Result-BD (2022) reiterated that price hikes are common phenomena known around the world. This supposes that price hike is not associated as just problem of one country but throughout the globe, the institute went further to state that price hike is one of the causal factors for recent economic protests against economic hardships in Bangladesh by its citizens. That, situation of price hike was at heightened level in such a manner that the very rich were unable and afraid to buy commodities in local markets not to talk of making investments which will likely cost more.

Realistically, All-Result-BD (2022) made it clear that price hike has affected foods, accommodation, education, healthcare treatment, manufacturing of items and even value of currency. Distinctly, sharp demarcation has been made between inflation and price hikes. On this fore background, inflation was described as expected and normal phenomenon which is a slow-paced increase in general prices of things in a country. This is due to the value-loss of any currency in the face of international currency-trade and other factors that determine currency value-loss. This means in intervals inflationary trends will show up in economic activities in any nation. But price hike is seen as persistent and prevailing increase in price of single commodity, service or idea that is sold. this price hike has been tagged as abnormal prices.

Succinctly, approach by above institute to have congruently established dichotomy between inflation and price hike is welcomed but they failed to x-ray stances of cross-pollination of prices which is a situation in which increase in one commodity price will make sellers of other commodities to increase prices of such other commodities that may have intercommunicating features with initial causal commodity. In Nigeria, price hike in petrol leads to price hike of transport fare which further translates into price hike in foods, production of new items, just to list a few.

The stronghold of this paper is anchored on submission by Federal Reserve Bank of San-Francisco (2007) that when prices of fuel hikes upward, it shrinks the budget of households, businesses, production and affects household utilities. The problem of some theorists and economists is that of narrowing price hikes to only rising prices of food commodities which is not the stem or key that initiates the cataclysmic price change in the economy. The price of fuel for example in Nigeria as third world economy drives hikes in prices of other commodities in the market.

Didactically, price hike in Nigerian markets are driven more by hideous phenomena which economists and analysts have paid least attention to. Nominally, expected inflation also known as inflation expectations is captured as the rate of inflation people expect which may technically be different from regions across the globe (Oxford Reference, 2022). Accordingly, it was stated that said phenomenon cannot be practically measured but are rated through people opinions on expectations. And the greater expected rate of inflation, greater is surplus of prices on commodities within market frameworks in any given region.

Associatively, inflation expectation in Nigeria is simply the rate at which average Nigerian-consumer, business owners, investors, and others expect prices of any commodity to rise in immediate future which is the next seconds or transaction velocity for which no commodity retains exact price in relation to time and place (Lee, Powell & Wessel, 2020). There is no doubt that goal of good government is price stability and general high employment but in the face of the phenomena such as price hike and expected inflation such policy will be a mirage. In Nigeria today, prices of both durable and non-durable commodities are insistently rising per second across states with too many incidents playing out as cases. The prices of food items are

rising every second as soon as it leaves the first contact point and then changes prices in next second and location. And changes in prices bear no correlation with initial prices sold on the commodities, this means that prices of commodities can be doubled or even tripled.

Undeniably, the Corona virus incidence in 2020 could be seen as global indicator in which hike in prices of commodities were recorded as terrifying. The mechanism through which prices of commodities rose so high was due to expectations of Nigerians during this period as work life was at standstill, sectors of the economy were transformed into digital systems but contributed less to price fall, incidents of clashes in Northern region of Nigeria between herders and farmers was also minimized yet agricultural produce was minimal because of straight-jacket control measures of movement and physical transactions that involved people.

Expectations of people about increases in prices of commodities were heightened and this reflected hikes in available goods. To this end it can be inferred that price hikes that have characterized periodic markets in Nigeria are mainly due to inflation expectations of people whether they are aware or not about inflation rates but can always have inclinations about tomorrow as hike in prices than general beliefs that prices sprout due to too many inexplicable factors.

The Nigeria periodic markets is the physical, economic, social and socio-cultural settings and locations where Nigerians sell and buy commodities, services and ideas at different prices from diverse people given change in time and locations. These markets are organized to hold on daily, weekly or even biweekly bases depending on geographical setting, culture and ethnicity. On this foregoing background, this paper is targeted to assess price hikes through expected inflations in Nigeria periodic markets as an economic problem faced by the country today.

1.2 STATEMENT OF PROBLEM

Obviously, economics is concerned with challenges and how to remedy such challenges through macroeconomic and microeconomic tools available to this broad field. In this paper, of paramount is the spasmodic price hikes in price of single commodity which translates into price hikes of other available baskets of commodities in different regional periodic markets in the country.

Particularly, the pandemic scenario revealed drastic fall in price of barrel of oil but price hikes in price of transportation fare, price hike in food commodities, household items, manufactured products, education, just to mention a few things. Specifically, post Corona-pandemic has established trends of price hikes in everyday buying and selling whereas industrious nations of the world have jerked back to boom. Indigenes in varying states of the federation have been unable to make purchases of desired goods even for locally produced commodities; price hikes has been on the increase in per second bases. the cases of "transaction-velocity" becomes a thing of much concern and the above term is described as the rate at which commodities do not retain exact price because of price hikes. This is also considered in relation to time and location.

This primarily means that each commodity seller after buying from point A, expect price hike in the next second as long as it favours sellers of commodities. To this end, this paper assesses price hikes through the mechanism of inflation expectations of Nigerians in periodic markets across the states. In Nigeria periodic markets in which market activities are for daily, weekly and even biweekly manner, prices of commodities have toed the pattern to hike upwards because of intense expectations of buyers and sellers and these have made purchase of goods and services by average Nigerian as impossible. For this reason, expected inflation is

considered as primal mechanism that triggered price hikes in periodic markets which can be explained through transaction-velocity of goods.

1.3 Research Questions

The following questions are put forward to structurally sharpen the direction of the study-

1. What is the relationship between price hike and expected inflation in Nigeria Periodic markets?
2. To what extent do price hikes influence buying and selling of commodities through expected inflation
3. To what extent does expected inflation bring about transaction velocity in Nigeria periodic markets?

1.4 Purpose of the Study

General goal of this paper is to establish assessment on price hike through expected inflation in Nigeria periodic markets. The specific purposes are as follows-

1. To determining relationship between price hikes and expected inflation in Nigerian periodic markets
2. To describing extent to which price hikes influence buying and selling of commodities through expected inflation
3. To describing extent to which expected inflation bring about transaction velocity in Nigeria periodic markets

2.1 Cases of Expected Inflation and Price Hikes Across Regions

According to Adeney, Arsov and Evans (2017) the core mechanism for stable prices of baskets of commodities is expected inflation. As this tends to provide adequate information about trend occurrence of future inflation statistics. And it is a tool for inflation. From the foregoing considerations, it means there is a link between price hikes of goods and services and expected inflation of Nigerians in periodic markets. As advanced nations have in recent times recorded low rates of inflation for a fairly long period of time; it then follows that price hikes across commodities have been very low meaning stable prices for that period of time. upon this premise, future expectations for inflation in those countries will be very low. This means that prices of goods and services will also be fairly stable in the future. This implied that no logical seller will raise price of goods beyond prevailing market established price.

Adeney et al (2017) maintained that inflation expectations affect how workers and firms set prices and wages in the society. Given this, high expectations drive high prices which cross-pollinates varying commodities. This critically is the case of price hikes in third world economies like Nigeria. As projected by Moore (2016) there are inflation expectation measures which have displayed varying trends over time and these various measures are -

- i. Market-implied measures: this captures market observed prices of financial instruments with payoff linked to the future inflation consequence.
- ii. another measure of inflation is the professional forecasters survey of inflation expectations- this points to projections of experts and analysts in the field based on existing indices and expectations of future inflations.
- iii. the third is consumer or customer survey expectation- this projects how customers anticipate hikes in prices of commodities through expectations from current prices and inflations statistics in periodic markets. It is also stemmed that customers or consumers expected inflations are based on past experiences and the initiation of biases which may affect projections of inflationary trends. This foregoing stances suggest that trigger for

price hikes in periodic markets is expectations of inflations based on past experiences and current available data (Ballantyne, 2016; in Adeney et al, 2017).

In 2014 and early 2015, though there was fall in oil price and fair recovery between 2016, another type of inflation called headline inflation declined and this is similitude of expected inflation used by central banks of nations to study trends of inflations. This means that those years, price hikes were low because headline inflation was also low; this pointed that expected inflation was low within same circumference.

Objectively, Premium Times (2021) corona virus pandemic affected economic indices negatively in Nigeria as there was sharp steepened decline in output. This suggested that available commodities commanded high prices; these price hikes were seen in agricultural produce, manufactured goods, and in service sectors. As people expected prices to rise continually given the pandemic and harsher bans on movements of people and things; such cases translates into occasions for upward price changes from one good to another. Even though, lay Nigerian may be unaware of inflation rate then yet expectations for price hikes were driving forces for continual rising of prices in daily and weekly markets. And governments interventions were truncated by biases and political agenda of political office holders.

Armantier, Topa, Wilbert and Zafar (2016) averred, factors that drive changing expected inflations are practically short term and medium term periods. To these researchers, short term period is significant to changes in headline inflation which is similar to expected inflation. Concretely, it was established that overall inflation expectations are positively associated with price hikes. Meaning that as price hikes continued so will expected inflation of people move in same manner and direction. This statement when super-imposed on individual commodities affected food, fuel, education, rent and even third type of production (services).

By inference, as prices were eroding earning capacities of individuals; people in harsh economic conditions were unable to access necessities and other economic goods. This prompted for material and non-material assistance by international non-governmental organizations Like International Committee of the Red Cross. The following were statistics of material disbursement as a result of inability of people to make purchases of commodities in their local markets because of price hikes- 11289 people were empowered with skills to generate income, 120 people were introduced to micro-finance programme in Kano, 180,666 people received essential household items to improve their living.

Relatively, price hikes and expected inflations in periodic markets are practically correlated and experience within same time velocity of transactions. As it cannot be denied that parallel market activities also undermine stability of prices in Nigerian states. Though, no new innovation is made in both financial and commodity markets; prices of goods and services in periodic markets rise continuously in short term period.

2.2 Causes of Price Hikes in Nigerian Periodic Markets

Too many factors have contributed terribly to price hikes in Nigeria periodic markets and such factors are thus-

- (1) Civil Unrest: This context reveals what distortions of regional and local economic power as a result of wars, crises, unrests etc. can bring about. the outplay of civil unrest majorly lead to scarcity and then sharp increase in price for available commodities. As price hikes are initiated; tendencies for expectations of people on changes in prices will set in and also persist. And this fuels inflation in general. Local market prices for goods will also command high prices as a result of high expectations for inflationary tendencies. Such cases were recorded in Northeast when prices of majorly produced goods in Taraba and Maiduguri skyrocketed.

- (2) Devaluation of Currency: the insistence by Bretton Wood Institutions (IMF and World Bank) on devaluation of Naira will only favour export of crude oil; but in true reality, it reduces purchasing power of Nigerians in local markets. Since Nigerian society is very volatile as relates to price hikes so also are phenomena in periodic markets. As known price hikes are often triggered by expectations of sellers, buyers and even professionals. For inflationary index to occur in the society then hike in fuel price will affect food commodities, education, manufacturing of goods etc.
- (3) Increased Wages: It has always been known that as employees (labour) demand for high wages as a result of dazing effect of prices in the country, there is bound to be price hikes in the subsequent times, also as wages rise such data is made available to sellers which will certainly make them to expect more spending since purchasing power of employees has increased. This will sequentially lead to price hike in future due to expectation of sellers and producers of commodities in periodic markets.
- (4) Price of Fuel: the prices of commodities across sectors are determined mostly by price of fuel. Simply put, the conveying of commodities from place to place depend heavily on movement of vehicles which also depends on price of fuel. More so, intentional hoarding by black marketers cause artificial scarcity thereby triggering hikes in commodity price tags.
- (5) Expectation of Inflation: Most times, it is difficult to ascertain what causes inflation. But primal cause can be traced to expectations of people. As workers have ideas about inflations indices, they demand for more wages; hence marketers increase prices of commodities across periodic markets. this surely affects future prices and generate inflationary trend.

2.3 Consequences of Price Hikes in Nigeria

Given stance of this paper and the extent to which it x-rayed variables of this study, the following are consequences of price hikes through expected inflation on economic activities in Nigeria macroeconomic environment-

- It shrinks household budget and consumption
- It promotes extreme poverty as Nigerians become unable to purchase desired commodities in various periodic markets across states
- It reduces purchasing power of Nigerians, hence there will be agitations for increased wages
- It encourages industrial actions on the part of labour which technically shuts down economic powers of states, regions and even periodic markets
- It ushers in high expectations from Nigerians on continued increase in price of basket of goods in the periodic market per time
- Peoples taste change drastically from healthier options to more inferior alternatives which may likely affect their health status
- Results in wage-price spiral which emphasizes that increased expected inflation makes it impossible for inflation to fall even if unemployment is high.

3.1 When Expected Inflation Falls Lower Than Necessary In Periodic Markets (Cbn Should Worry)

The situation in which expected inflation goes necessarily as targeted, it is easier for central bank of Nigeria to pin inflation to an actual benchmark level especially 2 percent as proposed by most economists. Nonetheless, if expectations of inflation fall below 2 percent as estimated, this leads to reverse wage-price spiral where wages and prices fall below necessary and when

in extreme case, this may lead to deflation which is a situation worse than inflation and thus cripples the economic conditions as prices of goods and services crash over time. Interestingly, expectations of inflation are closely related to interest rates and when expectations of inflation goes lower than necessary that is 2 percent- lenders, investors and businessmen find it dissuading and of little importance to borrow from institution and to commit financial and human resources for investment purposes. this will lead to a recession and then high unemployment of resources in Nigeria market and general society.

3.2 Measures to Curb Price Hikes Through Expected Inflation in Nigeria

The following are measures that can stake price hikes through expected inflation in Nigeria periodic markets

- Articulated and modified Monetary policy use: then central bank of Nigeria should adopt monetary policy tool especially short term interest rates to achieve reasonable level of inflation of 2 percent. On issue of expected inflation, central bank should communicate future course or path of monetary policy clearly to the citizenry. This is also called Forward-Guidance, so as to prevent unnecessary fears and expectations about price hikes and inflations
- Government should ensure safety of lives and property in all states of the federation which is its primal responsibility. Also causes of civil unrest should be looked into and ensured that such occurrences are tackled from the roots because this is one of the hideous factors which fuel price hikes
- Nigeria as developing nation should invest more in agriculture, this will spur productivity; this can be done by reallocation of resources to subsectors of agriculture
- Adoption of Safety Nets: since effects of price hikes majorly affects the poor of the society, government should adopt measure of conditional cash transfers in most cases'
- According to Nwogu, Monyuy, Ogaba (2021) investments by regional and state government help to reducing scarcity which is tantamount to price hikes. This means that states with local periodic markets should invest in those markets by collaborating with sellers and producers to supply commodities as well as influence reduction of prices in their local markets.

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