



# Outline

- Introduction
- Understanding basic macroeconomics
- Relationship of macroeconomics with the construction industry
- Construction market size
- Recent macroeconomic policies and impact on the construction industry
- Recommended strategies for mitigating the risks
- Conclusion
- Questions and Answers
- Short quiz

# Introduction

- The construction industry operates in the open economy, is exposed to economic factors, and government policies significantly affect project performance globally, outside the control of promoters and managers.
- The situation is especially dire for Nigeria that remains majorly import-dependent for construction materials, technical hands, and various other products imaginable – refined petroleum, automobile, textile, writing/printing, pharmaceutical, food, cosmetics, even toothpicks and so on.
- For the Nigerian economy, a lot has been going on of recent that induce pressure, uncertainty, and anxiety in many respects for individuals and businesses, more so for the construction industry.
- The nature and size of the industry make it compelling for industry practitioners to constantly devise ways of managing intervening macroeconomic situations and achieve project delivery.

# Introduction (contd)

- This presentation deals with the basics of macroeconomics, Nigeria's recent macroeconomic policies and their impact on the construction industry, and my recommended strategies for mitigating the risks.
- To bolster our appreciation of macroeconomics, a shot quiz will be administered to the participants here.

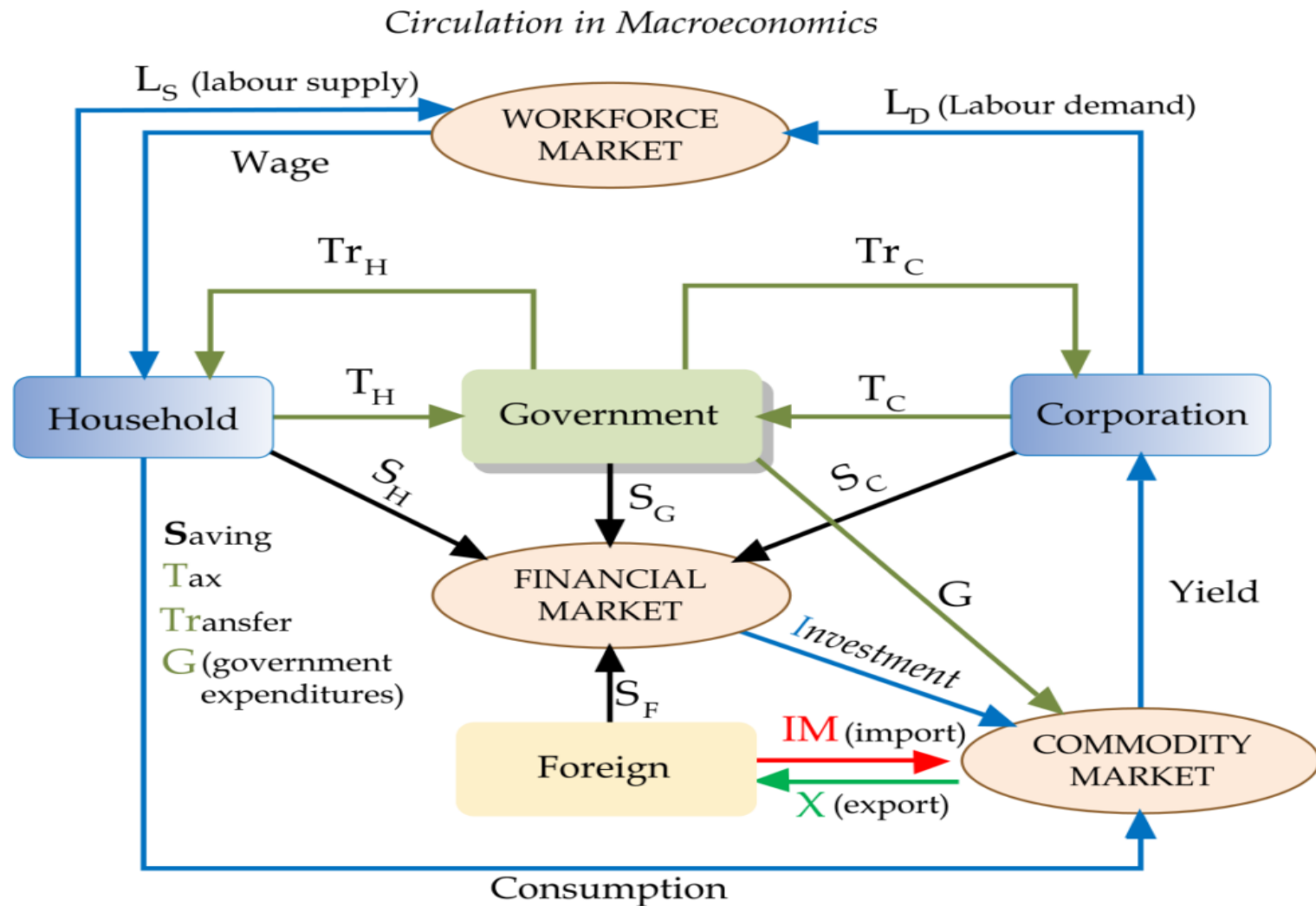


Source: [www.stock.adobe.com](http://www.stock.adobe.com)

# Understanding basic macroeconomics

- Macroeconomics is the other side of the coin we generally know as *economics* – or microeconomics. However, macroeconomics differs on the application of economic theory to two different scales.
- *“Macroeconomics is a branch of economics that studies how an overall economy – the markets, businesses, consumers and governments – behave. Macroeconomics examines economywide phenomena such as inflation, price levels, rate of economic growth, national income, gross domestic product (GDP), and changes in unemployment”* (Investopedia).
- Macroeconomic fundamentals also impact aggregate supply and demand in the economy, as well as considerations for monetary and fiscal policy, and international trade.
- Indeed, the performance of individuals and businesses remains largely influenced by economic conditions and government policies; more so for construction industry as a major sector.
- Macroeconomics captures the web of interactions by operators in the economy.

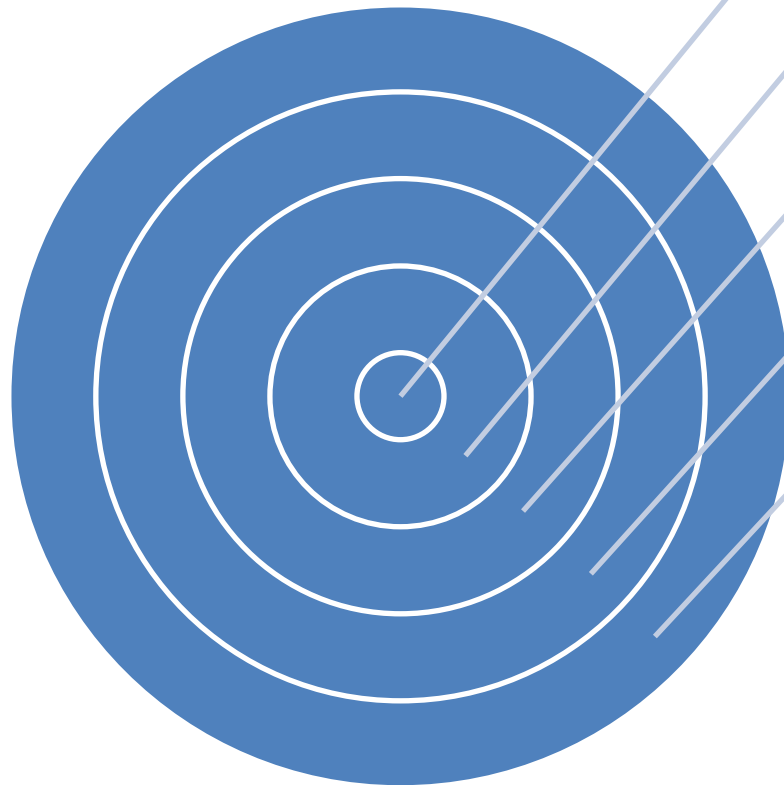
# Understanding basic macroeconomics (contd)



Source: [www.toppr.com/guides/economics](http://www.toppr.com/guides/economics)

# Understanding basic macroeconomics (contd)

Five major indicators of Macroeconomics:



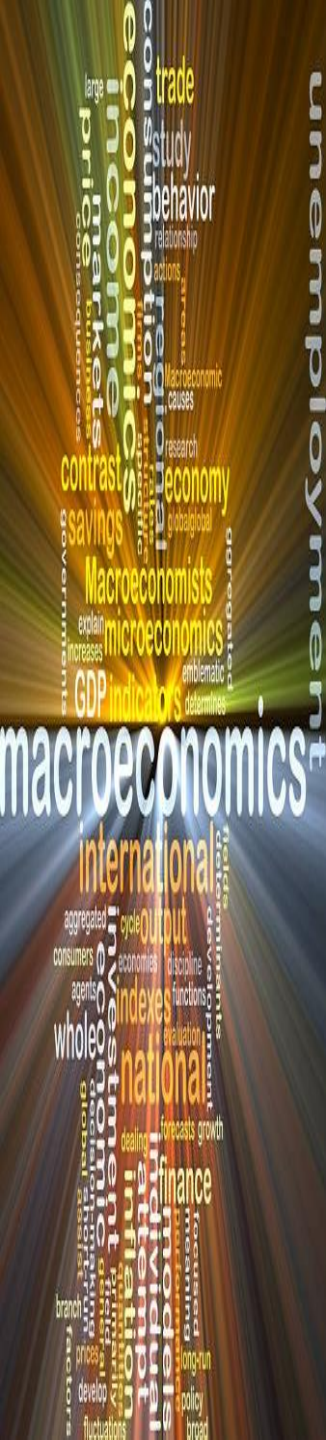
Inflation

Exchange Rate

Import

Interest Rate

Money Supply



# Understanding basic macroeconomics (contd)

- Macroeconomics addresses some fundamental questions including the following:
  - What causes unemployment?
  - What are the causes of inflation?
  - What determines income?
  - What influences exchange rate?
  - What creates or stimulates economic growth?
  - What is the relationship between these variables?
- “Businesses use the models to set strategies in domestic and global markets, and investors use them to predict and plan for movements in the various asset classes” (Investopedia).
- Macroeconomics attempts to measure and analyse the performance of an economy as a whole, figure out the driving forces, and project how it would perform in both the short and long terms.

# Understanding basic macroeconomics (contd)

## Microeconomics vs Macroeconomics

### Microeconomics

1. Deals with individuals units.
2. Uses demand and supply.
3. Determination of price of a good/service factors, price theory of production.
4. Limited degree of aggregation.
5. Known as price theory.

### Macroeconomics

1. Deals with the whole economy of the collective individual units.
2. Employs aggregate demand and supply.
3. Focuses on determination of income and employment in the economy.
4. Highest degree of aggregation.
5. Termed as income theory.

# Relationship between macroeconomics and construction industry

- ↘ Construction the largest industry in the world; a major supplier of capital infrastructure; generates substantial employment opportunities; participates in significant percent national income.
- ↘ A critical contributor to long-term economic growth; creates further investment in other sectors of the economy through a multiplier effect.
- ↘ Macroeconomics responsible to estimate the productivity of construction industry, with ready statistical data on employers/labour force in the country.
- ↘ Construction industry susceptible to the vagaries of macroeconomic policies – inflation, interest and exchange rates, taxation, import tariffs, money supply, etc.
- ↘ Macroeconomics a strong panacea for economic recession, if government encourages expanding investment in the construction sector.

# Construction market size



- Construction global (estimates):  
2022: US\$12.74 trillion  
2028 (Forecast): US\$18.59 trillion  
CAGR of 6% (2023-2028)  
*Source: [www.expertmarketresearch.com](http://www.expertmarketresearch.com)*
- Construction Nigeria (estimates):  
2022: US\$135.9 bn (₦102.8 tn)  
2027 (Forecast): US\$150 bn (₦113.5 tn)  
AAGR >2% (2023-2027)  
*Source: [www.globaldata.com](http://www.globaldata.com)*
- Construction industry therefore accounts for about 27% of Nigeria's GDP of US\$504bn (2022).
- The construction industry value is so enormous to be left exposed to the risks of project operations.

# Macroeconomic policies in the headlines

unemployment

large  
trade  
study  
behavior  
relationship  
actions  
Macroeconomic  
causes  
research  
economy  
biological  
contrast  
savings  
Macroeconomists  
explain  
microeconomics  
increases  
GDP indicators  
embellishes  
determines  
macroeconomics  
international  
aggregated  
consumers  
agents  
whole  
national  
evaluation  
national  
growth  
finance  
branch  
develop  
policy  
bread

**Nigerians may wait longer for Tinubu's cabinet despite hasty screening** **We'll maintain petrol price without subsidy reversal, says Tinubu**

NEWS PAGE 6 NEWS PAGE 3

**Manufacturing firms' profitability down by 35% in H1 amid soaring OPEX** BUSINESS PAGE 15

## FG in deregulation dilemma as 24% inflation worsens poverty



**Pedestrians flee as miscreants take over footbridges in Lagos**

METRO PAGE 8

**Fresh concerns over cost, relevance of NYSC scheme in lean times**

NEWS ANALYSIS PAGE 4



**FG applies to withdraw firearm charge against Emeifele**

NEWS PAGE 5

**PAGE 6** 



**FUEL @ N617/LITRE**  
**SET TO RISE FURTHER AS NAIRA WEAKENS**



**22.79%**  
Inflation (%)

# Recent macroeconomic policies

## 1. Removal of Fuel Subsidy:

- Petroleum Industry Act 2022 – sector deregulation
- “Subsidy is gone”! Petrol price hiked by 200+%; Diesel and Gas prices too.
- Inflation soared to 22.79%.

## 2. Floating of Exchange Rates:

- 23/08/23: US\$1 to ₦756.77  
Ideally → ₦1 to US\$0.0013
- Inflation/construction costs escalate.
- CBN reintroduced BDCs after 25 months.



### Private Sector Operators Say Rising Inflation Adversely Affecting Manufacturing Sector

*·Blame high inflation rate on government's policies*

# Recent macroeconomic policies (contd)

## 3. Interest Rate:

- The Monetary Policy Rate (MPR) raised to 18.75% July 2023 (from 18.5% May); expected to address raging inflation.
- Higher cost of funds; construction industry also affected.

## 4. Growing National Debts:

- Nigeria's debt stock put at ₦49.85tn as at June 2023; to hit ₦77tn by yearend.
- NNPC just secured \$3bn from Afreximbank, ostensibly to stabilise the naira's value.
- High national debt crowd out private investment; negatively impacts economic growth.

# Recent macroeconomic policies (contd)

## 5. Fiscal/Taxation Policies:

- VAT rate increased to 7.5% (from 5%) vide the Finance Act 2023
- FGN inaugurates Fiscal/Tax Policy Review Committee, aimed to close a ₦20tn gap.

## 6. Cashless/New Naira:

- Cash drawing/low money supply limit curbed liquidity.
- Severe issue for construction industry.

## 7. Special Economic Intervention Programmes:

- National housing scheme; CBN Anchor Borrower; Student Loan; etc.
- Others schemes focused on women and the youth.

# Recent macroeconomic policies (contd)

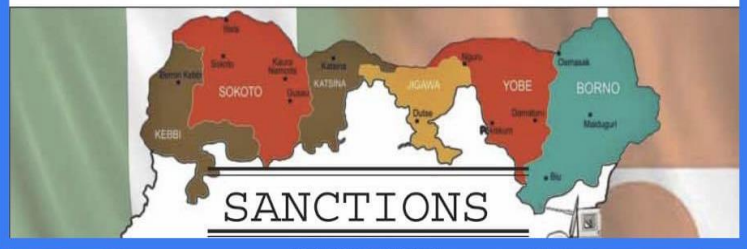


Vol. 40, No. 17,206 ■ Monday, August 21, 2023 Guardian Nigeria f GuardianNigeria 0813837043 GuardianNigeria N250

Group alleges plot to blackmail Atiku on case against Tinubu in U.S. NEWS PAGE 4

Niger coup and economic sanctions:

## 7 states in dire straits, economic losses over border closure



Forex crisis: Worry over policy inconsistencies as CBN brings back BDCs

Tinubu reshuffles yet-to-be constituted cabinet, appoints Momoh Niger Delta minister

Tackling rapid urbanisation and proliferation of urban slums

Mr President, no justification for bloated cabinet

3. Other high-impact policies:

- Presidential Enabling Business Environment Council (PEBEC)
- Reorganising/retooling national security apparatus.
- Petroleum pipeline security contract awarded to private firms.



# Impact on construction industry (contd)

## Macroeconomic polices

Inadequate budgetary provisions and delayed contract payments.

Cumbersome project/cost planning and implementation.

Exposure to inflation, adverse exchange/interest rate risks.

Substantial cost overruns; high adjustment costs.

Subcontractors also become unable to deliver their inputs.

Loan repayment develops difficulty, especially the foreign type.

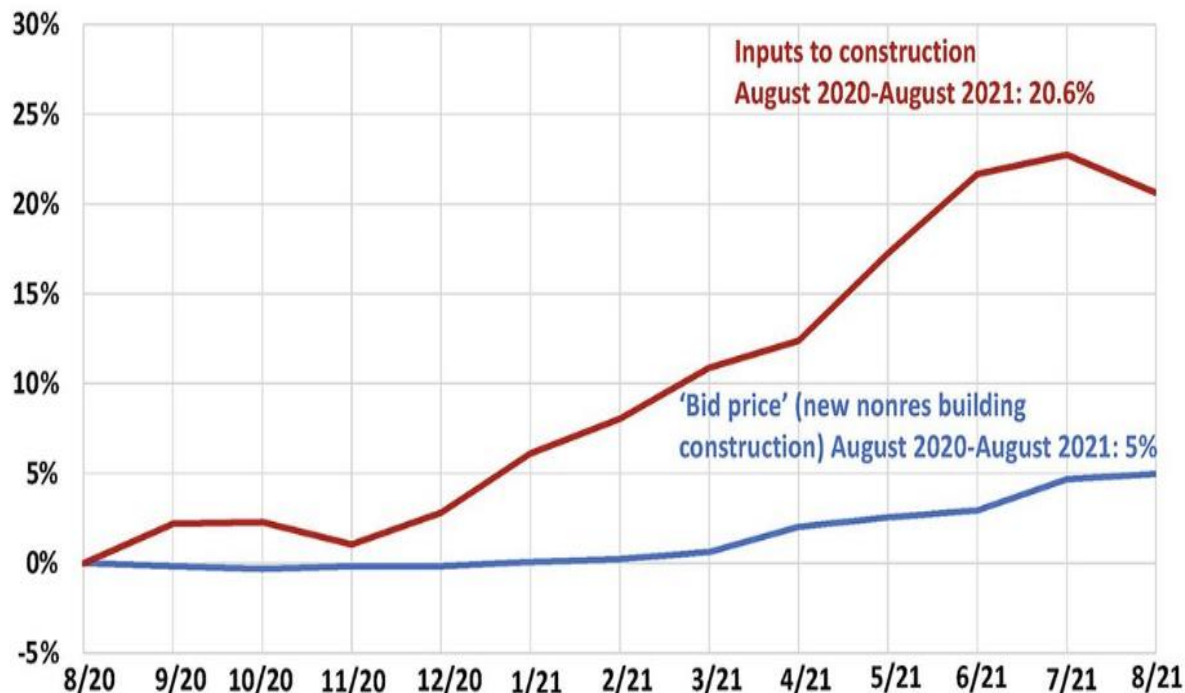
Major delays; disruption to ongoing and future projects; abandonment.

Disputes/blame game; resulting in arbitration/ litigations.

# Impact of macroeconomic policies on construction industry (contd)

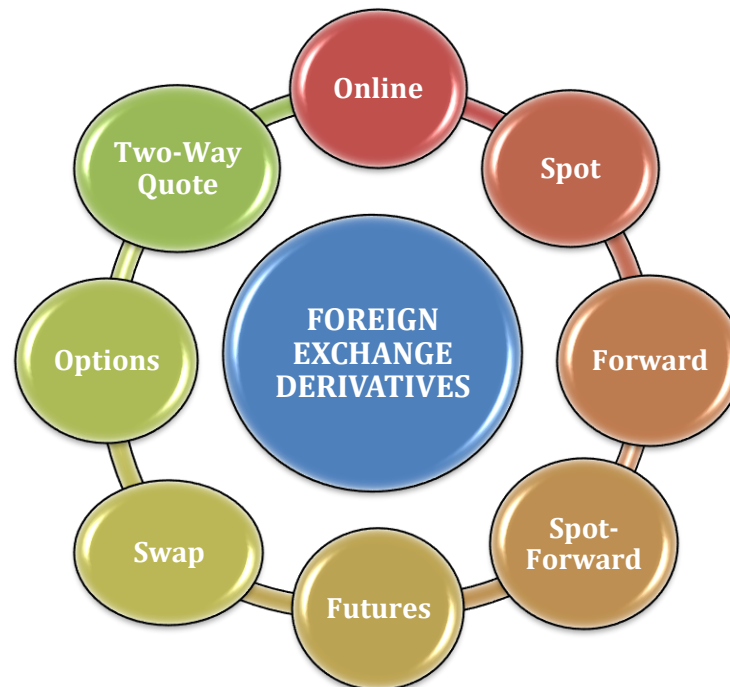
## Construction input and 'bid price' producer price indexes (PPIs)

cumulative change in PPIs, August 2020 -August 2021 (not seasonally adjusted)



# Recommended strategies for mitigating the risks

1. Adjust bids/budgets; make adequate allowance for inflation and exchange rate rise.
2. Hedging: Consider buying insurance; hold idle funds in alternative currency in the course of a construction project.
3. Foreign exchange derivatives:



# Recommended strategies (contd)

4. Negotiate interest rate with bankers/financiers.
5. Advocacy with regulatory authorities; seek tariff concessions
6. Push for participation in national planning and budgeting programmes.
7. Use Special Purpose Vehicles (SPVs) for project financing and funds management.
8. Seek out partners who understand macroeconomic impact – “Know thy enemy”.
9. Accelerate schedules – with architects, engineers, contractors, suppliers, etc.
10. Adopt procurement methods to achieve cost efficiency.
11. Significant advance payment to contractors.

# Recommended strategies (contd)

11. Pre-order materials; warehouse efficiently.
12. Use alternative/ unconventional materials.
13. Lean construction: Optimise efficiency; cut wastes.
14. Enhance organisational capabilities:
  - ➡ Financial capability
  - ➡ Technical capability
  - ➡ Business management capability.



**Forex Crisis: We Must Export Else Things Will Not Get Better, Says Obaseki...** Page 6

**Tinubu, Jonathan, Mark, Ogbeha, Bago, Obaseki, Rejoice with Babangida on 82nd Birthday**

Deji Olanrewaju - Abuja and Lagos President Goodluck Jonathan, former Senate President Senator David Mark and former military governor of Ogun State, Babangida, have joined with former military President General Abdulsalam Abba Bago and his wife, State unrepresented Governor Abulqasim Abdulhadi Abba Bago, to mark the 82nd birthday of the man they described as 'father of the nation'. President Tinubu shared in the joy of celebration with family members. In separate statements yesterday.

**NNPCL Gets \$3billion Loan from Afreximbank to Stabilise FX, Naira Gains**

# Additional tips for enhanced professional development

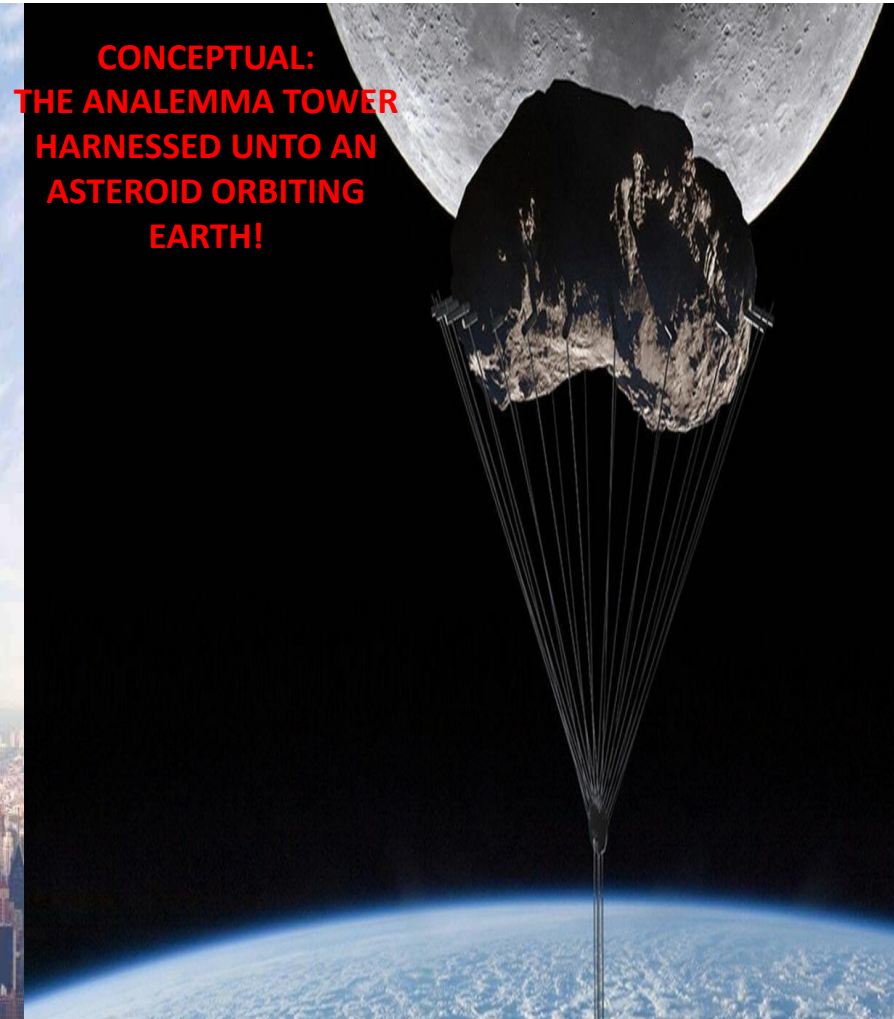
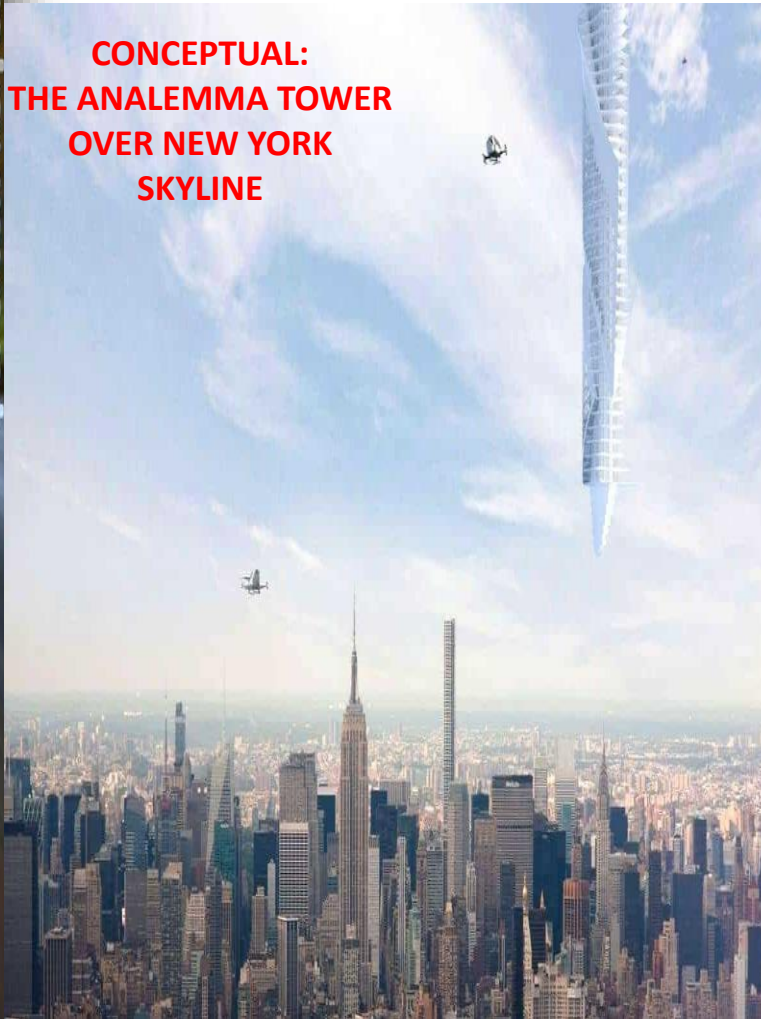
NIQS may contemplate:

1. Notching up relationship management with critical stakeholders.
2. Expanding QS' scope of function – beyond just building/construction to:
  - ➔ Manufacturing – aviation, marine/the new ocean & blue economy, automobile, oil and gas, iron and steel, electricity/energy, ICT, etc.
  - ➔ Facilities – air and sea ports, railways, core infrastructure, renewable energy, recycling plants, etc.
3. Creating a standing *strategy* unit to continually review all government's extant/emerging policies, identify service niches for QSs; then consciously engage the relevant authorities, and tap in. Leave nothing to chance.

# Conclusion

- Macroeconomics views the economy with a wide lens. It functions as an international economy, where governments use certain objectives in creating policies to overcome the complexity/difficulty of their national economies.
- The construction industry, as a key contributor to the national economy, is exposed to the fancies of macroeconomic policies.
- Unfavourable macroeconomic policies impact the implementation of construction activities, and determine the success or otherwise of projects.
- In applying the recommended, time-tested strategies toward mitigating macroeconomic policy risks, attention should as well be paid to enhancing organisational competences.
- Need for the NIQS to step up relationship management/advocacy with critical stakeholders, and expand the QS' horizon beyond just building/construction. Time to break new grounds.

# Abstracts: The future of construction



Source: [www.supercarblondie.com/tech/analemma-tower](http://www.supercarblondie.com/tech/analemma-tower)

THANK  
YOU!



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Source: [www.supercarblondie.com](http://www.supercarblondie.com)

# Conclusion

Identify the following as Microeconomic and Macroeconomic study:

1. Production of Dangote sugar plant
2. Inflation rate
3. ICT/Digital economy
4. Supply of money
5. Wage determination with the Nigerian Labour Congress
6. Allocation of resources by State Govts
7. NIQS' office expenditure
8. Aggregate demand for automobile
9. Foreign exchange rate
10. Market demand for rice