



# Lead City Journal of the Social Sciences (LCJSS)

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## Effect of Stock Market Liquidity on Manufacturing Sector Output in Nigeria

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### Abstract

*Manufacturing sector is an important mechanism of growth, unemployment, creator of wealth, and channel for sustainable development which is capable of promoting industrialisation in the economy. The sector has witnessed several transformations and restructuring to be able performed its role. However, over the years, instead of progressive output growth, the sector's output has retrogressed to an unimaginable proportion. The study is embarked upon to examine the effect of stock market liquidity on the output of manufacturing sector in Nigeria from 1986-2018 using the methodology of error correction model approach. Findings from the study showed that the all share index has an insignificant effect on manufacturing sector output in Nigeria. In addition, findings from the study revealed that stock market capitalisation has no significant effect on manufacturing sector output in Nigeria between 1986 and 2018. The implication of this result is that the inability of the stock market to effectively and efficiently mobilise resources through the sale of new shares for the output growth of the manufacturing sector is not unconnected with the arrays of challenges confronting it. However, value of stock transaction was found to have significant relationship with the growth of manufacturing sector in Nigeria between 1986 and 2018. The implication of this result is that the Nigerian stock market value of stock transaction has witnessed tremendous changes over the years particularly in terms of the number of operators and the public involvements. The study thus recommends that the regulators and operators in the Nigerian stock market must necessarily expand the market offerings to include products such as fixed income securities, hedging instrument, such as futures and other derivatives must be promoted as well as securities lending and collective investment schemes. Government should ensure an investment friendly environment by put in place necessary infrastructures, services and policy reforms that will enable the Nigerian stock market effectively and efficiently mobilize long-term financial resources and channel same to the manufacturing sector of the economy. More so, the regulators and operators in the Nigerian stock market must necessarily expand the market offerings to include products such as fixed income securities, hedging instrument, such as futures and other derivatives must be promoted as well as securities lending and collective investment schemes.*

**Keywords:** *Manufacturing Sector Output, All Share Index, Market Capitalisation, Value of Transaction, Nigerian Stock Market*

### Introduction

The manufacturing sector of any economy is known for its involvement in transformation of raw materials into finished goods. This sector of the economy embarks on productive ventures that result to domestic consumption and foreign exchange earnings. The performance and growth of the manufacturing sector is a prerequisite for the level of industrialization; modernization; urbanization, and employment for all those who are able and willing to work, equitable distribution of income, the welfare, income per capita and quality of life enjoyed by the citizens (Kwode, 2015 & Oteh, 2010). Consequently,

with global recognition, the manufacturing sector is viewed as an important force that drives an economy towards a sustainable growth level in both developing and developed countries.

In Nigeria, the manufacturing sectors have not played the expected vital and vibrant role in economic growth and development. The sector has recorded low outputs, subjecting the economy to high rate of importation. Consequently, the underperforming manufacturing sectors in Nigeria have been of great concern to the government, operators, practitioners and the organized private sector.

Stock market is an integral part of the financial

system that provides an efficient delivery mechanism for mobilization and allocation, management and distribution of long-term funds Alile and Anao (1996). It is a network of financial institutions and infrastructure that interact to mobilise and allocate long-term funds for the economy. According to Gbosi (2009), stock market is that part of the financial market which specialises in the mobilization of long-term funds for commerce and industry.

The introduction of SAP in Nigeria has resulted in a very significant growth of the country's stock market as a result of deregulation of the financial sector and the privatization exercise which exposed investors and companies to the significance of the stock market (Alile, 1996; Soyode, 1990).

In Nigeria however, the level of liquidity of the stock market is very infinitesimal and inefficient as indicated by its low industrial production. This situation has led to the country's overdependence on the importation of consumable goods to feed its teeming population, as over 80% of the country's consumable goods are imported from other countries of the world (Echekoba & Ananwude, 2016). Meanwhile, stock market development is absolutely important to raise industrial production because firms by that actions are provided a unique avenue to quickly acquire capital, resulting from the ease by which securities are traded. Researchers argued that the industrial sector remains engine of growth in any economy, because it plays an important role in the economic growth and development of the nation. Industrial sector growth helps to transform into the development of the economy.

It is noteworthy that in an import dependent economy like Nigeria, stock market liquidity is a critical factor that determines the performance of manufacturing sector. Manufacturing sector is an important engine of growth, an antidote for unemployment, a creator of wealth, and a channel for sustainable development capable of promoting industrialisation in the economy (Kaldor, 2017; Mike, 2010).

However, in spite of all efforts in evolving the manufacturing sector, the situations in Nigeria showed that manufacturing sector has not progressed significantly. The government has also embarked on several approaches designed at enhancing industrial production of the sector, they are still not performing credibly. Furthermore, there has been a growing worry on the decline on the output of the manufacturing sector in Nigeria in current times. MAN (2018) showed that the manufacturing outputs had continued to dwindle as the year progresses and its contribution to Gross Domestic Product (GDP) has continue to drop. Available statistics have shown that

the share of manufacturing in the aggregate GDP declined from 5.3% in 1981 to 4.1% in 1993, 3.4% in 2005, and 4.1% in 1993, 3.4% in 2005; 2.1% in 2016 and 1.87% in 2017 (CBN, 2018).

Similarly, output increase of the manufacturing sector in Nigeria has been constrained over the years due to inadequate funding, either due to the inefficient stock market or the culture of the Nigerian banks to finance mainly short-term investment. The long-term funds from the banking sector are not easily accessible as a result of the stringent and restrictive credit guidelines to the sector. Lack of funds has made it difficult for the Nigerian industries to make investment in modern machines, information technology and human resources development which are critical in reducing production costs, raising productivity and improving competitiveness. Low investment has also been traced largely to banks unwillingness to make credits available to manufacturers, owing partly to this mis-match between the short-term nature of banks funds and the medium to long-term nature of funds needed by Nigerian industries.

More so, most studies on stock market and growth such as Adenuga (2010), Okpara (2010) and Olowo, Oluwatoyin & Fagbeminiyi (2011) dwelt only on capital market and economic growth without hinging on manufacturing sector. This study filled these research gaps identified in the previous studies by paying attentions on the effect of the Nigerian stock market liquidity on manufacturing sector output in Nigeria.

More so, most of the studies carried out in these areas relatively ended in 2017, while this study has updated the data up to 2018. The gap the study filled was to empirically examine the contributions of stock market towards manufacturing sector output in Nigeria rather than concentrating on economic growth that has been mostly studied in the past.

The study is limited to the impact of stock market on manufacturing sector output in Nigeria within a time frame of 1986 to 2018. It reflects the period when structural adjustment policy (SAP) was put in place in the Nigerian economy. It also reflects the period when new democratic regime came into power. Market capitalization, Value of transaction and All Share Index was used as proxies for stock market liquidity while average manufacturing sector output was proxied by the manufacturing sector contribution to GDP in this study.

The main objective of the study is to examine the effect of the Nigerian stock market on manufacturing sector output in Nigeria. The hypotheses are:

**H01:** All share index has no significant effect on manufacturing sector output in Nigeria

**H02:** Stock market capitalization has no significant effect on manufacturing sector output in Nigeria

**H03:** Value of stock Transaction has not significantly affected manufacturing sector output in Nigeria.

## Literature Review

### Concept of Manufacturing Output

Manufacturing output can be defined as the total production output from industries that involve in the production of goods in factories or plants for a specific time period. Some of the various indicators used to capture the output and performance in the manufacturing sector are manufacturing value added as a percentage of the gross domestic product (GDP), manufacturing contribution to GDP and the manufacturing contribution to GDP growth rate, and average manufacturing capacity utilisation,

The manufacturing sector is made up of establishments involved in the mechanical, physical, or chemical renovation of substances, components or materials into new products (CBN, 2018).

Manufacturing is the period of social and economic change that transforms a human group from an agrarian society into an industrial one, involving the extensive re-organization of an economy for the purpose of manufacturing (Bilkisu, 2017). All too often we associate manufacturing with the growth of factory industry. When we talk of industrial production we refer to factory production. Anyanwu et al (1997) describes manufacturing as the process of building up a nation's capacity to convert raw materials and other inputs to finished goods and to manufacture goods for other production or for final consumption. The manufacturing sector of any economy simply involves the various activities aimed at transforming raw materials into finished goods.

According to some economists, the manufacturing sector is a wealth-producing sector of an economy. Hence, a very vital sector that ensures economic growth. It provides important material support for national infrastructure. The sector is involved in the production of two categories of goods; consumer goods and capital goods (Kwode, 2015). While the consumer goods refers to the ones produced for consumption the producer goods are those produced to aid further production processes.

Generally, the manufacturing sector is the hub of economic activities. This is informed by the fact that it is the sole sector that extracts raw materials and transforms such materials to a usable form. By so doing, the sector employs about 70 percent of the working population in a country. On the other hand, by accelerating their productive activities, the economy would have surplus that can be exported for

foreign exchange revenue (Udoh & Ogbuagu, 2012).

### Concept of Stock market liquidity

Stock market is defined as an institution for buying and selling of long term debt or equity backed securities (Abdulahi, 2015). The stock market is a market that mobilizes long term resources, the provides liquidity, risk diversification, privatization, securitization, or risk transfers and determination of the cost of capital for project evaluation (Chiwuba and Amos, 2011). Osannwonyi, (2015) sees stock market as an exchange system set up to deal on long term credit instrument of high quality. The dealing in this high-quality instrument facilitates the execution of some desirable and profitable project bearing direct relationship with economic development.

Ariyo and Adelegan (2015) contend that, the liberalization of stock market contributes to the growth of the Nigeria stock market, yet its impact at the macro-economy is quite negligible. Okereke-Onyuike (2010) posits that the cheap source of funds from the capital remain a critical element in sustainable development of the economy. She enumerated the advantages of stock market financing to include no short repayment period as funds are held for medium- and long-term period or in perpetuity, funds to state and local government construct pressures and ample time to repay loans.

The stock market has been identified as an institution that contributes to the socio-economic growth and development of emerging and developed countries economies. This is made possible through its vital role in intermediation process in economies. Osaze (2010) sees the stock market as the driver essential for the long-term growth capital formation. The Nigeria stock market provides the necessary lubricant that keeps turning this wheel of the economy. It is not only providing the funds to projects of best returns to fund owners. This allocation function is critical in determining the overall growth of the economy. In another exposition, Gabriel (2012) as enunciated by Nyong (2013) long emphasis on the Romanian stock market and conclude that the market is inefficient and hence it has not contributed to economic growth in Romanian.

Ekundayo (2012) argues that a nation requires a lot of local and foreign investments to attain sustainable economic growth and development. The stock market provides a means through which this is made possible. Pedro and Erwan (2014) asserts that financial market development raises output by increasing the capital used in production and by ensuring that capital is put into best uses.

## Empirical Review

Eze, Atuma and Ogbonna (2019) examined the impact of stock market liquidity on manufacturing sector performance in Nigeria for the period 1981-2017. The research adopted multiple regression analysis in which Auto Regressive Distributed Lag (ARDL) model was utilized in the analysis. Data on manufacturing sector output (MSO), stock market liquidity proxied by the ratio of market capitalization (SML), All-Share Index (ASI), interest rate (INR) and exchange rate (EXCR) were analyzed in the study. Their results revealed that stock market liquidity (LSML) has a positive and insignificant impact on manufacturing sector performance in Nigeria, while All-Share Index (LASI) has a positive and significant influence on manufacturing sector performance. Similarly, the results revealed that interest rate (INR) and exchange rate (LEXCR) have negative and insignificant impact on manufacturing sector performance in the economy. Their results imply that any attempt to increase stock market liquidity and All-Share Index by 1% will lead manufacturing sector performance in Nigeria to increase by 0.134%, and 0.136%, respectively. Their study recommends that government should as a matter of fact; intensify efforts in promoting stock market activities in the economy, as that will provide more liquidity needed for more investments in the country by investors thereby leading to improved capacity of the manufacturing sector to produce more goods and services supplied in the economy.

Okoye (2018) investigated stock market liquidity and growth of manufacturing firms using ARIMA model approach. He found that the ability to mobilise funds easily and cheaply in the stock exchange market is an incentive for enterprises to expand their operations and diversify into large scale enterprises. Thus, the importance of the stock exchange lies in its ability to sustain projects with long term gestation, which falls within the realm of industrial enterprises. Therefore, stock market is relevant in sustaining industrial growth and development.

Empirical evidence from the World Bank (through GMM and panel of analysis) has shown that development of any National economy is a function of the level of development of the stock market. It was however observed that the functional/relationship between industrialization and stock market is more pronounced in developing countries. The reasons for this may not be far-fetched. In developed economies of Europe and America, there exist other notable sources of fund which are not present or active in developing economies. This leaves us with the stock market as the only source of long-term fund. For instance, in Nigeria, the N25 billion re-capitalisation

of banks was financed solely from the stock market and the recapitalisation of the insurance industry is through the same source.

Adeboye (2017) investigated the effect of stock market development through panel regression model and used it to determine its relationship with long-run industrial growth in Nigeria. The study employed a time series data from 1970 to 2014. Four measures of stock market development, the ratio of market capitalization to GDP (in percentage), the ratio of total value of transactions on the main stock exchange to GDP (in percentage), the value of equities transaction relative to GDP and listings were used. The four measures were combined into one overall composite index of stock market development using principal component analysis. A measure of financial market depth (which is the ratio of broad money to stock of money to GDP) was also included as control variable. Haber (2016) using VECM focused on the economy of three countries observed a statistically significant relationship between stock market development and the performance of the industrial sector vis-a-vis national economic performance. He observed that financial liberalisation widens the rate of access to investible funds and by implication, has an upward shift on the production activities of the economy. Also, the higher the rate of stock market development, the better the industrial growth rate.

Ifeoluwa and Motilewa (2015) examined the impact of stock market liquidity on manufacturing growth in Nigeria between 1980 and 2012. Using ordinary least square (OLS) technique, the study found, surprisingly, that stock market liquidity (ASI) was not a statistically significant variable explaining manufacturing sector growth in Nigeria for the periods under study.

Popoola, Ejemeyovwi, Alege, Adu and Onabote (2017) investigated the short run effect, long run effect and causal relationship between stock market and manufacturing growth in Nigeria. Using Ordinary Least Squares and Pairwise granger causality method, the result showed that that stock market performance does not granger cause manufacturing growth but manufacturing growth granger causes stock market performance at 5 percent significance level.

Kwode (2015) examined the importance of capital market in financing the manufacturing sector using data from 1970- 2012. His study employed OLS regression technic. The results showed that growth in capital market activities did not impact significantly on the manufacturing sector. In fact, the Nigerian manufacturing sector has been on the decline because of non-access to long-term funds from the capital market, high interest rate, volatile shares and unstable stocks and bonds.

Dalvi and Baghi (2014) investigated the relationship between performance and liquidity of shares listed on the Tehran Stock Exchange. They examined data from 154 companies listed in Tehran Stock Exchange between 1383 and 1388 with the combinational methods, the relationship between business performance and liquidity was studied. The results showed that between the liquidity and performance scales, a strong correlation was observed. Dragota and Oprea (2014) reviewed empirical results obtained in the investigation of the Romanian stock market's informational efficiency. Tests on the predictability of returns suggested that the Romanian stock market has a low level of efficiency. Furthermore, the impact of new information was intense before and after its release.

Afego (2012), analyzed the weak-form efficient market hypothesis for the Nigerian stock market by testing for random walks in the monthly index returns over the period 1984-2009. The results of the non-parametric runs test showed that index returns on the Nigerian Stock Exchange (NSE) displayed a predictable component; thus, suggesting that traders can earn superior returns by employing trading rules. Olowo, Oluwatoyin and Fagbeminiyi (2011), critically analyzed the efficiency of capital market on the Nigerian economy for the period between 1979 and 2008. The results indicated that the stock market indeed contributed to economic growth as all variables conformed to expectation. The major findings revealed a negative relationship between market capitalization and gross domestic product as well as a negative relationship between turnover ratio and gross domestic product while a positive relationship was observed between the all-share index and gross domestic product.

Salihu and Mohammed (2017), investigated the impact of stock exchange on the manufacturing sector in Nigeria for the period 1980-2015, using co-integration test and error correction model (ECM). The variables used in the study include Index of manufacturing sector as the dependent variable, while the independent variable include market capitalization, total new issue, Value of transaction, total listed securities, exchange rate and interest rate. The study found that there is a long term relationship between stock exchange and the development of the manufacturing sector in Nigeria, but the growth in stock exchange activities had insignificant impact on the manufacturing sector in the economy.

Ofuan (2015) used pooled regression method examined stock market impact on industrial growth and development in Nigeria. The outcome of the study provided a mixed result. While government securities and all-share index displayed a non-

significant impact on industrial growth, volume of transaction and values of industrial securities were found to be relatively stable. New issues were found to be a major determinant of industrial output.

Kwode (2015) examined the importance of stock market in financing the manufacturing sector using data from 1970- 2012 using error correction model approach. The results showed that growth in stock market activities did not impact significantly on the manufacturing sector. In fact, the Nigerian manufacturing sector has been on the decline because of non-access to long-term funds from the stock market, high interest rate, volatile foreign exchange and unstable electricity supply.

## **Theoretical Review**

### **Efficient Market Hypothesis (EMH)**

The efficient market hypothesis suggests that a market is efficient when it is able to adjust quickly to take account of all available information, such that no single participant in the market gets more information than the information that is already reflected in the market prices. Consequently, the efficient market hypothesis discusses three main dimensions involved in stock market efficiency depending on the set of information available: weak- form market efficiency, Semi-strong market efficiency and Strong market efficiency (Omuchesie et al., 2014). Weak-form market efficiency exists when current prices fully reflect all historical price information, such that prices automatically adjust to information changes without lags. With semi-strong form efficiency, market prices reflect available public information including company reports, annual earnings, stock splits and company public profits forecasts. The strong forms of efficiency, however, exist when prices reflect both public and private information about earnings, book values, investment opportunities.

### **Agency Theory**

The main focus of the agency theory is connected to resolving problems that are expected to exist in the relationship of the agency; this means, between principals like the shareholders and agents of the principals such as the executives of the company. There are two main problems addressed by the this theory, these includes the problems that are see when the desire for of the shareholders or the principals and the agent are in conflict, and the shareholder or the principle is not able to confirm what the company executives are doing & the problems that are see as the shareholders & the company executives have distinct feelings towards risk. This is because of different tolerance to risk, shareholders and company executives might both be compelled to take distinct actions.

Adam (1994) stated in his work that this theory can provide a rich & important work in the discipline of the stock market, the theory of agency is of the view that stock market is in consonance with the other systems of intervention such as the financial reporting & external stock market activities, supports cost efficient contracting among the two parties that is the owners & the managers. This theory will not only help in explaining these characteristics on the department of stock market, for example, the coverage of its activities and its size, like operational vs financial. This theory could be used to empirically test if the cross sectional variations in stock market practices show case the different contracting relationship coming from the organizational form differences.

### Contingency Theory

Major objectives of stock market are to check the credibility of the information of the company. This also includes policy, procedures & practices. The regulations of the government demands that some institutions go through financial independent of the organization, the industry standards can also order stock market in some other aspects like technology and safety. Despite the subject of stock market, different variables impact a firm's conclusive result, & the contingency theory takes account of these variables during the process of stock marketing. This theory of management and leadership postulates that there is no style in which companies can be directed, managed & controlled. The firm & their function rely on different internal and external variables. The duties of these stock market include firms that are affected by different variables in the environment. Presences of these variables are the reason stock market should be carried out by applying the contingency theory with the understanding that these outcomes & process of the stock market activities rely on contingent and variable factor. On a wider level, the procedure & process of stock market is direct. The stock market operators need to be provided with documents, policies, systems, and procedures to manage a stock market. They are expected to remain compliant with the government regulation, industry standard and internal request.

### Methodology

The Ex-post facto research design is used for this study. The ex-post facto design is the type of research involving events that have already taken place. Ex-post facto research design is systematic and empirical inquiry in which the researcher does not have direct control of independent variables because their manifestations have already occurred or because they are inherently not manipulated (Akuezilo, 2012).

This design is used because the study intends to use what already exist and look backwards to explain why.

This kind of study is based on analytical examination of dependent and independent variables. More so, independent variables are studied in retrospect for seeking possible and plausible relations and the likely effects, the changes in independent variables produce on a dependent variable. The target population for this study comprises all the listed manufacturing companies on the Nigerian Stock Exchange as at December 2018. There are 45 manufacturing companies quoted on the Nigerian Stock Exchange as at this period and are made up of twenty-six (26) firms producing consumer goods and nineteen (19) firms producing industrial goods. The choice of these companies is based on the fact that manufacturing sector are the backbones of the economy. The data for this research study were adequately sourced using the secondary methods of data collection. Secondary data was sourced from Central Bank of Nigeria Statistical Bulletin. The data extracted are market capitalization, All Share Index, value of transaction and manufacturing sector output.

### Techniques of Data Analysis and Model Specification

#### Unit root test

Most of financial time series shows non-stationary behavior. Therefore, test of unit root is necessary to avoid from spurious results. A non-stationary time series invalidate the normal statistical test because of time varying variance. Therefore, series should be stationary means having a constant mean, constant variance and constant auto-covariance. Different approaches can be used to find stationarity properties of a time series data but mostly used techniques are Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) test. The study employed Augmented Dickey-Fuller or ADF, (p) test (Dickey and Fuller 1979; 1981) to test for unit root in the variables.

An ADF test here consists of estimating the following regression:

$$\Delta Y_t = \theta_0 + \theta_1 Y_{t-1} + \sum_{i=1}^k b_i \Delta Y_{t-i} + \mu_t, \dots I$$

where,  $Y_t$  is a vector of all variables in the model  $\theta_i$  and  $b_i$  are parameters of the model,  $\mu_t$  is the white noise at time while  $k$  and  $\Delta$  remain as defined in equation above. This study will achieve, by conducting the test by first or second level difference if the series are integrated of order one or order two (i.e. I(1) or I(2)). The null hypothesis here is that  $Y_t$  has a unit root (that is,

non-stationary) and the alternative is that there is no unit root (that is, stationary). If the variables turn out to contain unit roots, we will therefore, conclude that they are non-stationary.

The ADF test constructs a parameter correction for higher order correlation by assuming the times series follows an auto regressive process. Mathematically expressed as:

$$\Delta y_t = c + \beta_t + \alpha y_{t-1} + \sum_{j=1}^k \gamma_j \Delta y_{t-j} + \varepsilon_t$$

$$\Delta y_t = c + \alpha y_{t-1} + \sum_{j=1}^k \gamma_j \Delta y_{t-j} + \varepsilon_t$$

This equation is used to test for the null hypotheses of non-stationarity of unit root against trend stationarity alternative in  $Y_t$  where  $y$  refers to the examined time series. Equation 2 tests the null hypotheses of a unit root against a mean stationarity alternative. ADF with long lags is superior to other models (Schwert, 1989). These authors have computed the critical values of the tau statistic on the basis of Monte Carlo simulations.

### Co-integration Test

When co-integration exists among non-stationary variables it means that there exists a linear long run relationship among variables. Johansen co-integration test used to find the long run relationship among the nonstationary variables. This multivariate co-integration technique was developed by Johansen (1988) and Johansen and Juselius (1990). This test defines number of co-integrating vectors among the variables.

Johansen test gives two types of statistics. One is Trace test statistics with a Null Hypothesis that there are at most no co-integrating equations and Alternative Hypothesis that there are one or more co-integrating vectors. The other is Maximum Eigenvalue test statistics with null hypothesis that there are the existence of 'n' co-integrating vectors against the alternative hypothesis of  $n + 1$  co-integrating vectors.

### Error Correction Model Technique

After establishing cointegrating relationship among the variable, the study will adopt the error correction model proposed by Okpara (2010) and Kwoke (2015). An error correction model belongs to a category of multiple time series models most commonly used for data where the underlined variables have a long run stochastic trend, also known as co-integration. ECMs are also a theoretical driven approach useful for estimating both short term and long-term effects of one-time series on another.

To achieve the objective of this study, an econometric model capturing the impact of stock

market liquidity (liquidity and efficiency) on the manufacturing sector output in Nigeria in line with the theoretical framework and literature reviewed was developed. The endogenous growth model and efficient market hypothesis theory was utilized in formulating the model in this study. Therefore, following the empirical literature reviewed, the study adopts the models of Okpara (2010) and Kwoke (2015), with some modifications as specified below in equation (1).

The model is implicitly expressed in the following equations:

$$\Delta y_t = \alpha \beta y_{t-1} + \sum_{j=1}^k \Gamma_j \Delta y_{t-j} + \pi + \zeta_t, t = 1, \dots, T \quad \dots \dots \text{II}$$

Thus, linearizing equation (II), we obtain:

$$\Delta \text{MSO} = \alpha_0 + \sum_{g=1}^l \alpha_{gi} \Delta \text{ASI}_{t-1} + \sum_{h=1}^m \Delta \text{SMC}_{t-i} + \sum_{i=1}^n \alpha_{3i} \Delta \text{VST}_{t-1} + \text{ECM}_{t-1} + \varepsilon_t \quad \dots \dots \dots \text{III}$$

where;

MSO = Manufacturing sector outputs

ASI = All share index

SMC = Stock Market capitalization

VST = Value of stock Transaction

$\varepsilon_t$  = Error term (or stochastic term)

are parameter coefficients.

Specifying equation (3) in an ECM form, we have:

$$\Delta y_t = \alpha \beta y_{t-1} + \sum_{j=1}^k \Gamma_j \Delta y_{t-j} + \pi + \zeta_t, t = 1, \dots, T$$

Where;  $\alpha$  is the speed of adjustment parameter;  $\text{ECT}_{t-1}$  (which is the lagged Error Correction Term) is the residual obtained from the long run estimation.

The coefficient ( $\beta$ ) is expected to be less than one, negative and statistically significant. The negative sign of the  $\text{ECT}_{t-1}$  term indicates long-run convergence of the model to equilibrium; as well as explaining the proportion and the time it takes for the disequilibrium to be corrected in order to return the disturbed system to equilibrium. The magnitude of the coefficient measures the speed of adjustment.

## Data Presentation and Analysis

### Unit Root Test

The presence of unit root in the underlying series points to the fact that there is non-stationarity in that series. If the series are non-stationary, using standard econometric techniques can point to misleading results, so standard economic theory requires the variables to be stationary. Results of the unit root tests are presented in table 1.

**Table 1: Summary of Unit Root Test Results**

| Variables  | ADF Test Statistic      | Order of Integration |
|------------|-------------------------|----------------------|
| <i>MSO</i> | -3.355482(-3.229230)*** | <i>I(1)</i>          |
| <i>SMC</i> | -3.296853(-3.229230)*** | <i>I(1)</i>          |
| <i>VST</i> | -9.332791(-4.440739)*   | <i>I(0)</i>          |
| <i>ASI</i> | -5.415015(-4.374307)*   | <i>I(1)</i>          |

Source: Authors Computation, 2019

From the Table 2 above, it was discovered that MSO, SMC and ASI were found stationary at first difference, that is, at order *I(1)*. This means that their ADF test statistic were found greater than their critical values. However, VST was found stationary at levels at order *I(0)* as also shown in Table 2. Since the variables were found stationary at different orders (mixed orders), the ARDL approach to co-integration was applied to examine the long run relationship among the variables.

### Cointegration Test

Cointegration is the statistical implication of the existence of a long-run relationship between economic variables. The test stipulates that if variables are integrated of the same order, a linear combination of the variables will be integrated of that same order. The idea behind cointegration analysis is that, although time series variables may tend to trend up and down over time, groups of variables may drift together. If there is some tendency for some linear relationships to hold among a set of variables over long periods of time, then cointegration analysis helps us discover it. If the variables are integrated of different orders, however, there is some linear combination of the two series that is stationary. In other words, instead of being *I(1)*, the linear combination is *I(0)*.

The study employs the Pesaran, Shin and Smith, (2001) to examine the long-run relationship between the variables. The ARDL approach was applied because the regressors are a mixture of *I(1)* and *I(0)*. Two asymptotic critical values bounds provide a test for cointegration when the independent variables are *I(d)* (where  $0 \leq d \leq 1$ ): a lower value assuming the regressors are *I(0)* and an upper value assuming purely *I(1)* regressors. Suppose the F-statistic is above the upper critical value, the null hypothesis of no long-run relationship is rejected regardless of the orders of integration for the time series. On the other hand, if the F-statistic falls below the lower critical values, the null hypothesis is accepted, implying that there is no long-run relationship among the series. Lastly, if the F-statistic falls between the lower and the upper critical values, the result is inconclusive.

**Table 3: ARDL Bounds Test for Cointegration**

| F-Bounds Test  |          | Null Hypothesis: No levels relationship |             |             |
|----------------|----------|-----------------------------------------|-------------|-------------|
| Test Statistic | Value    | Signif.                                 | <i>I(0)</i> | <i>I(1)</i> |
| F-statistic    | 9.850886 | 10%                                     | 2.37        | 3.20        |
| k              | 3        | 5%                                      | 2.79        | 3.67        |
|                |          | 2.5%                                    | 3.15        | 4.08        |
|                |          | 1%                                      | 3.65        | 4.66        |

Source: Authors Computation, 2019

From Table 3, the calculated F-Statistic that the joint hypothesis that the lagged level variable of the coefficient is zero equals 9.85. This figure is greater than the upper bound of the critical values of all the conventional levels 10% (3.20) and 5% (3.67). This means that joint null hypothesis of all the lagged level variables of the coefficients being zero is rejected even at 5%. This suggests that there is cointegration between stock market liquidity and manufacturing sector output and hence a long run equilibrium relationship between stock market liquidity and manufacturing sector output.

### ARDL-ECM Results

General-to-specific was employed to eliminate all insignificant lags. Accordingly, this led to an initial estimation of an ECM with three lagged differences of the explanatory variables, a constant term and error correction term lagged one (ECTt-1). The dimensions of the parameter space were then reduced to a parsimonious ARDL-ECM specification by using omitted and redundant variable test to exclude the statistically insignificant lags. The result of the reduced short-run dynamic model is presented in Tables 4.

As expected, the lagged error correction term is negative, less than unity and statistically significant at 5 percent. The coefficient revealed that once there is disequilibrium in the system, it takes an average (slow) speed of 41.51% to adjust itself back towards long-run equilibrium level. Thus, showing that a highly significant lagged error correction terms proves the existence of long-run relationship between the variables and its ability to adjust from disequilibrium state towards equilibrium level.

The coefficient of determination (*R*-square), which was used to measure the goodness of fit of the estimated model, indicates that the model is reasonably fit in prediction. It showed that 94.65 percent changes in manufacturing sector output were collectively due to Stock market capitalization, value of stock transaction and All share index; while 5.35percent unaccounted variations was captured by the white noise error term. It showed that Stock

market capitalization, value of stock transaction and all share index has an impact prediction on manufacturing sector output within the period under review.

**Table 4: Selected Model: ARDL(4, 4, 4)ECM Results**

| ARDL Error Correction Regression         |             |                       |             |           |
|------------------------------------------|-------------|-----------------------|-------------|-----------|
| Dependent Variable: DLOG(MSO)            |             |                       |             |           |
| Selected Model: ARDL(4, 4, 4)            |             |                       |             |           |
| Case 2: Restricted Constant and No Trend |             |                       |             |           |
| Date: 08/02/19 Time: 07:58               |             |                       |             |           |
| Sample: 1986 2018                        |             |                       |             |           |
| Included observations: 28                |             |                       |             |           |
| ECM Regression                           |             |                       |             |           |
| Case 2: Restricted Constant and No Trend |             |                       |             |           |
| Variable                                 | Coefficient | Std. Error            | t-Statistic | Prob.     |
| DLOG(MSO(-1))                            | -0.424291   | 0.168445              | -2.518868   | 0.0399    |
| DLOG(MSO(-2))                            | -0.535694   | 0.123295              | -4.344803   | 0.0034    |
| DLOG(MSO(-3))                            | -0.250800   | 0.126158              | -1.987984   | 0.0871    |
| DLOG(ASI)                                | 0.123615    | 0.024037              | 5.142599    | 0.0013    |
| DLOG(ASI(-1))                            | -0.151765   | 0.033731              | -4.499254   | 0.0028    |
| DLOG(ASI(-2))                            | -0.142966   | 0.031938              | -4.476435   | 0.0029    |
| DLOG(ASI(-3))                            | -0.140587   | 0.039148              | -3.591148   | 0.0088    |
| DLOG(VST)                                | 0.001062    | 0.022040              | 0.048187    | 0.9629    |
| DLOG(VST(-1))                            | 0.166821    | 0.036020              | 4.631340    | 0.0024    |
| DLOG(VST(-2))                            | 0.065395    | 0.025704              | 2.544154    | 0.0384    |
| DLOG(VST(-3))                            | -0.050091   | 0.015970              | -3.136586   | 0.0165    |
| DLOG(MC)                                 | 0.017843    | 0.029424              | 0.606412    | 0.5634    |
| DLOG(SMC(-1))                            | -0.082440   | 0.039339              | -2.095612   | 0.0744    |
| DLOG(SMC(-2))                            | -0.240825   | 0.047080              | -5.115216   | 0.0014    |
| DLOG(SMC(-3))                            | -0.141471   | 0.044471              | -3.181157   | 0.0155    |
| ECT(-1)*                                 | -0.415160   | 0.086532              | -4.797717   | 0.0000    |
|                                          |             |                       |             |           |
| R-squared                                | 0.946581    | Mean dependent var    |             | 0.177968  |
| Adjusted R-squared                       | 0.873738    | S.D. dependent var    |             | 0.096364  |
| S.E. of regression                       | 0.034241    | Akaike info criterion |             | -3.623515 |
| Sum squared resid                        | 0.012897    | Schwarz criterion     |             | -2.855612 |
| Log likelihood                           | 64.91746    | Hannan-Quinn criter   |             | -3.395177 |
| Durbin-Watson stat                       | 1.923325    |                       |             |           |

Source: Authors Computation, 2019

### Statistical Test of Hypothesis

The three hypotheses formulated in this study were tested using the F-statistics. The decision rule for accepting or rejecting the null hypothesis for any of these tests will be based on the Probability Value (PV). If the PV is less than 5% or 0.05 (that is, if  $PV < 0.05$ ), it implies that the regressor in question is statistically significant at 5% level; otherwise, it is not significant at that level.

**Hypothesis One ( $H_{01}$ ):** All share index has no significant effect on the growth of manufacturing sector in Nigeria

**Table 5: Results of Wald Test for Total All share index and Manufacturing Sector Output in Nigeria**

| Test Statistic | Value   | df     | Probability |
|----------------|---------|--------|-------------|
| F-statistic    | 3.22542 | (4, 3) | 0.0810      |
| Chi-square     | 2.42117 | 4      | 0.0720      |

Source: Authors Computation, 2019

The Wald-test in Table 5 indicate that the F-value for All share index was found to be 3.22542 and its probability value is 0.08. Since the probability value is greater than 0.05 or 5percent level of significance, which fell in the acceptance region and hence, we accept the first null hypothesis ( $H_{01}$ ) and conclude that all share index has no significant effect on the growth of manufacturing sector in Nigeria between 1986 and 2018.

**Hypothesis Two ( $H_{02}$ ):** Stock market capitalization has no significant impact on the growth of manufacturing sector in Nigeria.

**Table 6: Results of Wald Test on Stock market capitalization and manufacturing sector Output In Nigeria**

| Test Statistic | Value   | df     | Probability |
|----------------|---------|--------|-------------|
| F-statistic    | 3.76766 | (4, 3) | 0.2141      |
| Chi-square     | 2.25452 | 4      | 0.0182      |

Source: Authors Computation, 2019

The Wald-test in Table 6 indicated that the calculated F-value for Stock market capitalization is 3.76766 and its probability value is 0.2141. Since the probability value is greater than 0.05 at 5percent level of significance, it thus falls in the acceptance region and hence, the second null hypothesis ( $H_{02}$ ) was accepted. The result thus shows that Stock market capitalization has no significant impact on the growth of manufacturing sector in Nigeria.

**Hypothesis Three ( $H_{03}$ ):** Value of stock Transaction has not significantly influenced the growth of manufacturing sector in Nigeria.

**Table 7: Results of Wald Test on Value of stock Transaction and Manufacturing Sector Output in Nigeria**

| Test Statistic | Value   | df     | Probability |
|----------------|---------|--------|-------------|
| F-statistic    | 3.25411 | (4, 3) | 0.0221      |
| Chi-square     | 2.64541 | 4      | 0.0110      |

Source: Authors Computation, 2019

The Wald-test in Table 7, indicated that the calculated F-value for Value of stock Transaction was found to

be 3.25411 and its probability value is 0.0221. Since the probability value is less than 0.05 or 5 percent level of significance, which fell in the rejection region and hence, we rejected the third-null hypothesis ( $H_{03}$ ) and conclude that Value of stock Transaction has significantly influenced the growth of manufacturing sector in Nigeria between 1986 and 2018.

### Discussion of findings

Findings from the results revealed that all share index has no significant effect on the growth of manufacturing sector in Nigeria between 1986 and 2018. The implication of this result is that the inability of the stock market to effectively and efficiently mobilise resources through the sale of new shares for the output growth of the manufacturing sector is not unconnected with the arrays of challenges confronting it e.g. weak corporate governance, sharp practices by stock market operators, high fees and interest rate that discourage investors. Lack of funds has made it difficult for the Nigerian manufacturing sector to make investment in modern machines, information technology and human resource development which are critical in reducing production costs, raising productivity and improving competitiveness.

The findings from the study is in agreement with Ifeoluwa and Motilewa (2015) whose results revealed that stock market liquidity (ASI) was not a statistically significant variable explaining manufacturing sector growth in Nigeria for the periods under study. This is in-line with Toby and Peterside (2014) which found that low investment has also been traced largely to stock market unwillingness to make credits available to manufacturers, owing partly to this mis-match between the long-term nature of the market funds and the medium-term nature of funds needed by Nigerian industries.

### Conclusion and Recommendations

Manufacturing sector is reputed to be an important engine of growth, an antidote for unemployment, a creator of wealth, and the threshold for sustainable development, thus it is expected to dominate, shape, and define the core path of industrialization. However, stock market intermediary roles in financing the manufacturing sectors in Nigeria is still limited, hence the increase in direct intervention funding in the industrial sector. Low level of investments has constrained productivity in the manufacturing sector. In addition to the consequences of a maturity mismatch, the near-absence of long-term deposits has continued to constrain the ability of stock markets to create long-tenured risk assets crucial for manufacturing sector development.

Based on the findings in this research, the study concludes that stock market liquidity through all share index and stock market capitalisation has not significantly affected Nigeria's manufacturing sector output.

In order to make the Nigerian stock market liquidity a world class that would contribute significantly to the output of manufacturing sector and the economy in general, the following suggestions are put forward:

- i. There is urgent need to restore confidence to the market by regulatory authorities through ensuring transparency, fair trading transaction and dealings in the stock exchange. The Security and Exchange Commission (SEC) to be more active and effective in its regulatory and developmental capacities. SEC should ensure effective supervision and monitoring of all institutions and activities in the stock market.
- ii. Government should ensure an investment friendly environment by put in place necessary infrastructures, services and policy reforms that will increase stock market capitalisation and enable the Nigerian stock market effectively and efficiently mobilize long-term financial resources and channel same to the manufacturing sector of the economy.
- iii. The regulators and operators in the Nigerian stock market must necessarily expand the market offerings to include products such as fixed income securities, hedging instrument, such as futures and other derivatives must be promoted as well as securities lending and collective investment schemes. It is imperative to mention that new listings are critical to the development of the Nigerian Stock market given that it is one of the two ways companies can raise long-term capital. Indeed, new listings are even more critical in restoring investor confidence as they are clear sign that the stock market is recovering. To this end, there is the urgent need to woo foreign and local companies to list in Nigeria stock market through tax holiday, reduction in transactions cost and other incentives.

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## Appendix

Manufacturing Sector Outputs(MSO) at Current Basic Prices (N' Billions), All share index (ASI, Billions); Stock Market Capitalization (SMC, Billion); Value of Stock Traded (VST, Billion): 1986-2018

| Year | MSO       | ASI       | SMC       | VST          |
|------|-----------|-----------|-----------|--------------|
| 1986 | 38.65     | 163.8     | 6.8       | 497.9        |
| 1987 | 43.22     | 190.9     | 8.2       | 382.4        |
| 1988 | 63.52     | 233.6     | 10        | 850.3        |
| 1989 | 72.90     | 325.3     | 12.8      | 610.3        |
| 1990 | 84.27     | 513.8     | 16.3      | 225.4        |
| 1991 | 110.60    | 783       | 23.1      | 242.1        |
| 1992 | 153.47    | 1,107.60  | 31.2      | 491.7        |
| 1993 | 221.23    | 1,543.80  | 47.5      | 804.4        |
| 1994 | 354.66    | 2,205.00  | 66.3      | 985.9        |
| 1995 | 414.13    | 5,092.20  | 180.4     | 1,838.80     |
| 1996 | 477.95    | 6,992.10  | 285.8     | 6,979.60     |
| 1997 | 546.71    | 6,440.50  | 281.9     | 10,330.50    |
| 1998 | 620.20    | 5,672.70  | 262.6     | 13,571.10    |
| 1999 | 713.82    | 5,266.40  | 300       | 14,072.00    |
| 2000 | 826.03    | 8,111.00  | 472.3     | 28,153.10    |
| 2001 | 989.11    | 10,963.10 | 662.5     | 57,683.80    |
| 2002 | 1,127.23  | 12,137.70 | 764.9     | 59,406.70    |
| 2003 | 1,304.07  | 20,128.94 | 1,359.30  | 120,402.60   |
| 2004 | 1,516.05  | 23,844.50 | 2,112.50  | 225,820.00   |
| 2005 | 1,778.73  | 24,085.80 | 2,900.06  | 262,935.80   |
| 2006 | 2,082.49  | 33,189.30 | 5,120.90  | 470,253.40   |
| 2007 | 2,401.19  | 57,990.20 | 13,181.69 | 1,076,020.40 |
| 2008 | 2,761.55  | 31,450.78 | 9,562.97  | 1,679,143.70 |
| 2009 | 3,170.82  | 20,827.17 | 7,030.84  | 685,717.29   |
| 2010 | 3,578.64  | 24,770.52 | 9,918.21  | 799,910.95   |
| 2011 | 4,527.45  | 20,730.63 | 10,275.34 | 638,925.70   |
| 2012 | 5,588.82  | 28,078.81 | 14,800.94 | 808,994.18   |
| 2013 | 7,233.32  | 41,329.19 | 19,077.42 | 2,350,875.70 |
| 2014 | 8,685.43  | 34,657.15 | 16,875.10 | 1,338,600.65 |
| 2015 | 8,973.77  | 28,642.25 | 17,003.39 | 978,047.07   |
| 2016 | 8,903.24  | 26,874.62 | 16,185.73 | 620,018.05   |
| 2017 | 10,044.48 | 38,243.19 | 21,128.90 | 1,078,491.84 |
| 2018 | 12,455.53 | 31,430.50 | 21,904.04 | 1,284,976.28 |

Sources: CBN statistical Bulletin (2018)