IMPLICATIONS OF GOVERNMENT CAPITAL EXPENDITURE ON THE MANUFACTURING SECTOR OUTPUT IN NIGERIA

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**Abstract**
Theoretically, both Keynesian and neoclassical economists provided tools for government’s intervention, particularly with regard to government capital expenditure. The aim of this paper was to investigate the effect of government capital expenditure on the manufacturing sector output in Nigeria. The study used quantitative time series data and multiple regression techniques in the analysis. The result of the co-integration test indicates long run relationship between dependent and independent variables. It also reveals that capital expenditure on road infrastructure (CEXR) and telecommunication (CEXT) affects the manufacturing sector output in Nigeria significantly while government capital expenditure on power has insignificant effect on manufacturing sector in Nigeria. The implication of this is that manufacturing sector output is clearly affected by factors both exogenous and endogenous to the government capital expenditure in Nigeria. Researchers therefore recommend that, there is need for government to reduce its budgetary allocation to recurrent expenditure on power sector and place more emphasis on the capital expenditures so as accelerate economic growth in Nigeria through manufacturing sector output and that government should also increase spending on road infrastructure, particularly on capital budgeting. As the results showed, road infrastructure capital expenditure has the greatest impact on the long-run with manufacturing sector output in Nigeria.

**Keywords:** Manufacturing Sector

Theoretically, both Keynesian and neoclassical economists provided useful tools for government intervention undertaking fundamental roles of allocation, stabilization, distribution and regulation especially when market proves inefficient or its outcomes is socially unelectable which is government capital expenditure (Usman, 2011).
The term capital expenditure is defined as a spending on assets. It is the purchase of items that will last and be used time and time again in the provision of goods or services. In the case of government, examples would be the building of a new hospital, the purchase of new computer equipment or networks, constructing new roads etc. (International Monetary Fund, (IMF) 2010). Also according to Central Bank of Nigeria (CBN) (2011), government capital expenditure is the money spent on goods that are classified as investment goods. This means spending on things that last for a period of time. This may include investment in hospitals, schools, power sector, telecommunication and road construction. The role of government capital expenditure in output and capacity utilization of manufacturing industry in Nigeria has been a growing concern, despite the fact that, the government had embarked on several policies aimed at improving the growth of the Nigerian economy through the contributions of manufacturing industry to the economy and capacity utilization of the sector (Adebayo, 2011; Peter and Simeon 2011 and Loto, 2012).

Manufacturing sector refers to those industries which are involved in the manufacturing and processing of items and indulge or give free rein in either the creation of new commodities or in value addition (Adebayo, 2011). According to Dickson (2010), manufacturing sector accounts for a significant share of the industrial sector in developing countries. The final product can either serve as finished goods for sale to customers or as intermediate goods used in the production process. Loto, (2012) refers to manufacturing sector as an avenue for increasing productivity in relation to import replacement and per-capita income which causes unrepeatable consumption pattern.

Thus, manufacturing industries are the key variables in an economy and motivates conversion of raw materials into finished goods. In the work of Charles (2012), it is posited that the manufacturing industries create employment which helps to boost agriculture and diversify the economy on the process of helping the nation to increase its foreign exchange earnings.

Manufacturing industries came into being with the occurrence of technological and socio-economic transformations in the western countries in the 18th-19th centuries (CBN, 2011). This period was widely known as industrial revolution. It all began in Britain and replaced the labour intensive textile production with mechanization and use of fuels (Olakunori, and Ejionueme, 1997).

Manufacturing sector are categorized into; Engineering, construction, electronics, Chemical, Energy, Textile, food and beverage, metal-working, plastic, transport and telecommunication sectors (CBN, 2010).

In recent times, some manufacturing industries in Nigeria have been characterized by declining productivity rate, by extension low employment which is caused by inadequate electricity supply, smuggling of foreign products into the country, trade liberalization, globalization, high exchange rate and inadequate government
investments in infrastructure. It has been argued that the persistent poor performance of the manufacturing sector in Nigeria is mainly due to massive importation of finished goods, inadequate financial support and other variables which has resulted in the reduction in capital utilization and output of the manufacturing sector of the economy (Tomola, Adebisi and Olawale, 2012). Looking at the manufacturing sector share in the GDP in recent years (1990-2010), it has not been relatively stable. In 1990, it was about 5.5% while it dropped to 2.22% in 2010. Also at the same period, the overall manufacturing capacity utilization grew from 40.3% in 1990 to 58.92% in 2010 (CBN, 2011). This may be attributed to the increase in government capital expenditure in recent times.

Furthermore, in Nigeria, the level of growth in manufacturing sector has been affected negatively because of high lending rates, which invariably is responsible for high cost of production (Rasheed, 2010). Okafor (2012) further observed that the level of Nigerian manufacturing sector performance has continue to decline because of low implementation of government budget and difficulties in assessing raw materials.

Based on the forgoing relationship between Government capital expenditure and manufacturing sector, a study such as this is necessary. This study, therefore, is designed to investigate the effect of government capital expenditure on the manufacturing sector output of Nigerian economy.

**Literature Review**

**Relationship between Government Capital Expenditure and the Performance of Manufacturing Sector in Nigeria**

In both developed and developing countries, some scholars have suggested in the literature that government expenditure has an important role in the growth of any nation’s economy through manufacturing sector output. Government capital expenditure is an expenditure on assets and it is also the purchase of items that will last and will be used from time to time in the provision of goods and services. Manufacturing sector refers to those industries which are involved in the manufacturing and processing of items and indulge or give free rein in either creation of new commodities or in value addition. The relationship between government capital expenditure and manufacturing sector output in Nigeria from 1990 to 2012 does not have a steady increase. The manufacturing sector output rate which rose to 6.05% in 1991 was reduced to 5.3% in 1994, from 1995, it has been inconsistence till 2011 to 2012 when it increase from 4.2% to 7.70% respectively. The capital expenditure has been inconsistent since 1990 to 2012. The relationship between government capital expenditure and manufacturing sector output in Nigeria is shown in table 1 and figure 1 below.
### Table 1: Percentage Changes in Capital Expenditure and Manufacturing Sector Output

<table>
<thead>
<tr>
<th>YEAR</th>
<th>GCEXP</th>
<th>MOP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>59.96</td>
<td>5.5</td>
</tr>
<tr>
<td>1991</td>
<td>17.85</td>
<td>6.05</td>
</tr>
<tr>
<td>1992</td>
<td>40.30</td>
<td>5.7</td>
</tr>
<tr>
<td>1993</td>
<td>37.07</td>
<td>5.4</td>
</tr>
<tr>
<td>1994</td>
<td>30.12</td>
<td>5.3</td>
</tr>
<tr>
<td>1995</td>
<td>70.81</td>
<td>4.9</td>
</tr>
<tr>
<td>1996</td>
<td>75.81</td>
<td>4.8</td>
</tr>
<tr>
<td>1997</td>
<td>26.61</td>
<td>4.64</td>
</tr>
<tr>
<td>1998</td>
<td>14.60</td>
<td>4.2</td>
</tr>
<tr>
<td>1999</td>
<td>61.17</td>
<td>4.3</td>
</tr>
<tr>
<td>2000</td>
<td>-51.92</td>
<td>4.2</td>
</tr>
<tr>
<td>2001</td>
<td>83.21</td>
<td>4.2</td>
</tr>
<tr>
<td>2002</td>
<td>-26.74</td>
<td>3.79</td>
</tr>
<tr>
<td>2003</td>
<td>-24.80</td>
<td>3.63</td>
</tr>
<tr>
<td>2004</td>
<td>45.35</td>
<td>3.68</td>
</tr>
<tr>
<td>2005</td>
<td>47.88</td>
<td>3.8</td>
</tr>
<tr>
<td>2006</td>
<td>6.33</td>
<td>3.9</td>
</tr>
<tr>
<td>2007</td>
<td>37.46</td>
<td>4.02</td>
</tr>
<tr>
<td>2008</td>
<td>47.96</td>
<td>4.14</td>
</tr>
<tr>
<td>2009</td>
<td>2.61</td>
<td>4.1</td>
</tr>
<tr>
<td>2010</td>
<td>-23.33</td>
<td>4.2</td>
</tr>
<tr>
<td>2011</td>
<td>20.20</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7.70</td>
</tr>
<tr>
<td>2012</td>
<td>32.5</td>
<td></td>
</tr>
</tbody>
</table>


**NB GCEXP**- Government capital Expenditure  
**MOP**- Manufacturing Sector Output
Table 1 and figure 1 are interpreted together; they reveal that capital expenditure and manufacturing sector output in Nigeria from 1990 to 2012 increased steadily with few fluctuation in some years. Nigeria’s government capital expenditure increased from 1990 to 2012. However, in 2000, 2002, 2003 and 2010 capital expenditure fell by 51.92%, 26.74%, 24.80% and 23.33% from the previous year quantum values. Apart from these years, the capital expenditure increased from year to year. The highest increase compared to the previous year was observed in 1990 where there was an 59.96% increase. This was followed by 2001 when the increase was 83.21% and in 1996 when it increased by 75.81%. Again within these periods, the years with the least increase in capital expenditure was 2009 with government capital expenditure increased by 2.61%, followed by 2006 with an increase of 6.33% and 1998 (14.60%) in ascending order. Manufacturing sector grew from 1990 to 2010, with a single increase in 1991. The highest increase in manufacturing sector within the period was in 2012 when MOP increased by 7.70%, This was followed by 1991 when manufacturing sector growth rate was 6.05%. As revealed from the table and figure above, manufacturing sector output has shown a steady decrease from 1991 to 2006.

Empirical Review

There have been numerous studies on the effect of government expenditure in the long-term economic growth. But, there is no consistent evidence for a significant relationship between government spending and economic growth through manufacturing sector output, both in positive or negative direction. Results and
evidence about the effect of government expenditure differ by country, analytical methods employed and categorization of government expenditures.

Samson (2013) used vector error correction model and granger causality model to investigate the relationship between government expenditure and economic growth through industrial sector in Nigeria. The study observed that there is significant negative relationship between government spending and industrial sector of the economy. The finding suggests that there should be effective channelling of public funds to productive sectors in Nigeria.

Employing three-stage-least square (3SLS) technique and macro-econometric model of simultaneous equations, Onakoya and Somoye (2013) examined the impact of public capital expenditure on economic growth in Nigeria. The study revealed that public capital expenditure contributes positively to economic growth in Nigeria as it promotes the output of oil and infrastructural sectors but it is directly deleterious to the output of manufacturing and agricultural sector.

Melissa and Dean (2013) examined the effect of public expenditure productivity on manufacturing sector in USA cities using simple Cobb-Douglas production function model. It was discovered that there is strong positive and statistically significant relationship between private capital and labour productivity. Using ordinary least square (OLS) method, Loto (2012 investigated the determinants of output expansion in the Nigerian manufacturing industries between 1980 to 2010. It was found that inflation rate play the highest significant role in explaining manufacturing sector output expansion in Nigeria.

Using multivariate model of simultaneous equations and three-stages of least squares method (LSM), Onakoye, Tella and Osoba (2012) examined the relationship between investment in telecommunication infrastructure and economic growth in Nigeria. The study found that telecommunication infrastructural investment has a significant impact on output of the economy directly through its industrial output and indirectly through the output of other sectors such as agriculture, manufacturing, oil and other services.

In line with the above gap as identified in the literature, the study employed all the tools needed to investigate the impact of government capital expenditure on manufacturing sector output in Nigeria and as well identify all factor that affect manufacturing sector in Nigeria.

Theoretical Framework

Theory of Public Expenditure

Public expenditure is spending made by the government of a country on collective needs and wants such as pension, provision, infrastructure, etc. Until the 19th century, public expenditure was limited as laissez faire philosophies believed that money left in private hands could bring better returns. In the 20th century, John
Maynard Keynes argued the role of public expenditure in determining levels of income and distribution in the economy. Governments at all levels (national, regional and local) need to raise revenue from a variety of sources to finance public-sector expenditures. The details of taxation are guided by two principles: who will benefit, and who can pay. This theory believed that maximum satisfaction should be yield by striking a balance between public revenue and expenditure by the government.

**Musgrave Theory of Public Expenditure**

This theory was propounded by Musgrave (1964) as he found changes in the income elasticity of demand for public services in three ranges of per capita income. He posits that at low levels of per capita income, demand for public services tends to be very low. This is so because such income is devoted to satisfying primary needs and that when per capita income starts to rise above these levels of low income, the demand for services supplied by the public sector such as health, education and transport starts to rise, thereby forcing government to increase expenditure on them. He observes that at the high levels of per capita income, typical of developed economics, the rate of public sector growth tends to fall as the more basic wants are being satisfied.

**The Keynesian Theory**

Of all economists who discussed the relation between public expenditures and economic growth through industrial sector output, Keynes was among the most noted with his apparently contrasting viewpoint on this relation. Keynes regards public expenditures as an exogenous factor which can be utilized as a policy instruments to promote economic growth. From the Keynesian thought, public expenditure can contribute positively to economic growth. Hence, an increase in the government consumption is likely to lead to an increase in employment, profitability and investment through multiplier effects on aggregate demand. As a result, government expenditure augments the aggregate demand, which provokes an increased output depending on expenditure multipliers. Keynesian economics was very influential for several decades and dominated public policy from the 1930s to the 1970s. The theory has since fallen out of favour. But it still influences policy discussion particularly on whether or not changes in government spending have transitory economic effects. For instance, some policymakers still use Keynesian analysis to argue that higher or lower level of government spending will stimulate or dampen economic growth.

**Methodology**

The data used in this study came from secondary sources. The data generated are quantitative time series data on Manufacturing Sector Output, Total Capital Expenditure on Road Infrastructure, Total Capital Expenditure on Health and Total Capital Expenditure on Communication from the Central Bank of Nigeria publications and those of the Federal Bureau of Statistics for the period between 1990 and 2012. This period chosen for the study encompasses the phases when government capital expenditure is inconsistent.
Model Specification

To examine the effect of public capital expenditure on manufacturing sector output in Nigeria, Co-integration test and ordinary least square approach using Error Correction Model (VECM) approach were used. The multiple linear regression analysis based on the classical regression methodology was the main procedure to be followed in this work. The OLS technique is chosen not only because of its computational simplicity but because it possesses some desirable statistical properties such as linearity, unbiasedness, minimum variance, zero mean value of the random term etc. However, there is need to first ascertain the long-run reliability of the variables in the model through unit root test. The Augmented Dickey Fuller test shall be used for this exercise.

We have reviewed the models used by various authors in the empirical literature section in chapter two of this work. This work therefore shall adopt the model used by some of the work reviewed. In this model MOP is the dependent variable while the independent variables include: Total Road Infrastructure Expenditure (TRIE), Total Health Sector Capital Expenditure (THSEX) and Total Capital Expenditure on Telecommunication (TEXC). These variables shall be used in the current work subject to stationarity. The model is as stated below:

$$MOP/GDP = f (TRIE, THSEX, TEXC)$$

i.e. $$MOP/GDP = B_0 + B_1TRIE + B_2THSEX + B_3TEXC + u_t.$$  

Where;

- MOP/GDP = Manufacturing Sector Output/GDP X 100/1
- TRIE = Total Road Infrastructural Capital Expenditure
- THSEX = Total Health Sector Capital Expenditure
- TEXC = Total Capital Expenditure on Telecommunication
- u = Stochastic error term

Unit Root Test: Test of stationarity aimed at determining whether the variables have dependable means and variances. The Augmented Dickey-Fuller unit-root test was used to test whether the variables are stationary or non-stationary in levels, first or second differencing.

Co-integration Test: Co-integration aimed at ascertaining whether there is long-run relationship between the variables. The Johansen cointegration test will be employed to test for the presence of first order auto-correlation and co-integration of variables in the model. The $R^2$ and adjusted $R^2$ shall be used to measure the degree to which the explanatory variables are responsible for the change in the dependent variable and the goodness of fit as a result of addition of explanatory variables. The F-statistic shall be used to test for the linearity assumption at 5% level of significance.

Error Correction Mechanism (ECM): The purpose of error correction model is to indicate the speed of adjustment from the short-run equilibrium to the long-run equilibrium state. The greater the coefficient of the parameter, the higher the speed of adjustment of the model from the short-run to the long-run equilibrium.
Implications Of Government Capital Expenditure …

Descriptive Results

In this chapter, we analyze the time series characteristics of the chosen data during the period of 1990-2012. We had undertaken some econometrics tests on the variables of our model to ascertain their assumptions prior to estimation. Viz: Stationarity, Cointegration tests and Ordinary Least Square (OLS).

Unit Root Test

The Augmented Dickey-Fuller (ADF) unit-root test were employed to test for stationarity or the existence of unit roots in the data. The results of the unit-root tests are presented below:

Table 2: Unit Root Result

<table>
<thead>
<tr>
<th>Variable</th>
<th>ADF Test Statistic</th>
<th>5% critical values</th>
<th>10% critical values</th>
<th>Order</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOP</td>
<td>-4.991513</td>
<td>-3.012363</td>
<td>-2.646119</td>
<td>1(1)</td>
<td>Stationary</td>
</tr>
<tr>
<td>CEXR</td>
<td>-4.596404</td>
<td>-3.234861</td>
<td>-2.642242</td>
<td>1(1)</td>
<td>Stationary</td>
</tr>
<tr>
<td>CEXP</td>
<td>-4.682056</td>
<td>-3.012363</td>
<td>-2.646119</td>
<td>1(1)</td>
<td>Stationary</td>
</tr>
<tr>
<td>CEXT</td>
<td>-6.120769</td>
<td>-3.012363</td>
<td>-2.646119</td>
<td>1(1)</td>
<td>Stationary</td>
</tr>
</tbody>
</table>

Source: E-view 7.0

The above empirical test shows that MOP, CEXR, CEXP and CEXT are integrated of order one. They are integrated of the same order; 1(1). From the above tables 2, it was discovered that ADF with trend and intercept are integrated of the same order. Considering the ADF test statistics at 5% and 10% critical values, it is observed that test statistics are greater than the critical values. Thus, the series are said to be stationary at that first difference.

Co-integration Test

Co-integration test is used to test for the long run relationship between dependent and independent variables. From the table 3 below, there is a long run relationship between the manufacturing sector output and the explanatory variables (MOP, CEXR, CEXP and CEXT) in Nigerian within the period under study 1990-2012. Firstly, the summary of the Johansen Cointegration test indicates that the explanatory variables: CEXR, CEXP and CEXT are cointegrated of order one. The test below indicates one cointegrating equation at 5% level of significance. The model with lag 1 was chosen with the linear deterministic test assumption. The variables can therefore be said to have reliable long-run relationship among them with dependent variable coefficient of cointegration of 0.811021. Johansen co-integration test for the series; MOP, CEXR, CEXP and CEXT are presented in Table 3 below.
Table 3: Co-Integration Result

<table>
<thead>
<tr>
<th>Eigenvalue</th>
<th>Hypothesized No. of CE(s)</th>
<th>Trace</th>
<th>0.05 critical Statistic value</th>
<th>Prob.**</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.811021</td>
<td></td>
<td>64.15496</td>
<td>47.85613</td>
<td>0.0007</td>
</tr>
<tr>
<td>0.518452</td>
<td></td>
<td>29.16640</td>
<td>23.16640</td>
<td>0.0000</td>
</tr>
<tr>
<td>0.330576</td>
<td></td>
<td>13.82067</td>
<td>11.49471</td>
<td>0.0000</td>
</tr>
<tr>
<td>0.226469</td>
<td></td>
<td>5.392578</td>
<td>3.841466</td>
<td>0.0002</td>
</tr>
</tbody>
</table>

*denotes rejection of the hypothesis at 5% significance level. L.R test indicates 1 cointegrating equation(s) at 5% level of significance.

There is a long run relationship between the MOP and the explanatory variables; CEXR, CEXP and CEXT. Firstly, the summary of the Johansen Cointegration Test is shown in the Table above. The model with lag 1 was chosen with the linear deterministic test assumption. Under the Johansen Cointegration Test, there are three cointegrated vectors. In Johansen’s Method, the eigenvalue statistic is used to determine whether cointegrated variables exist.

Under the Johansen co-integration test, it is observed that there are one cointegrating equations. In Johansen’s Method, the eigenvalue statistic is used to determine whether co-integrated variables exist. Cointegration is said to exist if the values of computed statistics are significant different from zero. The Trace Statistics is higher than 5% critical value and the eigenvalue are found as (0.811021, 0.518452, 0.330576 and 0.226469). The Trace Statistics of MOP, CEXR, CEXP and CEXT are greater than the critical value at both 5% level of significance. Also, the Eigenvalues of MOP, CEXR, CEXP and CEXT are significantly greater than zero. In other words, the null hypothesis of no cointegration among the variables is rejected in at least one equation. The test result shows the existence of a long-run equilibrium relationship in one cointegrating equations at 5% significance level.

The Nigerian manufacturing sector output is affected by the indicators of Nigerian capital expenditure. Therefore, government capital expenditure on road infrastructure with other specified variables in the model, changes the manufacturing sector output value and the propensity to grow.

In any case, the existence of a long-run cointegrating equilibrium also provides for short-term fluctuations. In order to straighten out or absolve these fluctuations, an attempt was made to apply the Ordinary Least Square (OLS).

Ordinary Least Square (OLS)

The existence of long-run co-integrating equilibrium provides for short fluctuations. In order to straighten out or absolve these fluctuations, an attempt was made to apply the Ordinary Least Square (OLS).
As noted, the OLS is meant to tie the short-run dynamics of the cointegrating equations to their long-run static dispositions. Below is the OLS test for the given data:

Table 4: Ordinary Least Square (OLS) RESULT

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>4.672288</td>
<td>0.286017</td>
<td>16.33573</td>
<td>0.0000</td>
</tr>
<tr>
<td>CEXT</td>
<td>0.120640</td>
<td>0.093428</td>
<td>-1.291263</td>
<td>0.0001</td>
</tr>
<tr>
<td>CEXR</td>
<td>0.150309</td>
<td>0.086553</td>
<td>1.736613</td>
<td>0.0086</td>
</tr>
<tr>
<td>CEXP</td>
<td>0.038773</td>
<td>0.078102</td>
<td>-0.496440</td>
<td>0.6253</td>
</tr>
</tbody>
</table>

R-squared 0.953678 Mean dependent var 4.623913
Adjusted R-squared 0.920049 S.D. dependent var 0.959222
S.E. of regression 0.949558 Akaike info criterion 2.891130
Sum squared resid 17.13154 Schwarz criterion 3.088607
Log likelihood -29.24799 F-statistic 60.47635

The figures from the OLS are quite revealing. That is, the coefficient estimates of the constant and explanatory variables have alternated their signs as against the long-run relationship found in the normalized cointegrating table 3 above. This shows exactly what is needed to be done in order to absolve the short-run dynamics of relationships. Again, the significance of OLS holds that a negative and statistically significant error correction model coefficient is a necessary condition for the variables to be cointegrated.

More so, it is concluded that the Ordinary Least Square (OLS) is not a spurious model as the computed R² value of 0.953678 is lower than 1.91 (Durbin Watson Statistics). However, the R² shows that 95.37% of the total variations in MOP are accounted for, by the explanatory variables. Since the calculated Durbin Watson statistics is greater than the upper limit, there is no evidence of the presence of the first order serial correlation or autocorrelation in the model. Finally, the results of the study do provide support for the hypotheses that Nigeria capital expenditure has a significant impact on the growth of Nigerian manufacturing sector output, hence, acting as a blood vein to the enhancement of economic growth.

Discussion

This research work sought to examine the impact of government capital expenditure on manufacturing sector output in Nigeria from 1990 to 2012. The government capital expenditure were captured using total capital expenditure on road infrastructure (CEXR), power sector (CEXP) and telecommunication (CEXT).

On the application of advanced econometric techniques (Augumented Dickey Fuller Unit Roots Test, Johansen co-integration Test and Ordinary Least Square), the following information surfaced;
None of the variables was stationary at zero level. This means they all have unit roots. That is, they were all differenced before stationarity was achieved. The essence is to avoid spurious result.

The four variables became stationary at first difference by ADF application. There exists a long-run equilibrium relationship between capital expenditure and manufacturing sector output in Nigeria. This was achieved through the use of cointegration test.

Government capital expenditure on power was negatively correlated with manufacturing sector output (by -0.038773), while government capital expenditure on road infrastructure and telecommunication were positively related with manufacturing sector output in Nigeria (by 0.150309 and 0.120640) respectively based on the short-run test.

The joint influence of the explanatory variables is statistically significant. This was very well echoed by the F-statistics gotten as 60.47635 (table 3), which tested the entire regression plane. There was no evidence of first-order serial correlation (autocorrelation). It implies that the power of the explanatory model is high. The short-run dynamics adjusts to the long-run equilibrium.

Based on the objectives of the, three empirical results emerged. The conclusion arising from the impact of capital expenditure on manufacturing sector output in Nigeria shows that the regression coefficient of government capital expenditure on the road sector (GCEXRS) carries positive sign and its t-value (-1.291263) is statistically significant at 5% level. This implies that capital expenditure on road infrastructure (CEXR) affects the manufacturing sector output in Nigeria significantly. The computed value of $R^2 = 0.953678$ shows that 95.36% of the total variation in the manufacturing sector output (MOP) is accounted for by the explanatory variable (CEXR); The second variable government capital expenditure on the power sector (GCEXPS) shows that the regression coefficient of GCEXPS carries negative sign and its p-value (0.6253) is statistically significant at 5% level. This implies that government capital expenditure (GCEXPS) affects the MOP negatively and is insignificant. The computed value of $R^2 = 0.953678$ shows that 95.36% of the total variation in the manufacturing sector output (MOP) is accounted for by the explanatory variable (GCEXPS) and that the regression coefficient of government capital expenditure on telecommunication (GCEXT) carries positive sign and its p-value (0.0001) is statistically significant at 5% level. This implies that GCEXT affects the MOP significantly. It is estimated from the result that 1% increase in GCEXT, on the average, will lead to 12.06% increase in MOP. The computed value of $R^2 = 0.953678$ shows that 95.36% of the total variation in the manufacturing sector output (MOP) is accounted for by the explanatory variable (GCEXT).

**Conclusions**

This study contributes to the literature on the effect of public capital expenditure on manufacturing sector output in Nigeria by using the actual functioning
types of public capital expenditure data to examine manufacturing sector output in Nigeria. This is because manufacturing sector accounts for a significant share of the industrial sector in developed countries. The final products can either serve as finished goods for sale to customers or as intermediate goods used in further production process. Government expenditure is deemed to be essential for widening the base at which developing countries could grow their economy rapidly. It follows that, to achieve accelerated economic growth and sustainable development through manufacturing sector output, government capital expenditure should be allocated optimally in such way that it will stimulate and create conducive environment for the private sector led economic development and rectify market failures.

From the research findings, the study concludes with empirical evidence that total capital expenditure on road infrastructure and telecommunication has positive and significant impact on manufacturing sector output in Nigeria while total capital expenditure on power has indeed impacted negatively and insignificantly on manufacturing sector output in Nigeria.

From the analysis done in this study, it can be concluded that manufacturing sector output are clearly impacted by factors both exogenous and endogenous to the public capital expenditure in Nigeria. This study has focused on highlighting the exogenous factor which if controlled, are most likely to have the largest effects in increasing economic growth in Nigeria.

Finally, the result of the ordinary least square indicates that the extent of government capital expenditure on road infrastructure, power and telecommunication promotes manufacturing sector output in both long-run and short run adjustment of manufacturing sector output in Nigeria. The above unveils the effects of the composition of government capital expenditure on road, power and telecommunication in promoting economic growth in Nigeria through manufacturing sector output which as it stands may not engender the much needed stimulus for economic growth in the country. The result has an important implication in terms of policy making that will help budget implementation in Nigeria.

**Recommendations**

Based on the above analysis and the implications, the following recommendations were made:

1. There is need for government to reduce its budgetary allocation to recurrent expenditure on power sector and place more emphasis on the capital expenditures so as to accelerate economic growth in Nigeria through manufacturing sector output.
2. Government should also increase spending on road infrastructure, particularly on capital expenditure.
3. There should be effective channeling of public funds to productive sectors of the economy so as to have significant impact on economic growth in Nigeria.
4. Government economic policies should be on diversification of the economy to enhance the performance of manufacturing sector, so as to create more employment opportunities because it may be a more effective way of reducing the level of unemployment and increasing the growth of the economy.

5. Finally, this study also recommends that the government consumption spending should be reduced by all tiers of government in Nigeria.

6. References


International Monetary Fund (IMF) (2010). *Development, Social Development and Environmental Protection, IMF*


World Bank Development Indicator (2012)