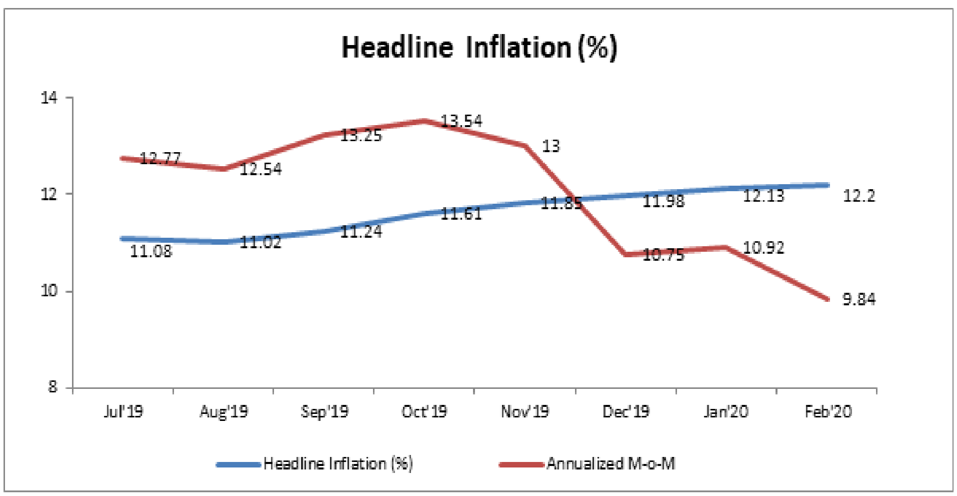
FDC Economic Bulletin

March 17, 2020

Persistent inflation increase sets the stage for MPR hike

Nigeria's headline inflation rate in February increased by 0.07% to 12.2% although slower than our forecast of 12.3%. This is the 6th consecutive month of rising inflation and is largely driven by the base year effects of the border closure. However, the slope of the inflation curve is gradually flattening out i.e. the rate of change is easing off. This suggests that the base year effect is waning. Similar to the headline inflation, all the annual inflation sub-indices increased. Food index increased by 0.05% to 14.90% while the core index rose by 0.08% to 9.43%. Rising inflationary pressures amidst a slump in oil prices and sluggish growth pave the way for a possible increase in the monetary policy rate next week.

However, all the monthly sub-indices declined, with the month on month index (a better reflection of market realities) easing to 0.79% (annualized at 9.84%). The food monthly sub-index fell by 0.12% to 0.87% and core by 0.09% to 0.73%.



[1]

Contributing Factors

Supply shocks

The prolonged border closure remains the main contributing factor to the persistent rise in the headline inflation. However, its impact on monthly inflation is waning as local farmers have increased efforts to boost domestic production. Also, the impact of the new VAT rate of 7.5% and the COVID-19 pandemic are yet to be felt on output and consumer prices.

[1]NBS, FDC Think Tank

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Demand shocks

The aggregate demand was negatively affected by a sharp drop in interest earned by households on their savings and the effect of border closure on trading income of the widest level of the informal sector of the economy. The 91-day T/bill yields have fallen by approximately 8% from its peak of 11.1% in August 2019.

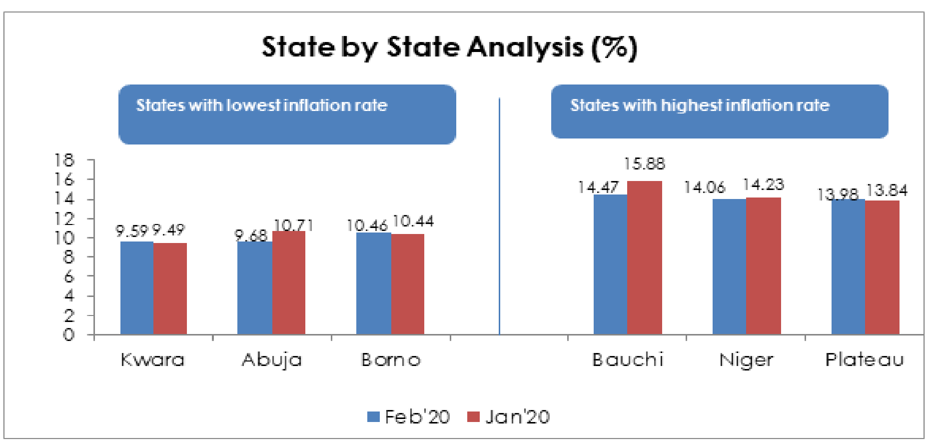
All annual inflation up vs. decline in all M-o-M inflation

For the first time in over 2 years, all annual inflation sub indices increased while the month-on-month sub indices declined. On an annual basis, core, food, urban and rural sub indices increased to 9.35%, 14.90%, 12.85% and 11.61% respectively while on a monthly basis, it declined to 0.73%, 0.87%, 0.82% and 0.76% respectively.

The commodities that recorded the highest price increases were bread, cereals, fish, meat, vegetables, oils and fats. Also the increase in diesel prices and the gradual depreciation of the currency contributed to the rise in core inflation. The currency depreciated to N420/$ and N368/$ at the parallel market and IEFX window respectively.

State by State Analysis

The states that recorded the lowest inflation rates were Kwara (9.59%), Abuja (9.68%) and Borno (10.46%). On the other hand, Bauchi (14.47%), Niger (14.06%) and Plateau (13.98%) recorded the highest inflation rates.



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[2]NBS, FDC Think Tank

Peer Comparison – Mixed movement in inflation – 5 Reds, 2 Amber

24 African countries have reported cases of Covid-19. Out of the countries under our review (in the table below) only Uganda, Zambia and Angola are yet to report any case of the virus. Only Ghana in our list recorded a flat rate of inflation. Kenya and South Africa reduced their benchmark interest rates in January.

Country	February Inflation (%)		February Policy rate (%)	
Nigeria	12.20	↑	13.50 (Jan)	↔
Angola	16.9(Dec)	↑	15.50 (Jan)	↔
Kenya	6.37	↑	8.25 (Jan)	↓
South Africa	4.50(Jan)	↑	6.25 (Jan)	↓
Ghana	7.8	↔	16.00 (Jan)	↔
Uganda	3.40	↔	9.00	↔
Zambia	13.9	↑	11.50	↔

[3]

Concluding Thoughts

With the widening spread of COVID-19 that has led to several countries closing their borders, and the commencement of the planting season, the supply of goods will drop significantly, creating shortages that will push up prices. These, coupled with slowing growth and a looming recession threat make determining the right policy decision, a herculean task. The CBN has announced a support fund of N50bn to be disbursed to households and companies affected by COVID-19. Amidst all these are the growing pressures in the forex market. The CBN will have to be ready to make some hard choices to weather the storm.

[3]Trading Economics, FDC Think Tank