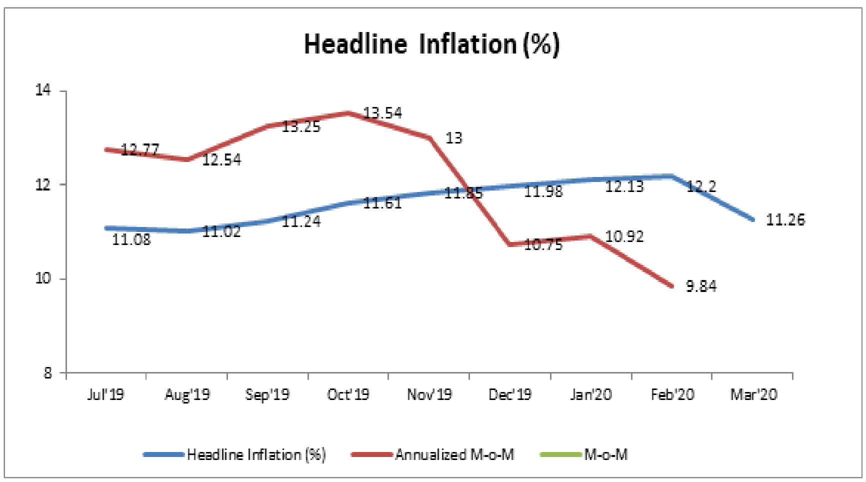
FDC Economic Bulletin

April 21, 2020

March Headline inflation dodges the Covid-19 bullet

(Expect sharp increase in April to higher than 14%)

The year-on-year headline inflation inched up by 0.06% to 12.26% in March. Most analysts were expecting a higher spike but failed to take into consideration the time lag between policy and impact. The analysis of the likely impact of the lockdown, panic buying and the exchange rate pass through on the price level is the focus of this note. The slight increase in the annual price level can be largely attributed to the base year effects of the border closure and the implementation of the new VAT rate of 7.5%. Just like headline inflation, the month-on-month price level increased by 0.05% to 0.84% (10.53% annualized).



[1]

Core inflation increased at a faster pace despite the fall in fuel prices

Core inflation (inflation less seasonalities) soared by 0.30% to 9.73% in March from 9.43% in February. On a monthly basis, it increased by 0.07% to 0.80%. This was in spite of the 14.98% reduction in the retail price of PMS to N123.5 per liter. While the reduction in fuel price was expected to positively impact logistics costs, the currency adjustments contributed to rising core inflation.

[1]NBS, FDC Think Tank

Food inflation rose marginally by 0.08% to 14.98%

The year-on-year food inflation increased to 14.98% from 14.9% in February. On a month-on-month basis, it rose by 0.07% to 0.94%. The commodities that recorded the highest increases were bread and cereals, fish, potatoes, yam and other tubers, oils and fats, vegetables, and fruits. The closure of the land borders and the exchange rate devaluation played a major role in the price movement of the commodities.

Immediate Impact of Covid-19 on prices

The March inflation numbers do not reflect the negative effect of Covid-19 outbreak and the attendant lockdown on commodity prices. This is because of the usual time lag between policy and impact. Hence, the effect of prices is expected to be more potent in the coming months. The lockdown, mortality of businesses and restriction of movement disrupted commodity supply chains, creating shortages. On average, some commodity prices have spiked by over 50% since Lagos, Ogun and FCT went into a lockdown mode.

Commodities	Previous Price	Current Price
Rice (50kg)	27,500	30,000
Garri (50kg)	8,500	12,000
Yam (Large tuber)	700	1,200
Flour (50kg)	11,000	11,700
Sugar (50kg)	14,800	18,500

Exchange rate Pass Through Effect on Prices

The exchange rate was allowed to slide to N360/$ and N380/$ at the official and I&E windows on March 20 due to external sector weaknesses arising from the sharp drop in oil prices. This manifested in a spike in the price of imported commodities in spite of a reduction in global commodity prices. This trend is likely to continue in the near term as the exchange rate remains an exogenous variable.

Consumers to adjust to price and income elasticity in the near term

While the rise in the price of domestic commodities is expected to continue in the near term, there will be a reduction in aggregate demand as consumers respond to their new level of reduced disposable income. It is believed that the economy is already in a recession which will be accompanied by huge layoffs and retrenchments. This means a fall in aggregate demand in the economy.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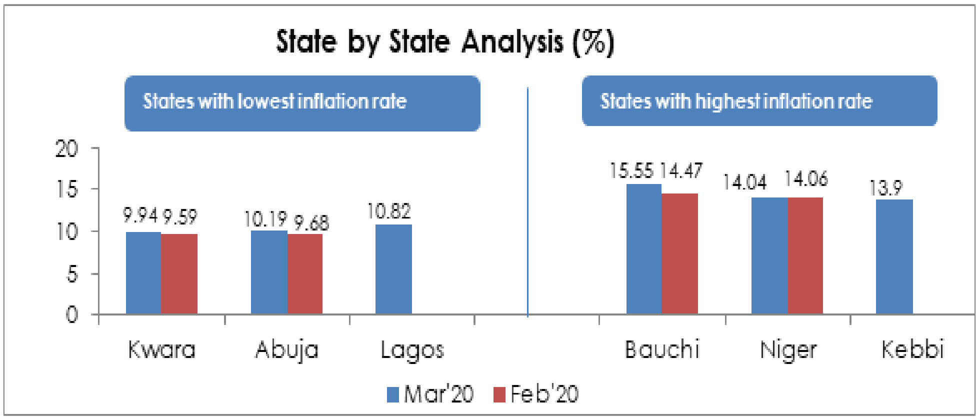
State by State Analysis

Kwara state had the lowest inflation rate of 9.94%, followed by Abuja (10.19%) and Lagos (10.82%). Lagos was one of the states with the lowest inflation rate in spite of the lockdown and movement restrictions.

The highest level of inflation was recorded in Bauchi (15.55%), Niger (14.04%) and Kebbi (13.90%).



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Sub-Saharan Africa

Inflation inched up in March because of the slowdown in purchasing power which started since Q4'19. The supply chain disruptions caused by the lockdown and reduced imports from China will manifest in sharply higher prices in April.

The average consumer price inflation in SSA prior to Covid-19 was estimated to rise from 8.2% to 8.7% on the back of higher food prices and lower harvests. However, based on the sharp fall in oil prices, we expect imported inflation due to energy costs to fall sharply. The fall in petrol price notwithstanding the crash in the price of other commodities will have a negative impact on the balance of trade of most African nations.

Country	March Inflation (%)		March Policy rate (%)	
Nigeria	12.26	↑	13.50	↔
Angola	19.62	↑	15.50	↔
Kenya	6.06	↓	7.25	↓
South Africa	4.6 (Feb)	↑	4.25	↓
Ghana	7.8	↔	14.50	↓
Uganda	3.0	↓	8.0	↓
Zambia	14.0	↑	11.50	↔

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[2]NBS, FDC Think Tank
[3]Trading Economics, FDC Think Tank

Outlook

The upward inflation trajectory is likely to continue in the near term as the coronavirus spread continues to lead to further economic paralysis. This will be compounded by the exchange rate pass through effect and the commencement of the planting season. Because of the increase in anticipated inflation, we do not expect the MPC to lower the monetary policy rate in the near term. The committee could however tinker with the Cash Reserve Ratio (CRR) to cushion the negative impact of the lockdown and contraction on small and medium scale enterprises.