FDC Economic Bulletin

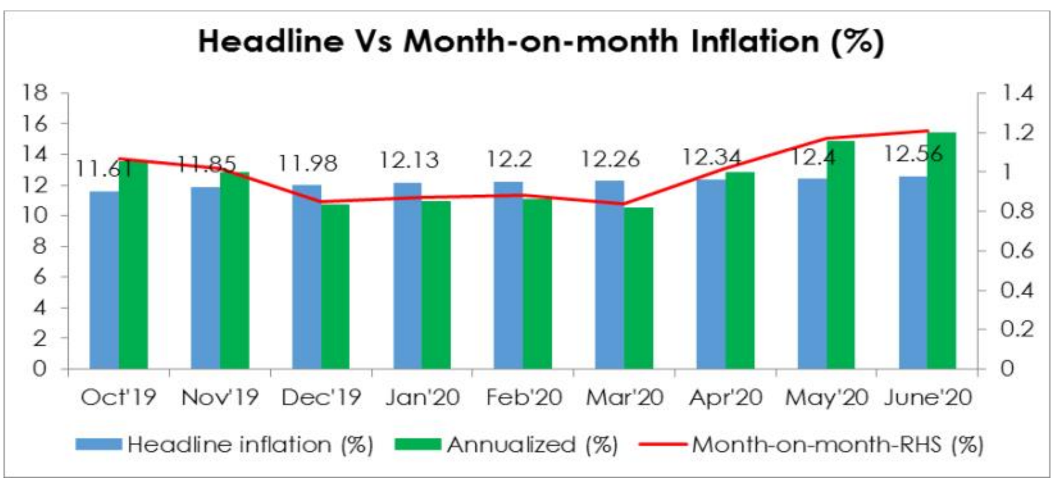
July 17, 2020

Headline inflation crosses the 12.5% threshold in June

As widely expected and consistent with analysts' consensus, headline inflation increased again to 12.56% in June from 12.40% in May. This is the 10th consecutive monthly increase and the highest level in over two years. More disturbing is the fact that the rate of change in the year-on-year inflation is increasing at a faster pace (0.16%). The continued rise in the general price level can be largely attributed to supply disruptions due to the planting season, partial lockdown of the economy and higher logistics costs. All the inflation sub -indices moved in tandem with headline inflation.

Is this the beginning of galloping inflation or a trend of moderation?

This is the tough question facing policy makers, consumers and corporates/investors at a time of economic downturn. It is expected that the increase in PMS price (N145/litre), cost reflective electricity tariffs and further exchange rate adjustment towards the IEFX rate, will push costs upwards and exacerbate inflationary pressures. However, aggregate demand has been on a declining trend due to the fall in consumer disposable income and spending patterns are tilting in favour of lower priced commodities. This is expected to taper inflationary pressures. Notwithstanding, the cost-push factors seem to outweigh the demand pull factors, thus suggesting that inflation could be fast approaching an inflection point. This will be a major consideration at the MPC meeting on Monday.



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[1]NBS, FDC Think Tank

Month-on-month inflation up 0.04% to 1.21%

Month-on-month inflation (a measure of current market realities) increased for the 4th consecutive month to 1.21% (15.58% annualized) in June from 1.17% in May (14.91% annualized). Meanwhile, the rate of change in the monthly index slowed to 0.04% from 0.16% in May. This was partly due to the gradual easing of the lockdown especially the inter-state movement, providing some support for the commodity supply chain and increasing output levels.

Data Breakdown

Food inflation nudges higher

In June, the year-on-year food inflation increased by 0.14% to 15.18% while the monthly component rose by 0.06% to 1.48%. The commodities that recorded the highest price increases were bread and cereals, potatoes, yams and other tubers, fruits, oils and fats, meat, fish and vegetables. We expect a reduction in food prices in the coming months as the harvest season commences. However, higher logistics costs could be a major constraint.

Year-on-year core inflation inches up while M-o-M sub-index eases

The annual core inflation (inflation less seasonalities) inched up by 0.01% to 10.13% in June. However, M-o-M core inflation eased to 0.86% from 0.88% in May. Currently, core inflation is 6.78% above the 364-day primary market T/bills rate of 3.35%, implying a negative real rate of return.

Imported food inflation up 0.02% to 16.29%

Imported inflation increased marginally by 0.02% to 16.29% in June from 16.27% in May. The magnitude of imports dropped as activities remained low at the sea and air ports. The rate of change in imported inflation will be much higher in the coming months as the impact of the exchange rate devaluation becomes more excruciating as airports re-open and general economic activities pick-up. The currency has been devalued twice in the last four months. However, forex rationing by the CBN could slow the rate of increase in imported inflation as naira to dollar transactions are now on a 60-day basis.

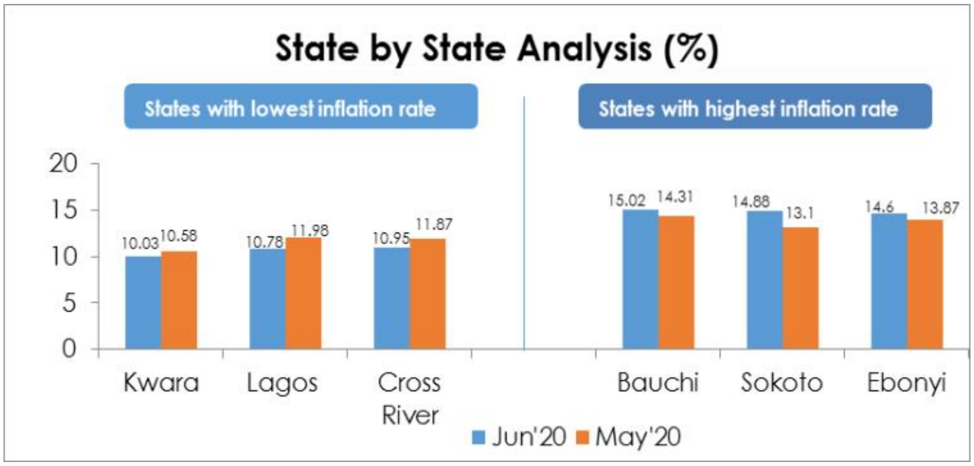
Rural & Urban Indices

Rural and urban inflation rate (year-on-year) increased to 11.99% and 13.18% from 11.83% and 13.03% respectively in May. On a month-on-month basis, both rural and urban indices rose to 1.19% and 1.23% from 1.16% and 1.18% respectively in the previous month. The increase in the PMS price to N145/litre will exert inflationary pressures especially in urban areas.

[2]Food and Agriculture Organization Food Outlook

State by State Analysis

Kwara state had the lowest inflation rate of 10.03%, followed by Lagos (10.78%) and Cross River (10.95%). The states with the highest inflation rates were Bauchi (15.02%), Sokoto (14.88%) and Ebonyi (14.60%).



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Peer Comparison – Mixed movement in Inflation – 3 Reds, 4 Greens

In June, the inflation trend across Sub-Saharan African (SSA) countries was mixed. With the exception of South Africa, all the SSA countries under our review have released their inflation numbers for June. While Kenya, Ghana and Zambia recorded a decline, Angola and Uganda reported higher inflation. Unlike Nigeria, food prices slowed in most of the SSA countries. The spike in inflation in Angola and Uganda was largely due to currency devaluation and the lingering effects of the global pandemic.

It is worth mentioning that South Africa's headline inflation eased to a 15-yr low of 2.10% in May from 3.00% in April. This was supported by the drop in transport prices triggered by the fall in oil prices amid the Covid-19 pandemic.

Country	June Inflation (%)	June Policy rate (%)
Nigeria	12.56 ↑	12.50 (May) ↓
Angola	22.62 ↑	15.50 (May) ↔
Kenya	4.59 ↓	7.00 ↔
South Africa	2.10 (May) ↓	3.75 (May) ↓
Ghana	11.20 ↓	14.50 (May) ↔
Uganda	4.10 ↑	7.00 ↓
Zambia	15.9 ↓	9.25 (May) ↓

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

Outlook

Headline inflation is expected to continue its upward trajectory as aggregate demand picks up following the gradual reopening of the economy and increase in general economic activities—school hostels, hotels, bars, restaurants and fast food outlets re-opening.

Food inflation is expected to taper in Q3 as the harvest season commences. However, higher logistics costs could be a constraint. Meanwhile, non-food prices are likely to remain sticky downwards as the impact of the currency devaluation becomes more excruciating.

In spite of the rising inflation trend, we do not expect a change in the monetary policy stance at the MPC meeting on Monday. We are of the view that inflationary pressures will persist with the effect of market determined petrol prices and cost reflective tariffs this quarter. Therefore, at the September meeting of the MPC, there is a very strong probability that the CBN will move towards tightening monetary policy again.