FDC Economic Bulletin

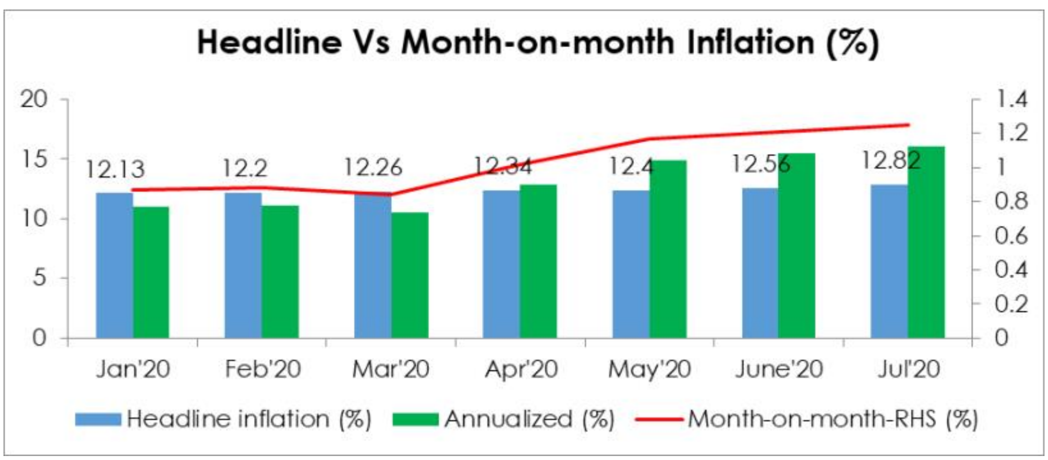
August 17, 2020

Headline Inflation at a 28-month high of 12.82%

In line with our forecast, Nigeria's headline inflation continued its upward trajectory, rising by 0.26% to 12.82% in July. This is the 11th consecutive monthly increase and the highest level since March 2018. It validates the anecdotal proxies that show price inflation responding to money supply and exchange rate pressures. It also indicates that food inflation has remained stubbornly high at 15.48%.

The uptick in food prices was partly due to supply shortages arising from the lingering effect of the pandemic, closure of the land borders and herdsmen-farmer crisis. The states with the highest food inflation rates were mostly in the North West and North Central, which are plagued by insecurity. These states also had the highest unemployment rates in Q2'20, an indication that the misery level in these states are high. The CBN's forex ban on some items including rice, maize, palm products, etc also mounted pressure on imported food inflation, which increased to 16.4% from 16.3% in June. With the exception of core inflation, all inflation sub-indices moved in tandem with the headline inflation.

Beyond the rising inflation trend, a major cause of concern is the rate of increase in the general price level. This at a time when the economy is battling with severe economic contraction triggered by the COVID pandemic, puts policy makers in a tight spot.



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[1]NBS, FDC Think Tank

Wider interest-rate-inflation differential could force monetary tightening

The primary objective of the monetary policy authorities is to ensure price and exchange rate stability. However, in recent times, the COVID-19 pandemic and its disruptive impact have made it more difficult to achieve this objective as economies are more focused on output growth. Moreover, the widening interest rate-inflation differential could force the committee to adopt a tighter monetary policy stance in the near term.

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

The month-on-month inflation (a measure of current market realities) increased for the 5th consecutive month to 1.25% (16.05% annualized) in July from 1.21% in June (15.58% annualized). This was partly due to the marginal increase in monthly food prices.

Data Breakdown

Food inflation up 0.30% to 15.48% in July

In July, the year-on-year food inflation increased at a faster pace of 0.30% to 15.48% while the monthly sub-index was up marginally by 0.04% to 1.52%. This is in spite of the commencement of the harvest season. The spike in the annual general food price level is an indication that output levels were below what was recorded in July 2019. This could be as a result of the COVID-19 and its containment measures (movement restrictions) and herdsmen-farmers clashes. The commodities that recorded the highest price increases were bread and cereals, potatoes, yam and other tubers, meat, fruits, oils and fats, and Fish.

Core inflation down 0.03% to 10.10%

The year-on-year and month-on-month core inflation (inflation less seasonalities) declined in July. On an annual basis, the index fell by 0.03% to 10.10% while the monthly sub-index decreased by 0.11% to 0.75%. Currently, core inflation is 6.9% above the 364-day primary market T/bills rate of 3.20%, implying a negative real rate of return.

Imported food inflation up 0.1% to 16.4%

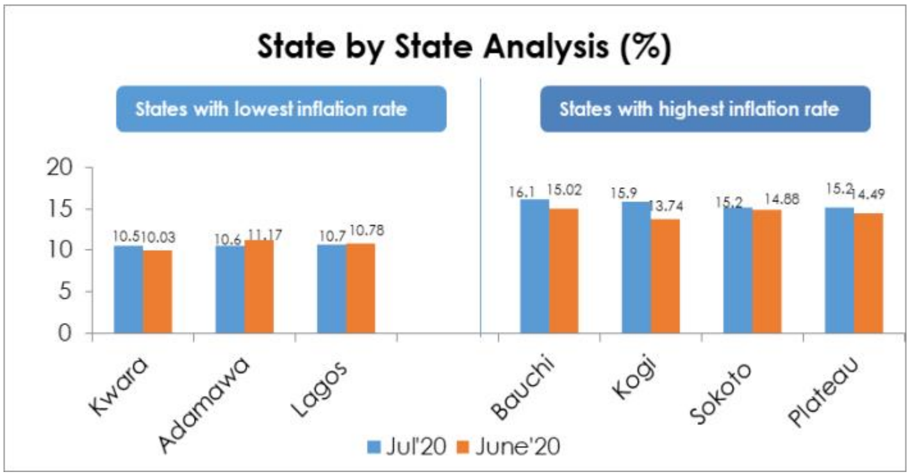
Imported food inflation increased by 0.1% to 16.4% in July from 16.3% in June. This was partly due to the CBN's forex ban of some agric commodities amid currency devaluation.

Rural & Urban Indices

The rural-urban inflation differential declined by 0.07%. This confirms the notion that the 20% hike in PMS price is yet to transmit into transport and logistics costs. It is also evident that transportation of goods is mostly fuelled by diesel rather than PMS. Rural inflation increased by 0.29% to 12.28% while the urban rose by 0.22% to 13.40%. On a month-on-month basis, both rural and urban indices rose to 1.23% and 1.27% from 1.19% and 1.23% respectively in June.

State by State Analysis

The states with the lowest inflation rates were Kwara state (10.5%), Adamawa (10.6%) and Lagos (10.7%). The states with the highest inflation rates were Bauchi (16.1%), Kogi (15.9%), Sokoto (15.2%) and Ebonyi (15.2%). These states are mainly in the North West and North Central, which are plagued by insecurity. These states also had the highest unemployment rates in Q2'20, implying that the misery level in these states will be high.



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Peer Comparison – Mixed movement in Inflation – 5 Reds, 2 Greens

The inflation trend across Sub-Saharan Africa (SSA) is more to the upside due to increasing price of imported petroleum and food items. The EIU is projecting that average inflation across the region will increase from 7.9% to 8.4% in 2020. All the SSA countries under our review except South Africa have released their inflation numbers for July. Of all these countries, only two countries reported lower inflation.

In spite of the rising inflation trend, most of the African countries maintained the status quo on all monetary parameters. This is to provide some support for the economy that has been severely impacted by the COVID pandemic. However, the continued rise in inflation amid exchange rate demand pressures as more economies re-open could force monetary authorities to tilt in favour of a monetary tightening.

Country	July Inflation (%)		August Policy rate (%)	
Nigeria	12.82	↑	12.50 (July)	↔
Angola	22.93	↑	15.50 (July)	↔
Kenya	4.36	↓	7.00 (July)	↔
South Africa	2.20 (June)	↑	3.50 (July)	↓
Ghana	11.40	↑	14.50 (July)	↔
Uganda	4.70	↑	7.00	↔
Zambia	15.8	↓	9.25[3] (May)	↓

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

Outlook

We expect inflationary pressures to heighten in the coming months due to the combined effects of higher logistics, supply shortages and exchange rate pass through. This is likely to force the MPC to adopt a tighter monetary policy stance.