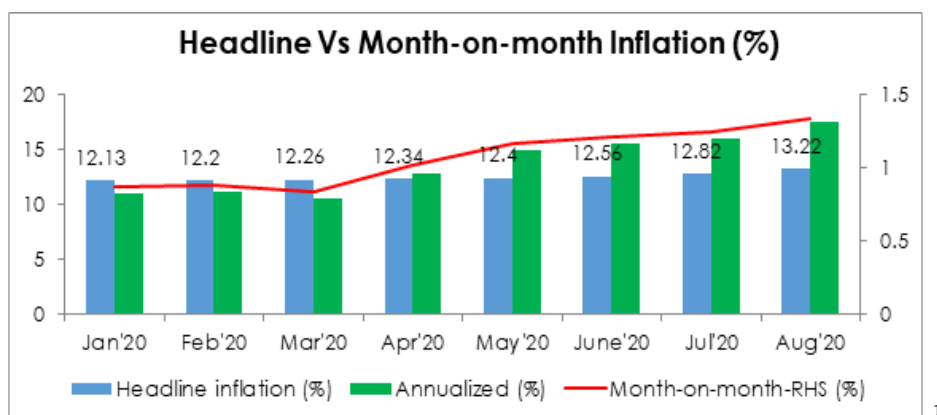


## *Headline inflation climbed to a 29-month high of 13.22% in August*

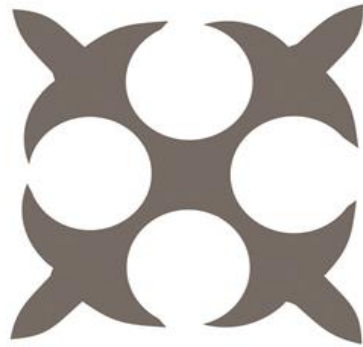
August inflation released by the NBS today reveals a further build-up in inflationary pressures. Headline inflation spiked to 13.22% in August, 0.4% above July's figure (12.82%). This is the highest level in the last 29 months and also the 12th consecutive monthly increase. Average rate of inflation in Q2 was 12.43% and 13.02% so far in Q3. The faster pace of increase suggests that inflation has become intractable and is unlikely to reach an inflection point in the near term. Therefore the spike in inflation, which coincides with a major contraction in growth (-6.1%), means that a stagflation situation amid a health crisis will make its resolution more complex.



## **Aggregate supply yet to fully respond to an outward shift in demand**

Both the food and non-food baskets recorded price increases. The time lag between the recovery in demand and continued disruption to the supply chain were contributory factors towards a crystallization of price pressure. Food inflation, which remains the usual suspect, spiked 0.52% to 16.0% (29-month high). In spite of the harvest, the border closure, forex restrictions on food imports, rising insecurity and flooding constrained commodities supply. Therefore, the increase in supply is lagging the shift in the aggregate demand curve.

<sup>1</sup> NBS, FDC Think Tank



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## Output growth needed to complement money supply controls: Case study of Ghana

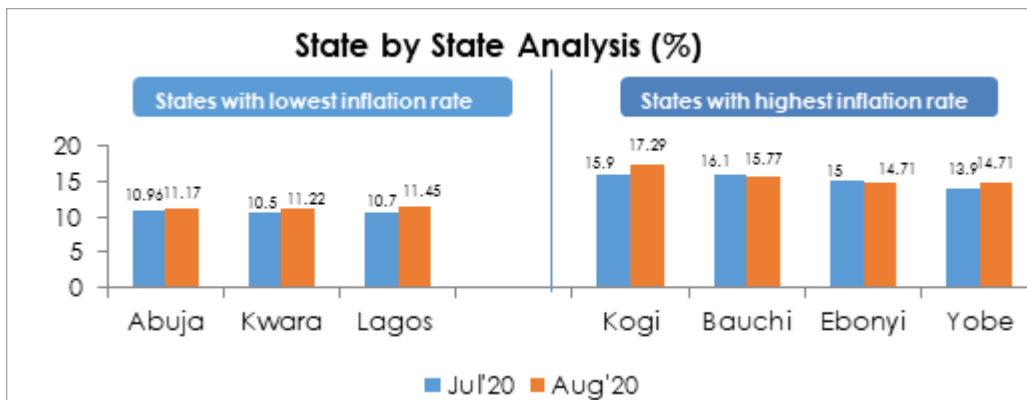
Boosting output growth must be given top priority, as this will complement money supply controls by the CBN. This is the case in Ghana where an increased intervention in the cocoa industry boosted output. Interest rates were also relatively high to curtail inflationary pressures and more aggressive measures were used in tackling the health crisis.

### Data Breakdown

	Jul'20	Aug'20	% Change	Drivers
Month-on-month	1.25	1.34	0.09	Higher logistics costs, boost in market liquidity, spike in total value of transactions
Food	15.48	16.0	0.52	Supply disruptions, forex constraints
Core	10.10	10.52	0.42	Higher energy costs, currency pressures
Urban	13.40	13.83	0.43	Petrol price increase
Rural	12.28	12.65	0.37	Supply shortages

All inflation sub-indices moved in tandem with headline inflation. Rising inflation at a time of lower interest rates will further widen the negative real rate of return on investments. Also, the urban-rural differential widened to 1.18% from 1.12% in July. This confirms the notion that the petrol price increases are beginning to reflect in transport and logistics costs.

Abuja recorded the lowest inflation rate (11.17%) while Kogi (17.29%) had the highest.



### SSA Regional Trend – Mixed movement in inflation

Inflation is trending downwards in SSA. Three of the SSA countries under our review recorded price declines, due to lower food prices and energy costs. However, the EIU projects a 0.5% increase in the average inflation rate across SSA in 2020 (8.4%).

Country	August Inflation (%)		September Policy rate (%)	
Nigeria	13.22	↑	12.50 (Aug)	↔
Angola	23.41	↑	15.50 (Aug)	↔
Kenya	4.36	↔	7.00 (Aug)	↔
South Africa	3.20 (July)	↑	3.50 (Aug)	↔
Ghana	10.5	↓	14.50 (Aug)	↔
Uganda	4.6	↓	7.00 (Aug)	↔
Zambia	15.5	↓	8.00	↔

2

### Outlook

We expect a continued rise in the general price level in the coming months. The CBN expects inflation to reach 14.15% in 2020. This will be one of the key considerations at the MPC meeting on September 21. The committee will be forced to make hard choices on how to rein in money supply and push up the artificially low interest rates to keep inflation in check.

<sup>3</sup>NBS, FDC Think Tank

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