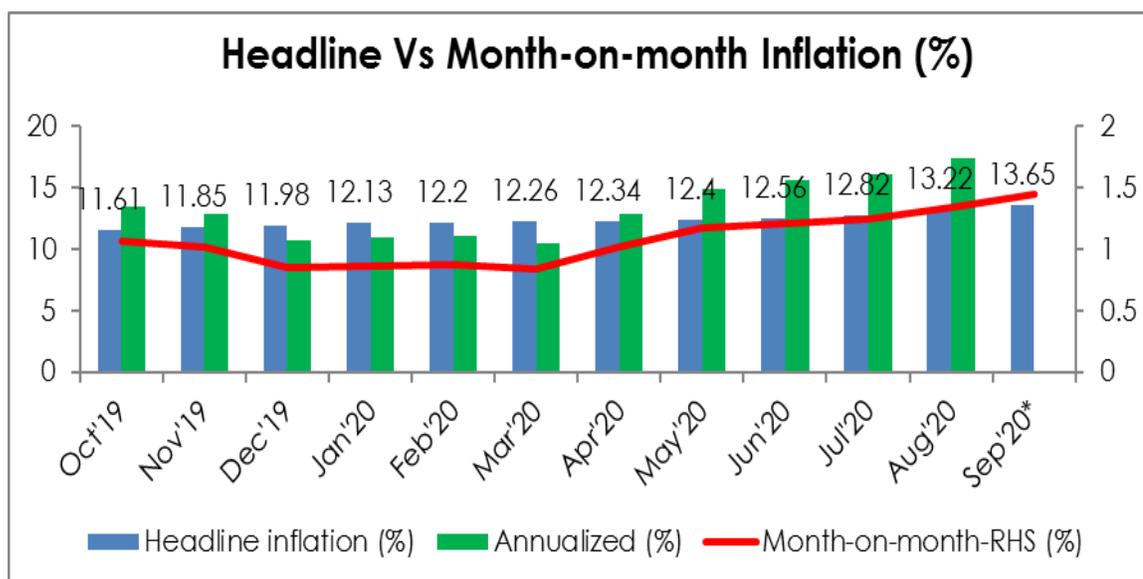


FDC Economic Bulletin

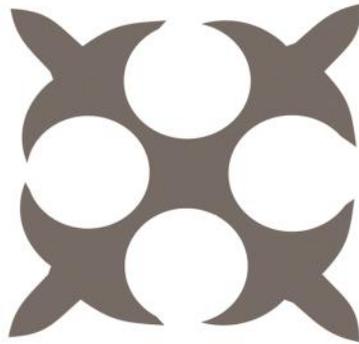
October 09, 2020

Headline inflation to remain stubbornly high in Q4'20

Our monthly market survey shows that there was a further build-up in inflationary pressures in September in both the food and non-food basket. This points to an increase in headline inflation towards a range of 13.56%-13.63% in September and further reaffirms analyst consensus that inflation will continue its upward trajectory in Q4'20. Our findings show that supply chain disruptions (logistics) and output constraints (flooding and security challenges) combined with money market saturation are likely to exert upward inflationary pressures. This will be further compounded by the electricity tariff hike, currency weakness and forex scarcity. Although, the electricity tariff increase was suspended for two weeks, its impact on domestic commodity prices was benign.



All other inflation sub-indices are expected to move in the same direction with the headline inflation.



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	August	September
Food (%)	16.0	16.54 
Core (%)	10.52	10.71 
Month-on-month (%)	1.34 (17.39% annualized)	1.36 (17.56% annualized) 

Higher food inflation could be a ticking time bomb

Food inflation increased for the 6th consecutive month to 16.0% in August and is projected to rise again to 16.54% in September in spite of the harvest. This is largely due to supply shortages triggered by flooding and rising insecurity in the food belt. The domestic supply shortfalls coincide with the CBN's forex ban on finished food and fertilizer imports. This raises concerns about the possibility of a food crisis in Nigeria. The rise in food prices amidst currency adjustments, hike in PMS price etc. has also resulted in a discourse about the idea of food security in Nigeria. Lack of food availability and accessibility, higher unemployment and rising poverty levels could increase social unrest in the country.

Addressing the challenges surrounding the four components of food security (access, affordability, utilization and stability) in Nigeria would involve a deliberate effort by policymakers to set aside contingency funds and engage key stakeholders. This would aid food consumption and reduce the national poverty level.

Alignment of policy goals is crucial for economic recovery

The unprecedented COVID shock further accentuates divergent views among economists and policy makers in revitalizing the economy. While some are of the Keynesian school of thought, others are in support of the Milton Friedman school. However, in times of economic uncertainty, alignment of policy goals and coordinated execution helps to reduce investor anxiety. Forex rationing, negative real rates of interest and countercyclical spending are used to increase output and moderate price inflation.

We are also of the opinion that while stimulating the economy is paramount, increasing government spending without tackling the underlying structural defects could stoke inflationary pressures without a significant positive impact on GDP growth and employment. It is also important that the Central bank's autonomy is not compromised to prevent falling into an inflationary trap.

Concluding Thoughts

Inflationary pressures will most likely intensify in the coming months. Q3 GDP is also scheduled to be released on November 23rd (same day as the MPC meeting). If the numbers come in worse than expected, the outcome meeting will be a tough call.

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