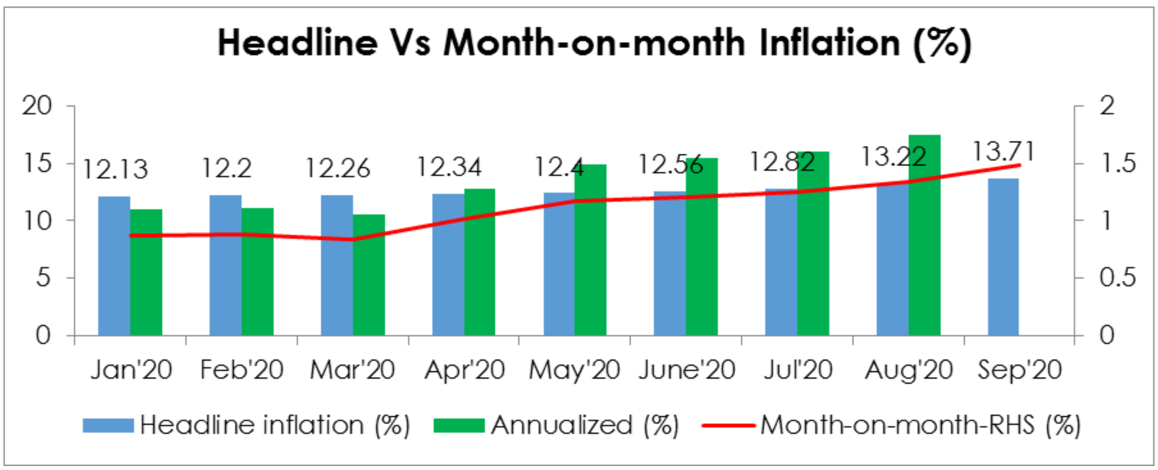
FDC Economic Bulletin

October 15, 2020

Headline inflation up again to 13.71% in September

The NBS released its September inflation report today and as widely expected headline inflation increased again to 13.71% from 13.22% in August. This is the 13th consecutive monthly increase and the highest inflation in thirty-one months. The average rate of inflation in Q3 was 13.25%, up from 12.43% in Q2. Besides the upward inflationary trend, the faster pace of increase suggests that inflation is unlikely to start tapering in the near term. The CBN believes that an inflation rate above 12% is growth retarding. Nigeria is in stagflation, as the rise in inflation coincides with a major contraction in growth (-6.1%). This, in the midst of a health crisis will make the resolution more complicated. However, addressing these challenges is not a binary choice between growth and inflation, but can be salvaged with a cocktail of fiscal, monetary and trade measures.



[1]

The upward inflation in September was driven largely by the food basket, which spiked by 0.66% to 16.66% in September. The supply chain challenges (border closure, insecurity and flooding) coupled with higher logistics costs, forex rationing impact on finished food imports continued to exert pricing pressures. In spite of the emergency approval for four companies to import maize, the price of a tonne of maize stayed stubbornly high at N160,000, a 60% spike in one year.

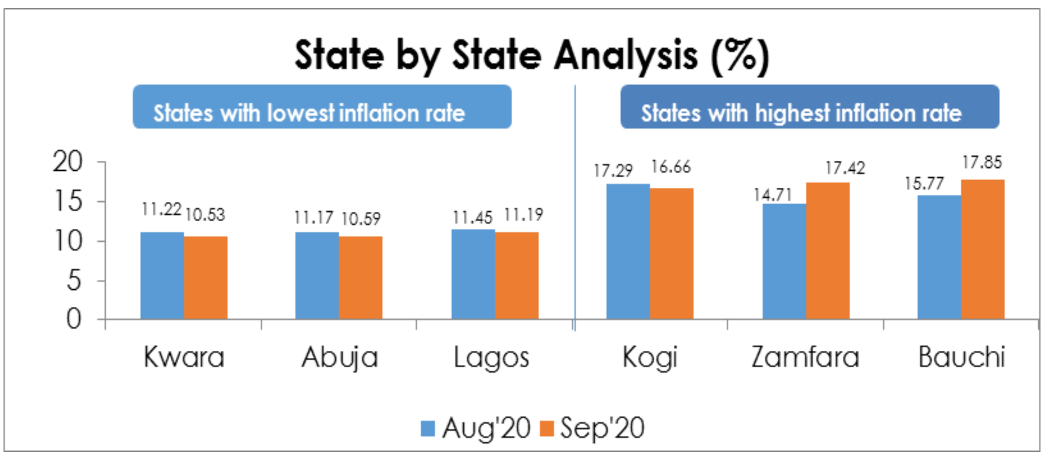
The rising rate of food inflation has raised concerns about food security in Nigeria. Food security has four major components including accessibility, affordability, utilization and stability. The restriction of imports of finished foods and fertilizers will lead to shortages and cross elastic price increases for substitute products.

[1] NBS, FDC Think Tank

Data Breakdown

	Aug'20	Sep'20	% Change	Drivers
Month-on-month	1.34	1.48	0.14	• Output constraints • Cost push factors – Higher logistics costs and cost reflective electricity tariffs
Food	16.0	16.66	0.66	• Supply shortages due to insecurity and adverse weather conditions • Currency weakness and forex rationing
Core	10.52	10.58	0.06	• Higher transport costs • Exchange rate pressures
Urban	13.83	14.31	0.48	• Supply chain disruptions (logistics)
Rural	12.65	13.14	0.49	• Sub-optimal production levels

An interesting trend has shown that the states with the highest inflation appear to be those that have more than their fair share of domestic disturbances. This could be creating local shortages in those markets.



Impact on Rising Inflation

- **Consumers**: Higher inflation will continue to reduce consumer purchasing power and increase cost of living.
- **Businesses**: Higher inflation increases operating and production costs and erodes corporate margins
- **Investors**: Rising inflation alongside lower interest rates will further widen the negative real rate of return on investments, which could douse investor confidence

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SSA Regional Trend – Mixed movement in inflation

The EIU expects average inflation in SSA to increase to 8.1% in 2020 from 8.0% in 2019. Inflation in the region is more to the down side as four of the seven SSA countries under our review recorded lower inflation rates due to reduction in food prices.

Country	Sept Inflation (%)	October Policy rate (%)
Nigeria	13.71	11.50 (Sept)
Angola	23.82	15.50 (Sept)
Kenya	4.2	7.00 (Sept)
South Africa	3.10 (Aug)	3.50 (Sept)
Ghana	10.4	14.50 (Sept)
Uganda	4.5	7.00 (Aug)
Zambia	15.7	8.00

[2]

Outlook

Headline inflation is expected to continue its upward trajectory through Q4'20 in spite of the suspension of the cost reflective electricity tariffs. The on-going protest will intensify inflationary pressures in the near term as business activities are disrupted. Food pressures will also intensify due to output constraints, supply chain disruptions and forex rationing strategy. The unrelenting rise in inflation coupled with a deeper contraction in Q3 GDP (to be released on November 23rd) will make the outcome of the MPC meeting a tough call.

[3]NBS, FDC Think Tank