

# FDC Economic Bulletin

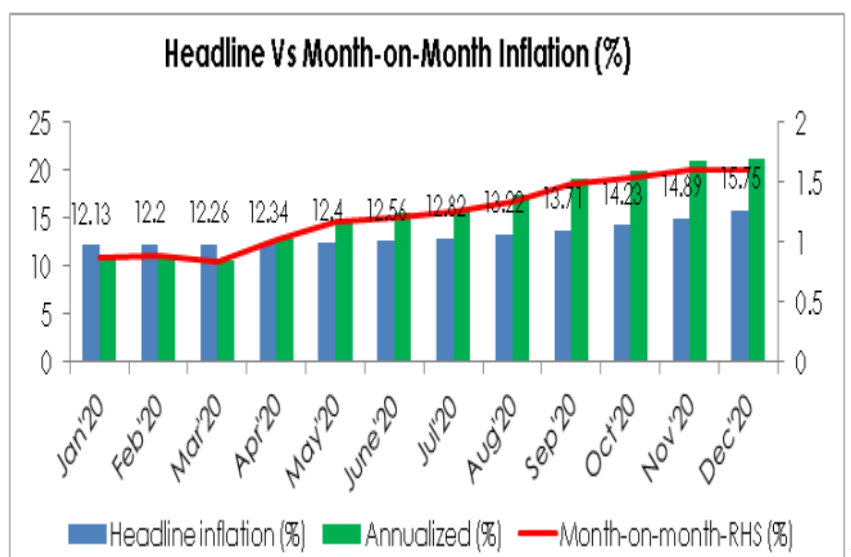
January 15, 2021

## *Inflation spikes despite harvest & land border re-opening*

Nigeria's headline inflation for December 2020 came in at 15.75%, much higher than analyst expectations and 0.86% above the November figure (14.89%). It is almost 7% above the upper limit of the CBN's inflation target range (6-9%), bringing the average inflation in 2020 to 13.21%, up from 11.39% in 2019.

A deep dive into the report shows that core inflation (inflation less seasonalities) increased sharply by 0.32% to 11.37% compared to a reduction of 0.09% in November. This indicates that the spike in headline inflation is not driven by seasonal factors alone. It validates the notion that the continued rise in inflation is due to the combined effects of exchange rate pass through, higher logistics costs (PMS), electricity tariff hike among others. High powered money and the funding of the FG overdraft estimated at N11trn are also inflation stoking factors.

Meanwhile, the relatively stable month-on-month inflation rate (1.6% - annualized at 21.11%) suggests that the spike in the annual price level was partly driven by base year effects. Output levels in December 2020 were much lower compared to December 2019 due to the COVID disruptive effects.



The unrelenting rise in inflation will be a major issue at the MPC meeting later this month. The CBN cannot be oblivious to a rate of inflation which is now almost 7% above the upper limit of its inflation range (6-9%).

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

It therefore may consider tightening before the meeting or symbolically increasing the rates of its special bills, currently at 0.5%p.a. The naira had wobbled throughout 2020, partly as a result of the wide gap between the rate of inflation (15.75%) and basement level rate of 0.5%p.a on 91-day T/Bills.

The FGN has also announced plans to securitize its overdraft at the CBN, roughly estimated at N11trn (30.14% of money supply). This means more securities available for institutional investors and a possible increase in interest rates.

## **Inflation breakdown**

### *Core inflation up 0.32% to 11.37% on higher logistics costs*

In December, core inflation (inflation less seasonalities) increased sharply by 0.32% to 11.37% on an annual basis and by 0.39% to 1.1% on a monthly basis. This suggests that the transmission effect of the petroleum price increase and electricity tariff hike is gradually reflecting in commodity prices. The highest increases were recorded in prices of passenger transport by air and road (higher logistics costs and a pickup in travel demand), pharmaceutical products, medical and artisan services like vehicle maintenance and repairs as well as hair dressing salon costs.

### *Food inflation climbs to a 37-month high as forex scarcity mutes the impact of border re-opening*

Analysts had expected the reopening of the land borders in December to boost output levels and gradually ease supply constraints. However, food inflation has remained stubbornly high, crossing the 19% threshold to a 37-month high of 19.56% in December 2020. On a month-month basis, the food index inched up 0.01% to 2.05%. The marginal increase in the monthly food sub-index reveals the gradual impact of the harvest (tomatoes and onions). Meanwhile, the spike in the annual food component largely explains the base year effects on commodity prices i.e. output levels in December 2020 were low compared to December 2019, caused by the COVID-19 disruptive effects. Also, the impact of border re-opening was limited by forex illiquidity. The commodities that recorded the highest price increases were bread and cereals, potatoes, yam and other tubers, meat, fruits, vegetable, fish and oils and fats.

### *Rural and Urban*

Both the rural and urban sub-indices recorded sharp increases on an annual basis. Urban inflation increased by 0.86% to 16.33% while the rural sub-index rose by 0.87% to 15.20%. On a monthly basis, the urban sub-index was flat at 1.65% while the rural sub-index inched up by 0.02% to 1.58%.



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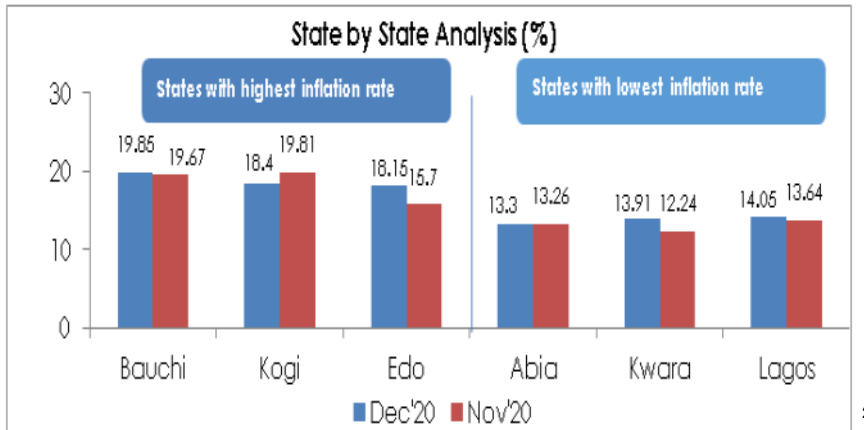


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### State-by-State Analysis

Abia state recorded the lowest inflation rate (13.30%), followed by Kwara (13.91%) and Lagos (14.05%). However, the states with the highest inflation rates were mainly in the North - Bauchi (19.85%), Kogi (18.40%) and Edo (18.15%).



### SSA Regional Trend

With the exception of South Africa, all the Sub Saharan African (SSA) countries under our review have released their inflation numbers for December 2020. Uganda was the only country under our review that recorded a decline, while others recorded an increase. The rise in inflation was largely as a result of disruptions to agricultural activities and currency depreciation due to the twin shock of COVID-19 and lower oil prices. Heightened inflationary pressures could force a reversal in monetary policy stance in these countries.

Country	December Inflation (%)	Monetary Policy rate (%)
Nigeria	15.75 <span style="color:red">↑</span>	11.50 (Nov) <span style="color:gray">↔</span>
Angola	25.1 <span style="color:red">↑</span>	15.50 (Nov) <span style="color:gray">↔</span>
Kenya	5.62 <span style="color:red">↑</span>	7.00 (Nov) <span style="color:gray">↔</span>
South Africa	3.20 (Nov) <span style="color:green">↓</span>	3.50 (Nov) <span style="color:gray">↔</span>
Ghana	10.40 <span style="color:red">↑</span>	14.50 (Nov) <span style="color:gray">↔</span>
Uganda	3.60 <span style="color:green">↓</span>	7.00 (Dec) <span style="color:gray">↔</span>
Zambia	19.20 <span style="color:red">↑</span>	8.00 (Nov) <span style="color:gray">↔</span>

<sup>2</sup>NBS, FDC Think Tank

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

## Outlook

We expect a further increase in headline inflation in January 2021 but the pace of increase could slow due to the re-opening of land borders and increased output due to harvest.

The MPC is expected to meet on January 25/26. We expect the stubbornly high inflation rate to be one of the major considerations at the meeting. The CBN cannot be oblivious to a rate of inflation which is now almost 7% above the upper limit of its inflation target range (6-9%). It therefore may consider tightening before the meeting or symbolically increasing the rates of its special bills, which is currently at 0.5%p.a.

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