FDC Economic Bulletin

February 02, 2021

Rising inflationary pressures despite weak aggregate demand

We are forecasting another jump in headline inflation to 16.2% in January 2021. This will be 0.45% higher than the December 2020 numbers. It is likely to be the 17th consecutive monthly increase and the highest level in nearly 4 years. Typically, commodity prices fall in January due to post-Christmas blues and dwindling purchasing power and liquidity. January is also the month of tuition fees. However in January 2021, like no other year, prices have spiked. This is partly because of import restrictions, shortages and cost push factors (currency devaluation effect and higher energy costs).

The MPC, at its last meeting was of the opinion that the economy will recover i.e. return to positive growth rate in Q1'21. The Q4'20 GDP growth numbers are scheduled for release on February 22. Analysts are estimating a range of –3.0% to –5.1%. If the numbers disappoint to the downside, the CBN will not wait for a MPC meeting to intervene in tinkering with the general level of interest rates. We also expect the FG debt securitization to increase the supply of fixed income instruments in the market and push up interest rates.

[1]

Food crisis looms as herdsmen invade farmlands

Nigeria may be on the cusp of a food crisis as the food cultivating region is enmeshed in crisis. The incessant attacks on farmers and farmlands have prevented farmers from operating at optimal capacity. Food accounts for approximately 51% of the inflation basket. Food inflation crossed the 19% mark in December 2020 (19.56%) and is projected to rise to 20.9% in January 2021 due to supply chain disruptions and exchange rate pass through effect.

[1] NBS, FDC Think Tank

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Core inflation to rise to 11.5% due to cost push factors

Based on our forecast, core inflation (inflation less seasonalities) is expected to increase by 0.13% to 11.5% in January 2021. This reflects the transmission effect of higher PMS price and electricity tariff hike on commodity prices.

Inflation across SSA more to the upside

Inflation generally increased across Sub-Saharan Africa (SSA). With the exception of South Africa, all the SSA countries under our review reported an increase in inflation. This was largely driven by food price pressures and currency weakness. The monetary policy authorities left their policy rates unchanged at their last meetings.

Country	January Inflation (%)		January Policy rate (%)	
Nigeria	16.20 (forecast)	↑	11.50	↔
Angola	25.1 (Dec)	↑	15.50	↔
Kenya	5.69	↑	7.00	↔
South Africa	3.10 (Dec)	↓	3.50	↔
Ghana	10.4 (Dec)	↑	14.50	↔
Uganda	3.70	↑	7.00 (Dec)	↔
Zambia	21.5	↑	8.00[2] (Nov)	↔

Concluding thoughts

Inflationary pressures will continue to mount. We expect the GDP numbers to be released on February 22. The consensus is that real GDP growth will contract by –4.6%. If the GDP numbers disappoints to the downside, and inflation crosses the 16% threshold, the dilemma between supporting output growth and tapering inflationary pressures will be more critical. The CBN is unlikely to wait till the next MPC meeting before intervening to tinker with the general level of interest rates.

[2] Trading Economics, FDC Think Tank