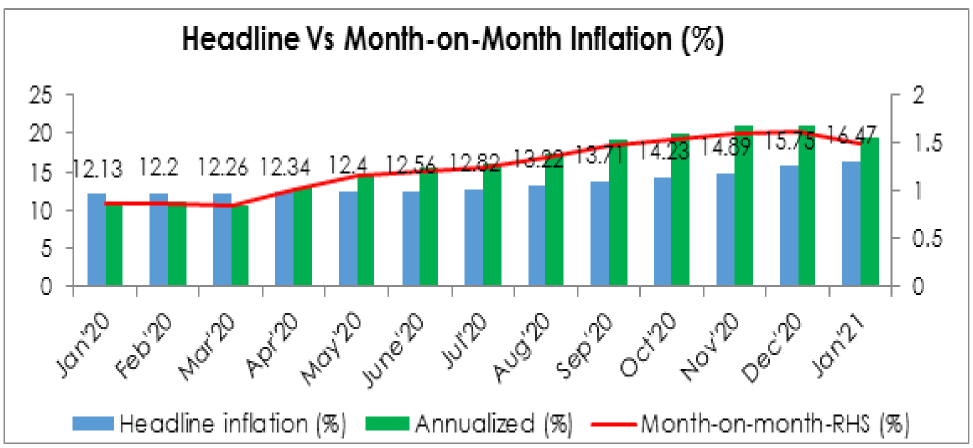
FDC Economic Bulletin

February 16, 2021

Inflation crosses 16.4% to a 4-yr high

Once again, Nigeria's headline inflation data came in higher than expected, rising to record levels. January's headline inflation increased by 0.72% to 16.47%, from December's figure (15.75%) and 0.27% above our forecast (16.2%). This is the 17th consecutive monthly increase and the highest level in nearly four years.

The monthly inflation rate slowed to 1.49% (annualized at 19.59%) from 1.61% (annualized at 21.11%) in December. Typically in January, consumer prices fall due to a reduced level of liquidity in the system. This coupled with a low purchasing power, arising from the post covid effect, has affected consumers' real purchasing power. In addition, the reopening of four land borders helped to boost supply of commodities.



[1]

Inflation breakdown

Food inflation crosses 20% - the major culprit

A further breakdown of the report showed that food inflation increased at a faster pace of 1.01% to 20.57% compared to core inflation which increased by 0.48% to 11.85%. This was driven by an increase in imported food inflation, which increased to 16.7% from 16.64% in December. However when compared to the pace of increase in December (1.26%), the gradient seems to be flattening for the food index. This corroborates the price decline recorded in key commodities such as tomatoes, pepper and rice. According to the NBS, the commodities that recorded the highest price increases were bread and cereals, potatoes, yam and other tubers.

[1] NBS, FDC Think Tank

Core inflation curve getting steeper on increased transport fares and health expenses

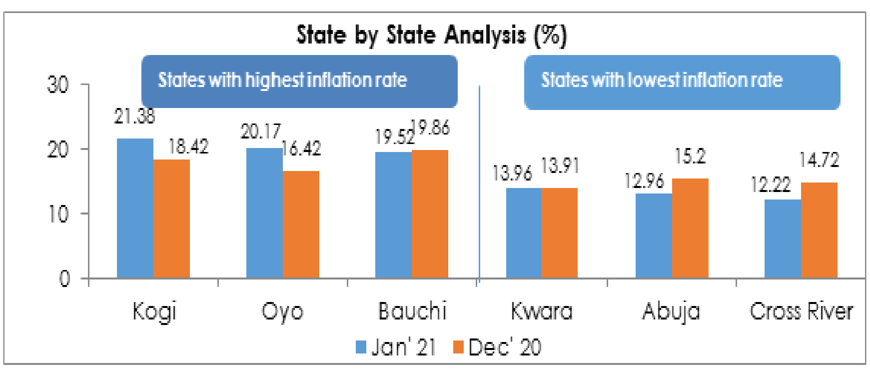
Unlike the food index, the gradient for the core inflation is getting steeper, as the sub index increased at a faster pace of 0.48% compared to the 0.32% recorded in December. The sharper rate of increase in the core index was driven by higher prices of passenger transport by air, medical services, hospital services and passenger transport by road. This is not surprising given the increase in demand for transport, as more businesses and schools have reopened. In addition, the increase in confirmed covid cases in Nigeria (146,928 as of February 15) has spurred the demand for more medical services. With oil prices trading above $60pb and the convergence of the exchange rate around the Investors & Exporters (IE) window towards N410/$, we expect an increase in the landing cost of refined petrol products. This will lead to a further increase in petrol prices. Already queues are forming at the petrol stations, as fuel marketers hoard their petrol products in anticipation of a petrol price hike. The current price of fuel is N165/litre.

Urban and rural sub-indices maintain upward trend

The urban and rural indices also increased, moving in tandem with the headline inflation. The urban sub index increased to 17.03% from 16.33%, while the rural sub index increased to 15.92% from 15.2% in December. Month on month, both sub-indices increased at a slower pace of 1.52% (urban) and 1.46% (rural) compared to 1.65% and 1.58% respectively in December.

State-by-State Analysis

The states with the highest inflation rates were Kogi (21.38%), Oyo (20.17%) and Bauchi (19.52%) while the states with the lowest inflation rates were Kwara (13.96%), Abuja (12.96%) and Cross River (12.22%). Kogi state has been a victim of logistics problems of bad roads and disruption to the supply chain.



[2]

SSA Regional Trend

A review of some of Nigeria's African peers showed a mixed trend in the inflation numbers. Of the 7 countries in the table below, four recorded an increase in their January inflation numbers, due to higher

[2] NBS, FDC Think Tank

food prices. Two recorded a decline, while South Africa, whose January numbers are not out, also recorded a decline in its December figure. All the countries maintained status quo at their first MPC meeting of the year.

Country	January Inflation (%)		Monetary Policy rate (%)	
Nigeria	16.47	↑	11.50 (Jan)	⟷
Angola	24.41	↓	15.50 (Jan)	⟷
Kenya	5.69	↑	7.00 (Jan)	⟷
South Africa	3.10 (Dec)	↓	3.50 (Jan)	⟷
Ghana	9.90	↓	14.50 (Jan)	⟷
Uganda	3.70	↑	7.00 (Feb)	⟷
Zambia	21.50	↑	8.00 (Jan)	⟷

[3]

Outlook

The rate of inflation is expected to slow as interest rates rise and consumption declines. Also, the securitization of the FGN debt, estimated at N11trn, will reduce liquidity in the financial system. Already, short-term interest rates are on the increase, trading at an average of 8.53% (OMO bills[4]). This trend is likely to continue especially with the convergence of the naira at the IEFX rate towards N410/$, which would further reduce the excess liquidity in the system.

However, inflation-stoking factors persist. Petrol prices are likely to increase further towards N200/litre on higher oil prices. In addition, as we gradually enter the planting season, this coupled with rising insecurity across the country, will lead to supply shortages and keep food prices elevated.

We expect the DMO and CBN to persist with nudging interest rates higher, squeezing liquidity out of the system. This will help dampen demand and keep prices flat in the near term.

[3] NBS, Trading Economics, FDC Think Tank
[4] OMO auction of February 11