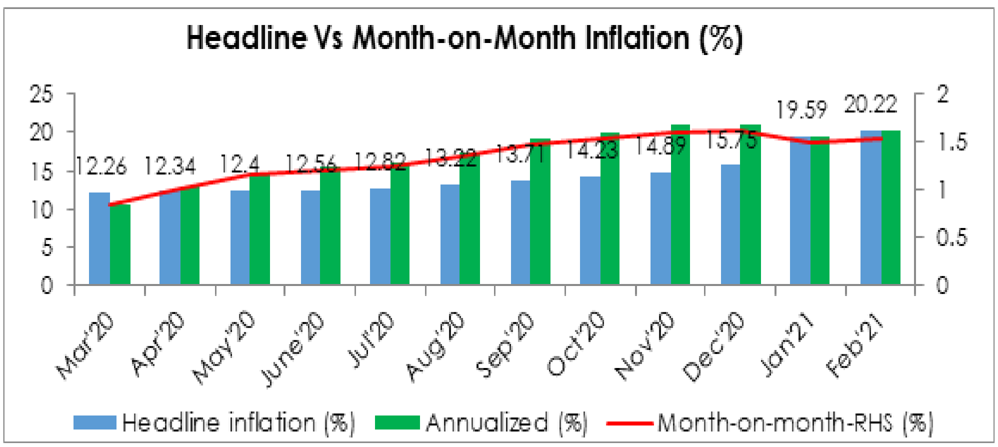
FDC Economic Bulletin

March 16, 2021

Headline inflation jumps to a 4-year high (17.33%) – could rise further

The consumer price index spiked further in February by 0.86% to 17.33%, marginally higher than FDC forecast (17.2%). This is the highest inflation level in the last 48 months. Consumer price inflation jumped sharply since September 2019 after the land borders were closed to curb smuggling and encourage local production. At the current level, headline inflation is almost 100% above the upper band of the CBN's inflation target (9%).

The inflation spiral this time is driven mainly by rapidly increasing ways and means advances (money supply saturation), commodity supply disruptions, forex rationing & exchange rate pass-through. Currency adjustments have affected all imported commodities – wheat, dairy products, etc. Cost push inflation increased partly due to re-pricing of PMS and kerosene.



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The month-on-month inflation has oscillated in the last few months. It increased by 0.05% to 1.54% (20.22% annualized) in February after a 0.12% decline in January. If the rise in the monthly rate becomes a point of inflection rather than a blip, the chances of a more hawkish monetary policy stance increases in H2'21.

[1] NBS, FDC Think Tank

Inflation breakdown

Core inflation rises to 12.38%

Core inflation, which is inflation less seasonalities rose sharply by 0.53% to 12.38% in February. However, on a monthly basis, it fell slightly by 0.05% to 1.21%. This is largely due to currency pressures, higher PMS price and electricity tariff hike. The highest price increases were recorded in air and road transport (PMS price increase), medical services, pharmaceutical products, repair and maintenance of vehicle.

Food inflation at a record high – 21.79%

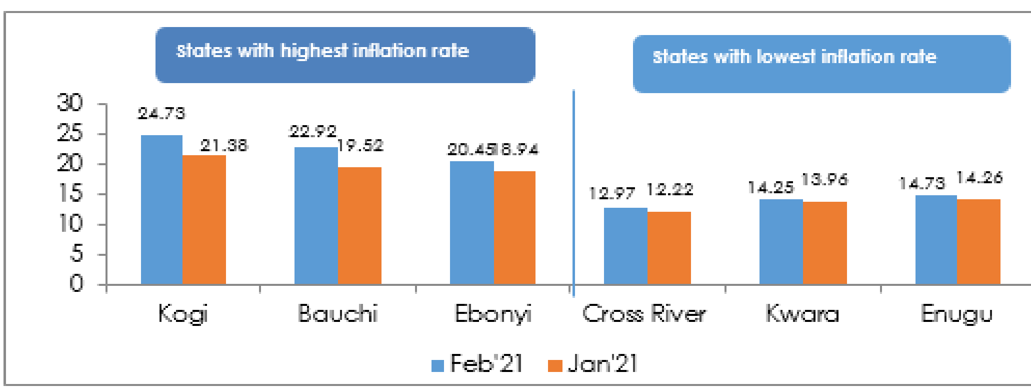
The year-on-year food inflation jumped 1.22% to 21.79% in February. On a month-on-month basis, it inched up 0.06% to 1.89%. This rise in the food index was caused by supply shortages, currency pressures and forex restrictions. The commodities that recorded the highest price increases were bread and cereals, potatoes, yam and other tubers, meat, food products, fruits, vegetable, fish and oils and fats.

Rural and Urban

In February, the annual urban and rural sub-indices increased sharply. Urban inflation rose by 0.89% to 17.92% while the rural sub-index edged higher by 0.85% to 16.77%. On a monthly basis, both sub-indices recorded marginal increases. The urban sub-index was up 0.06% to 1.58% while the rural sub-index rose by 0.04% to 1.50%. The rural-urban inflation differential edged higher to 1.15% from 1.11% in January.

State-by-State Analysis

Cross River state recorded the lowest inflation rate (12.97%), followed by Kwara (14.25%) and Enugu (14.73%). However, the states with the highest inflation rates were mainly in the North - Kogi (24.73%), Bauchi (22.92%), and Ebonyi (20.45%).



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[2] NBS, FDC Think Tank

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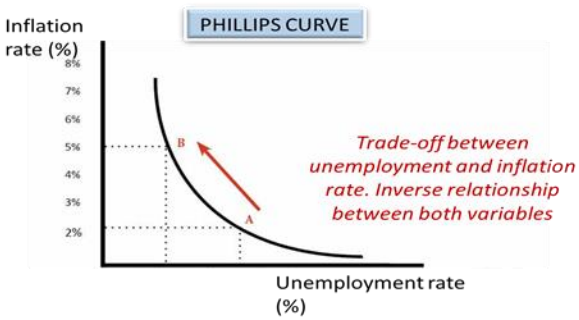
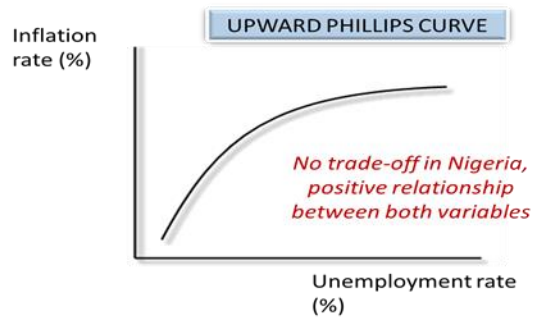
Nigeria faces an upward Philips curve

The combination of rising inflation and higher unemployment (33.3%) suggests that the trade-off between inflation and unemployment as espoused by the Philips curve no longer exists i.e. Nigeria now has an upward Philips curve. The CBN noted that inflation above 12% is growth retarding. Output constraints will reduce the ability to create jobs, thus increasing the level of unemployment in the country. Rising inflation and unemployment will worsen the country's misery level and could trigger social unrest. Addressing both challenges will require 'sequencing' i.e. attacking one challenge before the other. Moreover, inflation is a monetary phenomenon while unemployment is a fiscal phenomenon.





SSA Regional Trend – All recorded price increases

The current inflation rate (17.33%) places Nigeria as the country with the 8th highest inflation rate in Africa. Inflation data released across sub-Saharan Africa (SSA) indicates a general increase in consumer prices. This upward price movement was largely driven by higher food and energy costs. With the exception of Zambia, all the SSA countries left their monetary policy rate unchanged. The increase in Zambia's policy rate was to anchor inflation expectations and restore macroeconomic stability.

Country	February Inflation (%)		Monetary Policy rate (%)	
Nigeria	17.33	↑	11.50 (Jan)	↔
Angola	24.85	↑	15.50 (Jan)	↔
Kenya	5.78	↑	7.00 (Jan)	↔
South Africa	3.20 (Jan)	↑	3.50 (Jan)	↔
Ghana	10.30	↑	14.50 (Jan)	↔
Uganda	3.80	↑	7.00 (Feb)	↔
Zambia	27.2	↑	8.50 (Feb)	↑

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[3] NBS, Trading Economics, FDC Think Tank

Inflation Outlook

We expect a further build up in inflationary pressures in the coming months largely because of the persistent increase in the price of fuel and exchange rate pressures. The MPC is expected to meet on March 22-23. The increase in the headline inflation will become a major issue confronting the committee as they prepare for their meeting. The committee will need to come to terms with the fact that the absence of a unified flexible exchange rate will continue to be a recipe for macroeconomic and monetary instability.