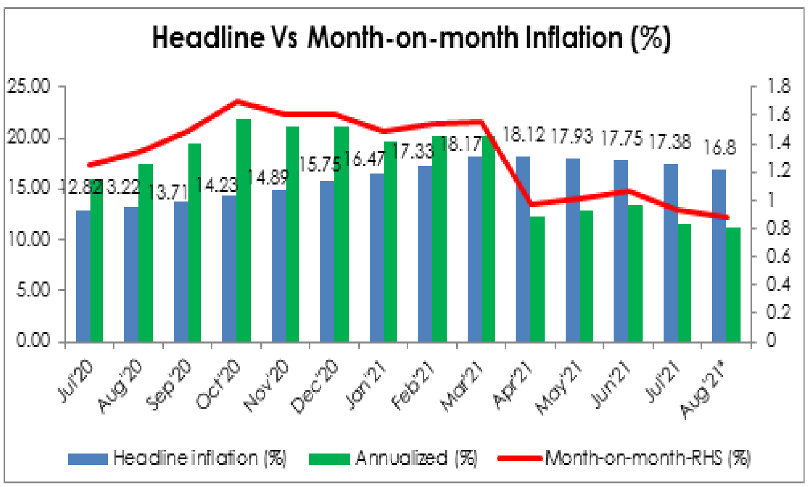
FDC Economic Bulletin

September 07, 2021

Headline inflation will slide again in August to 16.8%

Nigeria's headline inflation is projected to moderate further to 16.8% in August from 17.38% in July. If this projection materializes, it will be the 5th consecutive monthly decline and the lowest headline inflation level this year. The slowdown in inflation can be largely attributed to consumer price resistance and increased food supply due to the harvest season. A notable trend during our monthly survey was that the price of onions, tomatoes, plantain and yam declined by an average of 18.43%, all seasonally sensitive. On the other hand, the price of commodities with high import content such as flour, sugar, semovita and noodles increased by approximately 8.70%. This is due to the pass through effect of the exchange rate. Most manufacturers claim they are only able to source 20% of their forex needs from the I&E window. The effective exchange rate for their imports is N506.2/$ compared to a blended rate of N482/$ in June. The difficulty in accessing forex have made manufacturers resort to local substitutes, thus reducing commodity supply to retail markets. Inflation could reverse its downward trend in September if currency pressures persist.



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All inflation sub-indices except for core inflation are expected to decline in August

With the exception of core inflation, all inflation sub-indices are projected to decline in August. The month-

[1] NBS, FDC Think Tank

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https://m.me/ubachatbanking *Leo@ubagroup.com* *CFC (+234-1-2807400)* on-month inflation is estimated to fall to 0.88% (annualized at 11.12%), while food inflation is expected to moderate to 20.85%. The decline in the food sub-index is largely due to the harvest. The third quarter of the year is typically the peak of the harvest season. Meanwhile, currency pressures and higher logistics costs will keep core inflation elevated at 13.9%. With the implementation of the Petroleum Industry Act and the imminent elimination of fuel subsidy, the pump price of PMS is likely to rise to N260/$. This will be exacerbated by the proposed 3.61% increase in electricity tariffs to N58.94/kWh.

Commodity price movement in Lagos – Facts & Figures

Our market survey in the month of August revealed the following:

- **Locally produced commodities followed seasonal patterns:** A notable trend during our market survey in August is that the price of locally produced commodities declined, reflecting the impact of the harvest. For instance, the price of onions, tomatoes, plantain, yam and palm oil declined by an average of 18.43% in the last month.

	Jul'21	Aug'21	Sept'21*	% Change (Jul/Aug)
Onions	50,000	35,000	30,000	-30.00 ↓
Tomatoes	35,000	27,000	25,000	-22.86 ↓
Plantain	2,500	2,000	1,500	-20.00 ↓
Yam	1,200	1,000	800	-16.67 ↓
Palmoil	3,800	3,700	3,600	-2.63 ↓
Average				**-18.43** ↓

- **Imported commodities taking a hit from currency pressures and forex restrictions:** On the average, the price of imported commodities increased by 8.70% in August. This reflects the exchange rate pass through effect. There were renewed pressures at the parallel market in August with the naira crashing to an all-time low of N530/$ due to forex shortages. Most manufacturers claim they are only able to source 20% of their forex needs from the I&E window. The effective exchange rate for their import is N506.2/$ compared to a blended rate of N482/$ three months ago.

	Jul'21	Aug'21	Sept'21*	% Change (Jul/Aug)
Noodles	2,500	2,600	2,650	4.00
Semovita (10kg)	4,400	5,000	5,200	13.64
Flour (50kg)	17,600	19,500	21,000	10.80
Sugar (50kg)	19,700	20,950	22,000	6.35
Average				**8.70**

- **Cross elasticity of demand:** The difficulty in accessing forex has made manufacturers resort to local substitutes, thus reducing commodity supply to retail markets. For example, the supply of corn to retail markets reduced due to increased usage as a substitute for sugar in the production of ethanol.

Impact on policy making

The MPC will meet this month. A continued moderation in inflation and the spike in Q2 real GDP growth (5.01%) albeit due to base year effects will increase the probability of empowering the doves in the MPC to fight for a reduction in the MPR as a complement to the stimulus of the fiscal authorities to sustain the growth trajectory. However, indicators are pointing towards real GDP growth tapering in Q3. The Stanbic PMI reading, which is a forward-looking indicator fell by 5.78% to 52.2 points in August from 55.4 points in July. If inflation also reverses its downward trend in September due to persistent currency pressures, the MPC may be put on the spot and will have to make a hard choice.