

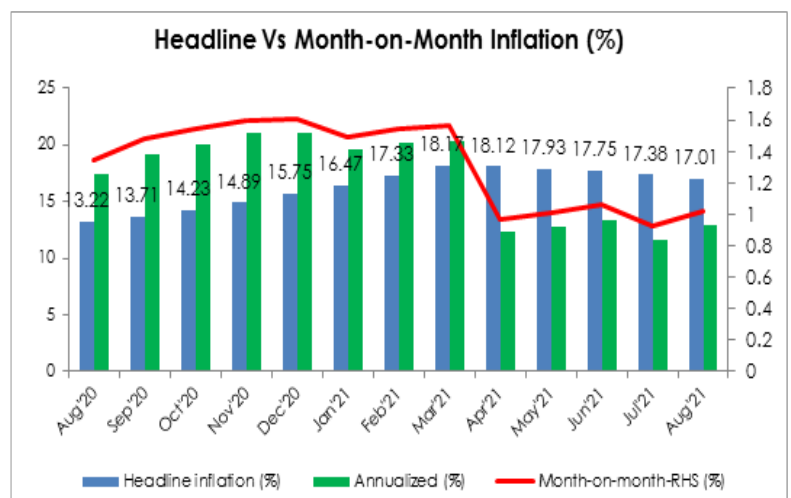
FDC Economic Bulletin

September 15, 2021

Inflation down again in August but remains astronomically high

The National Bureau of Statistics released its August CPI report this morning, two days ahead of the MPC meeting. As widely expected, Nigeria's headline inflation declined again to 17.01% from 17.38% in July. This is the 5th consecutive decline and the lowest inflation rate in the last 7 months. The ease in inflationary pressures and the spike in Q2 real GDP growth (albeit due to base year effects) will empower the doves in the MPC to fight for a reduction in the MPR as a complement to the fiscal stimulus efforts of the FGN.

A breakdown of the data shows that the continued moderation in inflation is largely due to base year effects. This is because the rate of annual inflation in all baskets declined whilst monthly sub-indices increased. The increase in monthly inflation suggests that naira weakness in the forex market is being transmitted into domestic prices. Most manufacturers claim they are only able to source 10% of their forex demand from official sources. With the autonomous rate at record lows of N562/\$, the blended rate has depreciated by 13.5% to N547/\$ from N482/\$ in June. This means that headline inflation might be approaching a point of inflection, which will translate into higher inflation in September/October.

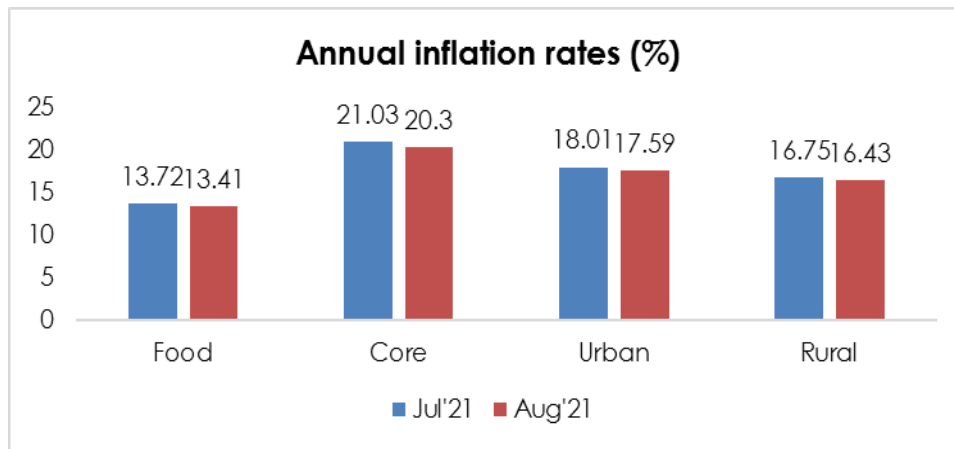


¹NBS, FDC Think Tank

Inflation breakdown

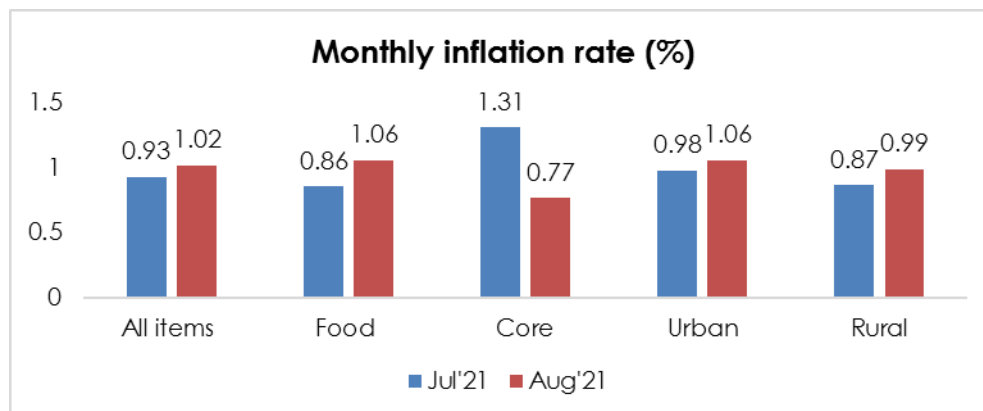
All annual inflation sub-indices moderated

All annual sub-indices declined in August. Food fell by 0.73% to 20.3%, core (inflation less seasonalities) dipped 0.31% to 13.41%, urban slowed by 0.42% to 17.59% while rural dropped by 0.32% to 16.43%. The decline in core inflation coincides with an increase in the 364-day t/bill rate to 7.2%. This reduced the negative real rate of return to 6.21% from 6.92% in July.



Monthly inflation – Only the core monthly sub-index declined

The all-items monthly inflation rate increased by 0.09% to 1.02% (annualized at 12.98%) in August from 0.93% (annualized at 11.64%), food rose by 0.2% to 1.06%, urban was up 0.08% to 1.06% and rural edged up by 0.12% to 0.99%. However, the monthly core sub-index fell by 0.51% to 0.77%. The increase in monthly inflation suggests that naira weakness in the forex market is being transmitted into domestic prices and headline inflation might be approaching an inflection point.



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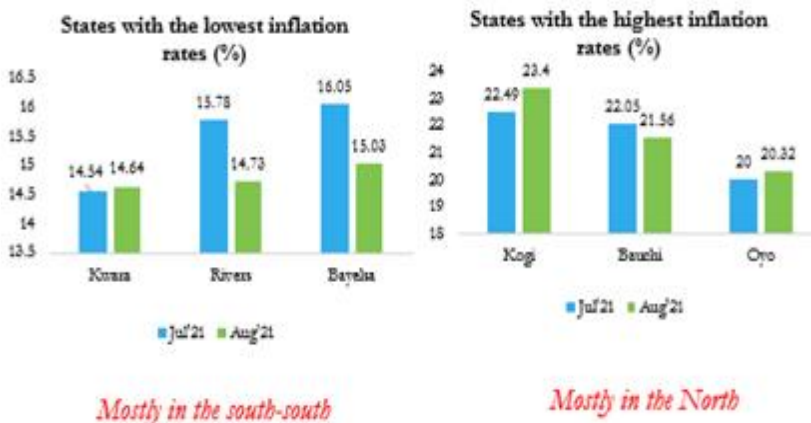
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State-by-state analysis

The states with the lowest inflation rates were Kwara (14.64%), followed by Rivers (14.73%) and Bayelsa (15.03%). Kogi remained the state with the highest inflation rate (23.40%) due to supply constraints, followed by Bauchi (21.56%) and Oyo (20.32%).



Sub-Saharan Africa: Mixed inflation trend

Inflation trend across SSA was mixed. Six of the countries under our review have released their August inflation data, of which three recorded declines and three posted increases. The average rate of increase was 0.36% while the average rate of decline was 0.26%. Average inflation rate in Sub-Saharan Africa is estimated to remain flat at 9.8% in 2021 before declining to 9.0% in 2022. Inflation trends within the region will vary and largely depend on monetary policy responses. Countries with more stable currencies will record lower inflation rates as imported inflation tapers. However, inflation risks remain elevated in commodity dependent economies and those experiencing currency pressures.

Most central banks in SSA will be cautious in adopting a tighter monetary policy. Unlike the advanced economies, inflation in Africa is often cost-push and less a reflection of overheating.

Country	August Inflation (%)		Most Recent Policy rate (%)	
Nigeria	17.01	↓	11.50	↔
Angola	26.09	↑	20.00	↑
Kenya	6.57	↑	7.00	↔
South Africa	4.6 (July)	↓	3.50	↔
Ghana	9.7	↑	13.50	↔
Uganda	1.9	↓	6.50	↓
Zambia	24.4	↓	8.50 ²	↔

Outlook

Inflation is expected to continue its downward trend in the near term but risks remain elevated due to heightened insecurity in some of the food producing states (which could limit the impact of the harvest), exchange rate pass through and higher energy costs especially with the imminent removal of fuel subsidy. The continued moderation in inflation and the spike in Q2 real GDP growth will empower the doves in the MPC to fight for a reduction in the MPR as a complement to the fiscal stimulus efforts of the FGN.

²Trading economies , FDC Think Tank

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