

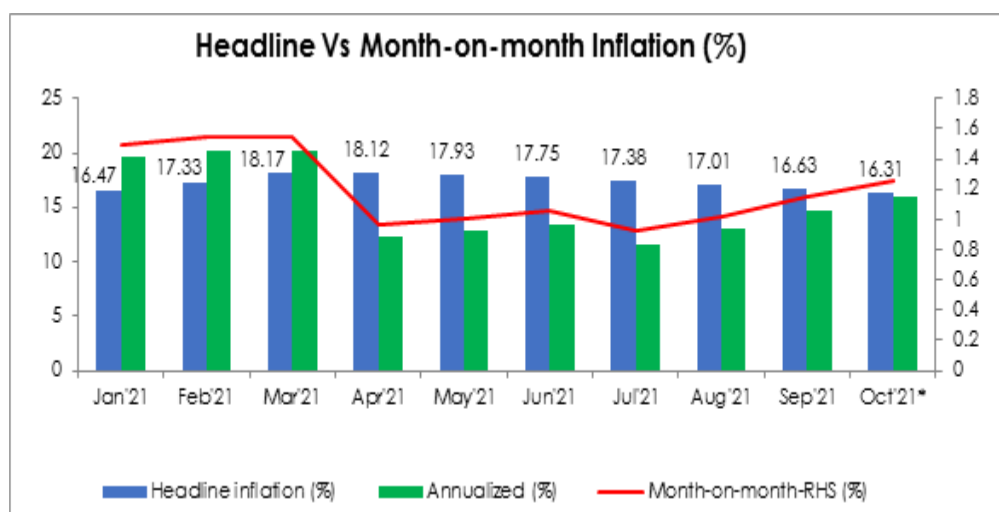
FDC Economic Bulletin

November 12, 2021

Inflation to decline again in October (16.31%)

The October inflation data is scheduled for release on November 15. Based on our time series model, we are projecting a further decline in headline inflation to 16.31% from 16.63% in September. If our projections turnout to be accurate, it implies that inflation will be declining for the 7th consecutive month and will be at its lowest level in 2021. The sustained disinflationary trend is primarily as a result of base year effects.

However, our model points to a further increase in month-on-month inflation to 1.25% (16.04% annualized) in October.



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Inflation data defies market reality

Even though inflation has maintained a downward trajectory in the last seven months, our survey of the Lagos commodity markets shows that in reality, commodity prices are surging. Lagos state remains the focal point of economic activities, accounting for 25-30% of national GDP. Exchange rate pressures, global commodity price boom and higher logistics costs continue to take a toll on domestic commodity prices. The price of a 12.5kg cooking gas has surged by 191% in the last 10 months (currently N10,200), resulting in a

¹NBS, FDC Think Tank

switch to alternative energy sources such as charcoal and kerosene (**cross elasticity of demand**) and compounding the dilemma of higher food prices. This is further eroding consumer purchasing power.






The FG has also decided to end fuel subsidy payments by the end of June 2022. Whilst it means more revenue for the government to deploy to more productive schemes, it also means higher pump prices for PMS and less money in consumer wallets. The ripple effect on logistics costs and commodity prices is likely to trigger inflationary pressure which will further squeeze consumer real incomes.

Inflation psychology – Beyond the forces of demand and supply

As commodity prices rise faster than wages, consumers spending pattern is being influenced by inflation psychology. This is a situation where consumers spend more quickly than they otherwise would in the belief that prices will keep rising. This is further fueling inflationary pressures. US inflation soared to its highest level in 3 decades (6.2%) while China's inflation accelerated sharply to 1.5% from 0.7%. The spike in inflation in most advanced economies suggests that monetary policy normalization could ensue earlier than expected. A possible reversal in interest rates will push up debt service costs for developing and emerging markets like Nigeria, further stoking inflationary pressures. It will also increase capital flow reversals in favor of the advanced economies.

Commodity price movement in Lagos – Facts & Figures

- **Locally produced commodities benefited from the harvest:** Domestically produced commodities recorded a mixed price trend. The price of tomatoes and pepper declined due to the harvest impact while yam and palm oil prices were flat. The only outlier is onions, which recorded a 11.11% increase in price (N50,000) as excessive rainfall in the producing states had an adverse effect on supply.

	Sept'21	Oct'21	% Change
Onions	45,000	50,000	11.11 
Tomatoes	27,000	25,000	-7.41 
Pepper	20,000	15,000	-25.00 
Yam	800	800	- 
Palm Oil	4,500	4,500	- 
Average			-4.26%



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- **Currency pressures taking a toll on imported commodities:** As expected, most of the commodities with import content recorded surges in their prices. This is largely due to exchange rate pressures and the global commodity price boom. On the average, the price of noodles, pasta, semovita and flour surged by 3.26% in October.

	Sept'21	Oct'21	% Change
Noodles	2,800	3,000	7.14 ↑
Semovita (10kg)	5,400	5,500	1.85 ↑
Flour (50kg)	21,000	21,350	1.67 ↑
Sugar (50kg)	21,000	21,500	2.38 ↑
Average			3.26 ↑

Sub-Saharan African – Mixed inflation trend across SSA

Most of the SSA countries under our review recorded lower inflation rates in October. Of the four countries that have released their October inflation data, three reported declines while the other posted an increase. Food and energy price movement remained the principal determinant of the inflation trend.

The monetary policy rates were left unchanged to allow the previous adjustments take full effect on the economy.

Country	October Inflation (%)	Most Recent Policy rate (%)
Nigeria	16.31* ↓	11.50 ↔
Angola	26.57 (Sept) ↑	20.00 ↔
Kenya	6.45 ↓	7.00 ↔
South Africa	5.00 (Sept) ↑	3.50 ↔
Ghana	11.00 ↑	13.50 ↔
Uganda	1.90 ↓	6.50 ↔
Zambia	21.10 ↓	8.50 ↔

Outlook

Headline inflation is likely to continue its downward trend in the near term, closing the year at 15.4% due to base year effects. However, we expect the monthly inflation rate to increase further, reflecting the impact of currency pressures and higher energy costs.

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