

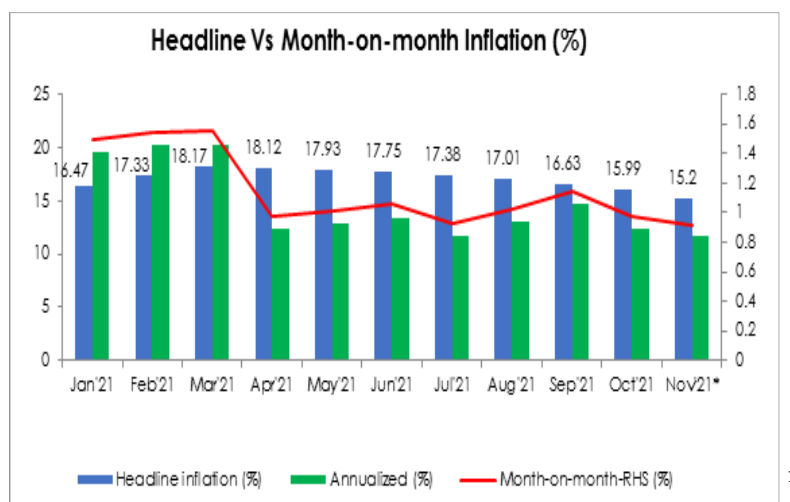
FDC Economic Bulletin

December 09, 2021

Official inflation to decline again but will remain 'the silent thief'

Based on our econometric model, official inflation is likely to decline again in November to 15.2% from 15.99% in October. This will be the 8th consecutive monthly decline and will bring the official inflation rate to its lowest point in 11 months. In Lagos, the price of staple food items declined by an average of 22.46% in the last year due to harvest supplies on one hand and consumer price resistance on the other hand.

However, prices increased across the non-food basket. The price of diesel, cooking gas, transport costs (road, air) remained stubbornly high, suggesting a likely increase in core inflation (which is inflation less seasonalities) to 13.51% from 13.14% in October. More so, inflation risks are elevated as the FGN plans to fully deregulate the downstream oil sector in early 2022.



All inflation sub-indices except for core inflation to decline

With the exception of core inflation, we expect all inflation sub-indices to decline in November. Food inflation is projected to fall by 1.14% to 17.2% while month-on-month inflation is expected to decline by 0.05% to 0.92% (11.94% annualized). This will be partly supported by improved supply due to the harvest amid weak aggregate demand. Our survey of the Lagos market showed that the price of tomatoes, onions, rice and pepper declined by an average of 22.46% on an annual basis and by 4.72% on a monthly basis.

¹ NBS, FDC Think Tank

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However, we noticed an increase in the price of some commodities with import content. On an annual basis, the price of noodles, semovita, flour and sugar increased by an average of 46.49%, largely due to currency

	Nov'20	Oct'21	Nov'21	% Change (Nov'20/Nov'21)	% Change (Oct'21/Nov'21)
Tomatoes	35,000	25,000	20,000	-42.86	-20
Onions	80,000	50,000	45,000	-43.75	-10
Rice	31,000	27,000	30,000	-3.23	11.11
Pepper	15,000	15,000	15,000	-	-
Average				-22.46%	-4.72

pressures and the global commodity price boom. Meanwhile, compared to last month, prices declined by an average of 2.34%.

	Nov'20	Oct'21	Nov'21	% Change (Nov'20/Nov'21)	% Change (Oct'21/Nov'21)
Noodles	1,800	3,000	3,000	66.67	-
Semovita (10kg)	3,400	5,500	5,200	52.94	-5.45
Flour (50kg)	13,500	21,350	20,700	53.33	-3.04
Sugar (50kg)	20,000	22,800	22,600	13	-0.88
Average				46.49%	-2.34%

Nigerian inflation remains a 'silent thief'

Even though the moderation in headline inflation is sustained, Nigerian inflation remains a 'silent thief'. It is still above the upper limit of the CBN's target (9%). The CBN has also consistently maintained that inflation rate above 12% is growth retarding. Nigeria's high inflation rate is forcing ambitious investment in high yield asset classes especially crowd-funded agritech. The downside has seen most of these platforms crash and the masses losing more money as against their initial goal.

Sub-Saharan African – 3 Reds, 3 Greens

Inflation trend across SSA was mixed. Of the 6 SSA countries under our review, three recorded lower inflation rates while three posted an increase. As usual, food and energy prices were the major determinants of inflation direction.

It appears that African Central Banks are beginning to adopt a hawkish stance in combating inflation. In November, three of the SSA countries under our review increased their interest rates. Bank of Ghana raised its benchmark interest rate by 100bps, South Africa increased by 75bps while Zambia increased by 50bps. Nigerian MPC is also likely to take the bull by the horns at its first meeting in 2022. The US Fed has also commenced scaling back its asset purchase, signaling monetary policy normalization in 2022. A possible increase in interest rates will push up debt service costs for African countries, increasing the risk of debt default.

Country	November Inflation (%)		Most Recent Policy rate (%)	
Nigeria	15.2	↓	11.50	↔
Angola	26.87 (Oct)	↑	20.00	↔
Kenya	5.8	↓	7.00	↔
South Africa	5.00 (Oct)	↑	3.75	↑
Ghana	11.00 (Oct)	↑	14.50	↑
Uganda	2.6	↓	6.50	↔
Zambia	19.3	↓	9.00	↑

Inflation falling – How Sustainable?

In spite of the continued moderation in inflation, consumers are jittery about the possible impact of an increase in the price of PMS to N340/litre in February. Also more scary is the fact that the price of cooking gas has remained stubbornly high at N12,000 per cylinder and diesel is selling for N345/litre.

Inflation is likely to remain elevated in the early part of 2022 before moderating towards the end of the year when the productivity gains from some infrastructure initiatives would have kicked in.

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