

FDC Economic Bulletin

December 16, 2021

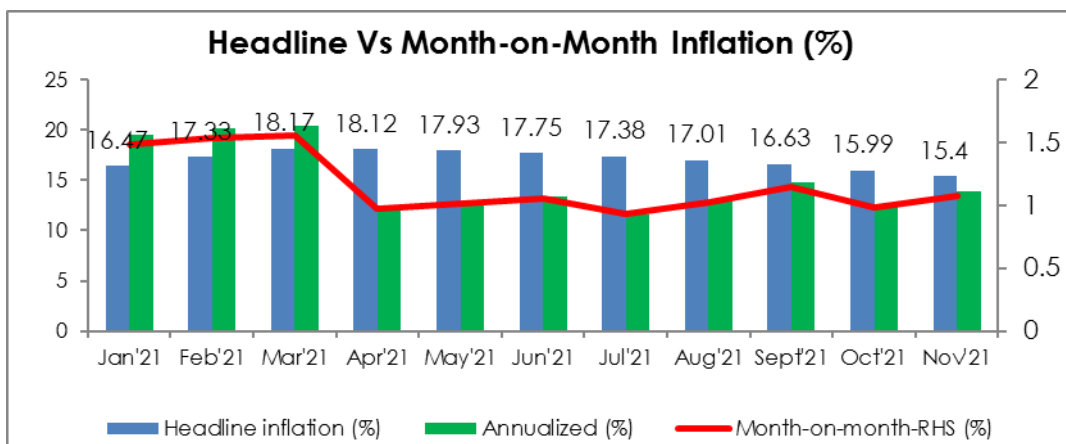
Headline inflation at a 1-yr low of 15.4%

As widely expected, Nigeria's headline inflation rate fell for the 8th consecutive month in November to 15.4% from 15.99% in October. This is 0.2% higher than our forecast of 15.2%. Cumulatively, Nigeria's inflation rate has averaged 17.11% in 11M'21, significantly higher than 12.98% in the corresponding period in 2020. The impact of harvest and consumer price resistance have kept Nigeria's inflation on a downward trend since April 2021.

Inflation breakdown

Core and monthly inflations stand out as sore thumbs

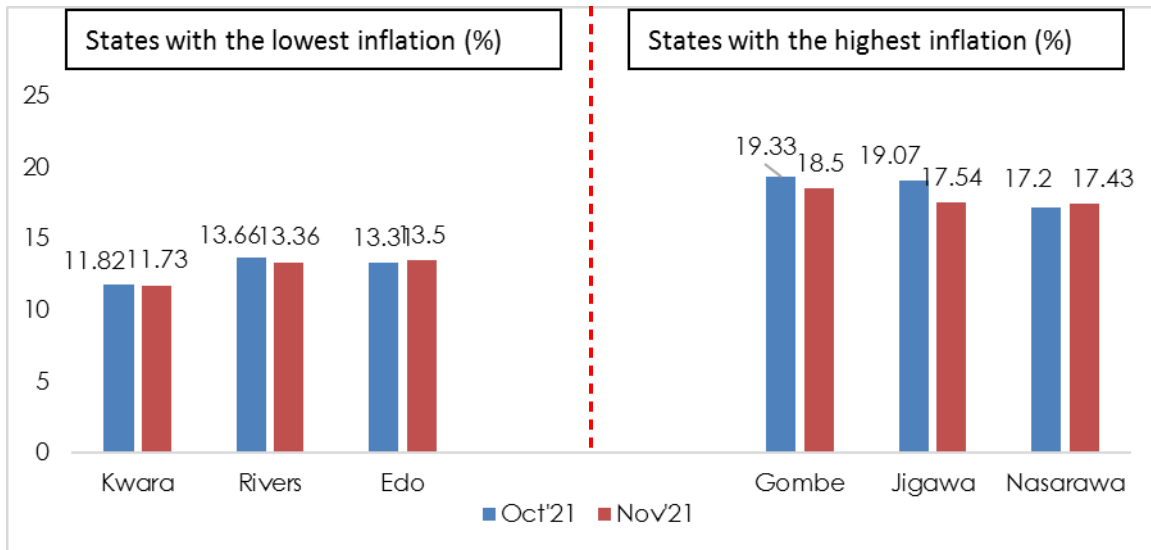
All the sub-indices except the monthly and core inflation rates fell. The monthly inflation index, which is a more accurate reflection of consumer prices increased to 1.08% (annualized at 13.89%) from 0.97% in October. This is in tandem with our synthetic basket which shows that prices have increased by an average of 94.7% compared to the 15.4% increase in the national basket.



¹NBS, FDC Think Tank

Food inflation, the major driver of the decline in the overall consumer price index fell below 18% to 17.2%. the commodities under this basket that recorded the highest increases were bread, cereals and tubers. On the other hand, the core index, which is headline less farm produce increased further to 13.85% from 13.24% in October. This was spurred by higher gas prices, fuel, passenger transport by road but to name a few.

State-by-State Analysis



The three states with the lowest inflation rates remained the same: Kwara (11.73%), Rivers (13.36%) and Edo (13.50%), while the states with the highest inflation rates were northern states - Gombe (18.5%), Jigawa (17.54%) and Nasarawa (17.43%). This is because food supply thins out first from the farmlands before the markets.

Nigeria’s inflation trend at variance with global and regional inflation

In contrast to the domestic inflation trend, global and regional inflation have been on a steady increase. Major global economies such as the US and UK recorded record-high levels of inflation. The US’ inflation jumped to a 39-yr high of 6.8% while UK inflation spiked to a 5-yr high of 5.1%.

A cursory look at the country’s regional peers shows a similar upward trend. Ghana, South Africa and Angola all recorded increases in their inflation rates. So why the divergent trend in Nigeria? Especially with the steady increase in energy prices (cooking gas and diesel), exchange rate pass through effect and supply chain disruptions. A plausible explanation could be the impact of the sharp fall in consumer disposable income which has limited consumer demand and the effect of the harvest on supply and ultimately prices.















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Country	November Inflation (%)		Most Recent Policy rate (%)	
Nigeria	15.40		11.50	
Angola	27.00		20.00	
Kenya	5.80		7.00	
South Africa	5.50		3.75	
Ghana	12.20		14.50	
Uganda	2.60		6.50	
Zambia	19.30		9.00	

Inflation trend – policy implications

There will be one more inflation report (for December) released before the MPC's first meeting in 2022. If the numbers fall further, the doves in the committee may be emboldened to push for an interest rate cut as the economic recovery picks up.

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