

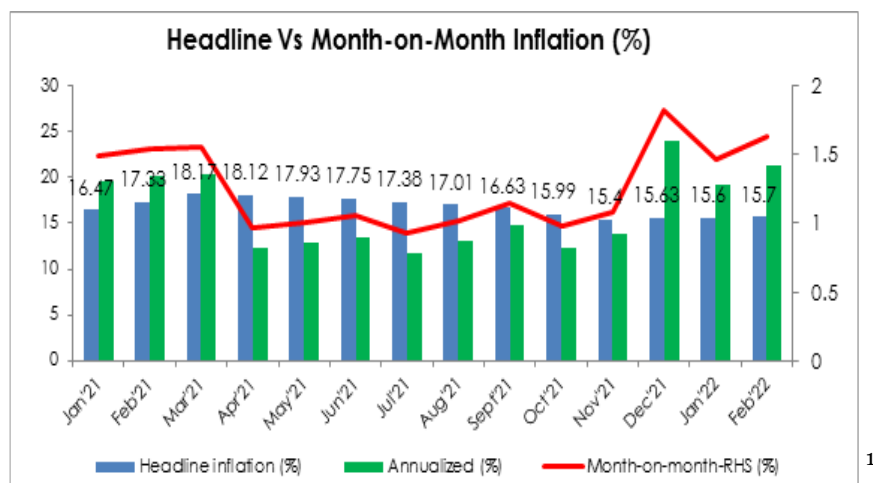
# FDC Economic Bulletin

March 15, 2022

## *Nigeria's headline inflation up 10bps as cost-push pressures mount*

The CPI report for the month of February was released today by the NBS. Nigeria's headline inflation rose by 10bps to 15.70% after a marginal decline last month. The monthly price index also followed a similar pattern, rising by 0.16% to 1.63%.

In the last four years, food price movement has been a major determinant and contributory factor to the direction and level of inflation in Nigeria. This time around, the cost push pressures resulting from the shock increase in the price of diesel, the major fuel for haulage, has catalyzed price movements and left policy makers in a quandary. Core inflation (inflation less seasonalities) spiked 0.14% to 14.01%, indicating that future inflation is likely to rise in line with the global and regional trend. The marginal drop (0.02%) in food inflation to 17.11%, partly explains consumer price resistance due to squeezed income levels.



### **Will the CBN continue with the status quo ritual?? May be not...**

The February inflation report is coming a week ahead of the monetary policy committee meeting. Major considerations will centre around the change in inflation direction and the risks of a run-away inflationary trend. At least eight Central banks, most notably, the Federal Reserve will be meeting this week. The consensus is that most will tighten monetary policy to combat the Russia/Ukraine invasion-induced

<sup>1</sup> NBS, FDC Think Tank

inflation. The US Fed is likely to hike policy rates by 25bps. This increases the probability albeit remote that the CBN will raise rates this time around.

## **Inflation breakdown**

### ***Month-on-month inflation up 0.16% to 1.63%***

Month-on-month inflation rose sharply by 0.16% to 1.63% in February. This largely reflects cost pressures. During the month, the price of petrol skyrocketed to as high as N250/litre in some parts of the country due to scarcity. This was compounded by persistent currency pressures.

### ***Food inflation down marginally largely due to consumer price resistance***

The annual food index declined marginally by 0.02% to 17.11% while the monthly index rose by 0.25% to 1.87%. The commodities that recorded the largest price increases were bread and cereals, yam and other tubers, oils and fats as well as fruits. The increase in the price of bread was partly due to higher wheat and diesel prices. Heightened insecurity and higher logistics costs are weighing on the prices of major staples and fruits.

### ***Core inflation rose sharply by 0.14% as fuel scarcity stoke cost pressures***

Year-on-year core inflation advanced to 14.01% from 13.87% in January. This mirrored the recent surge in energy-related products. Petrol price increased by 51.52% to N250/litre in some parts of the country while diesel prices almost doubled (N720/litre)

### ***Urban-Rural inflation differentials narrows as planting season approaches***

Nigeria's urban inflation rate increased by 0.08% to 16.25% while rural inflation rose by 0.12% to 15.18%. This narrowed the urban-rural inflation differential to 1.07% from 1.11% in January, partly as a result of the commencement of the planting season.

### ***State-by-state analysis***

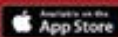
Kwara state remained the state with the lowest inflation rate (13.82%), followed by Sokoto (13.93%) and Anambra (14.43%). The states with the highest inflation rate include – Cross River (18.84%), Gombe (17.70%) and Abuja (17.68%). Abuja was one of the most hit by the fuel scarcity and higher PMS price. Petrol price rose to as high as N250/litre.

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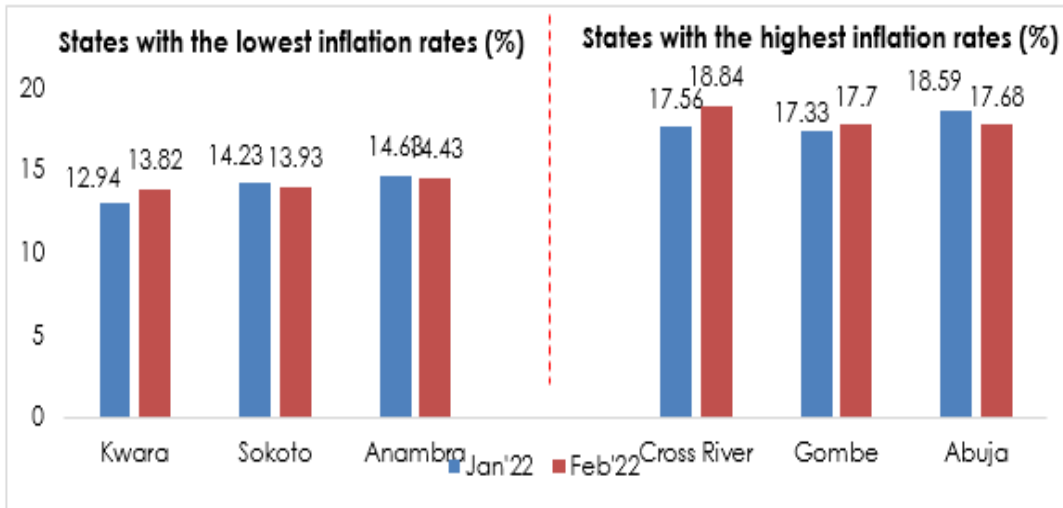


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### Sub-Saharan Africa: Mixed Inflation Trend

Inflation trend across Sub-Saharan Africa remained mixed. Of the six SSA countries under our review that have released their February inflation data, 3 recorded increases while the other 3 posted declines. One of the major drivers of inflation within the region is the ongoing conflict between Russia and Ukraine and the resulting disruptions in the energy and commodities markets.

In recent times, it appears that politics has trumped economics. At the UN’s emergency session held on March 2nd to deliberate on the Russian-Ukraine affair, African countries were relatively divided in their decisions. About 51% (including Nigeria, Ghana and Kenya) of the African countries present at the meeting voted for a resolution. 17 out of the 35 countries that abstained from the vote are Africans (Algeria, Angola and South Africa inclusive). Only Eritrea voted against the resolution. Interestingly, China was amongst the nations that abstained from voting, likely due its relations with Russia. This decision was a likely catalyst which influenced the decisions of certain African nations. China is the largest provider of development financing to Africa, with several nations being relatively beholden to the Asian super power.

Country	February Inflation (%)		Most Recent Policy rate (%)	
Nigeria	15.70	↑	11.50	↔
Angola	27.28	↓	20.00	↔
Kenya	5.08	↓	7.00	↔
South Africa	5.70 (Jan)	↓	4.00	↔
Ghana	15.70	↑	14.50	↔
Uganda	3.20	↑	6.50	↔
Zambia	14.20	↓	9.00	↔

## Is Nigerian inflation at a tipping point?

We expect inflation to continue its upward trend in the coming months, largely due to cost pressures. The spike in energy costs will be further compounded by rising global commodity prices and persistent currency pressures. The MPC will most likely increase interest rates as domestic inflation rises and major Central bank chiefs hike policy rates this week.

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