



Economic Bulletin

APRIL
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accelerates again**

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15.92%

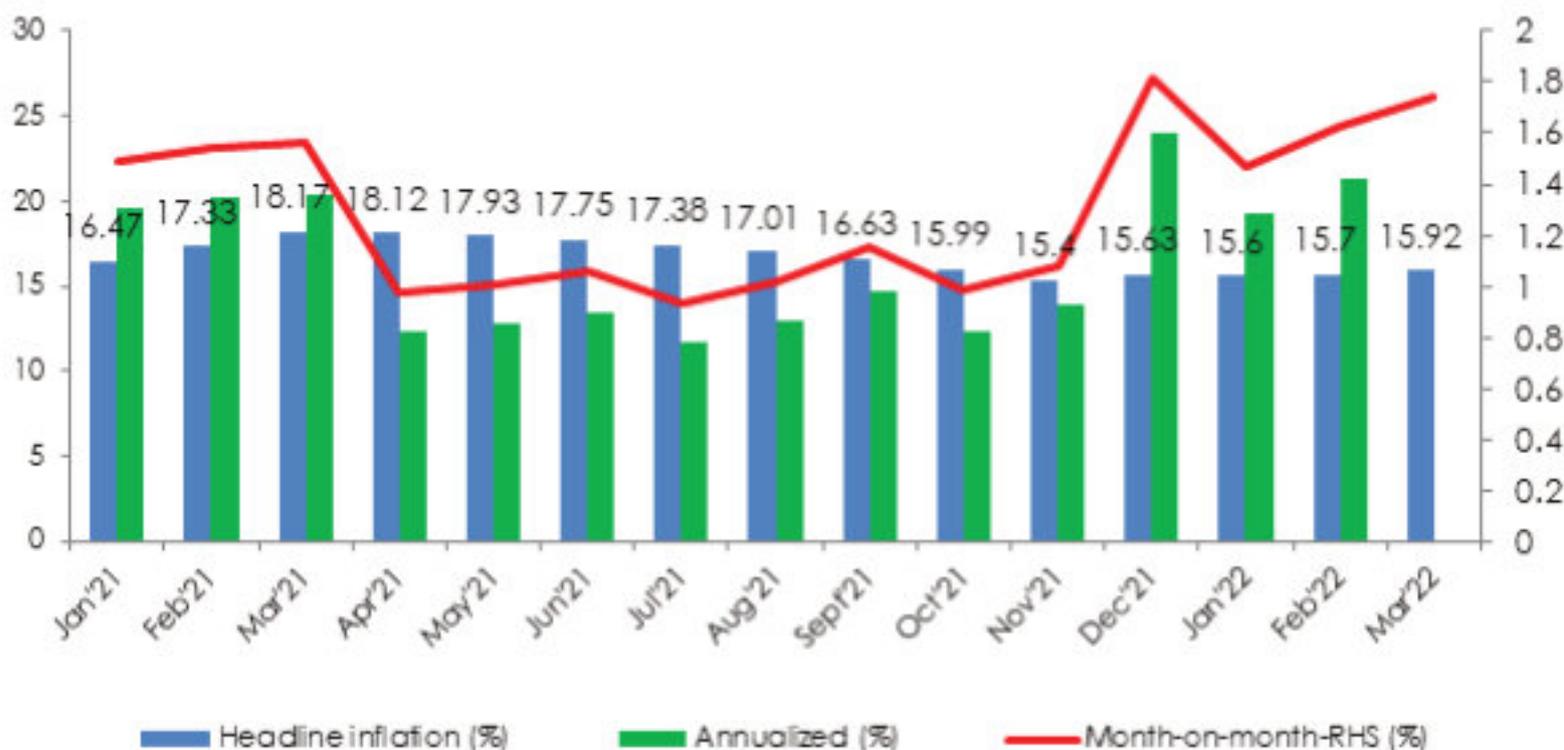
Nigeria's headline inflation in March

The NBS released its CPI report for the month of March over the Easter holidays (Friday). As expected, Nigeria's headline inflation rose for the 2nd consecutive month to 15.92% in March from 15.7% in February. While the increase in inflation was widely anticipated, the slope of the curve is becoming steeper, suggesting that Nigerian inflation could take a turn for the worse.

With the exception of core inflation, all sub-indices increased in March. This indicates that price spiraling this time around was largely driven by seasonal factors. The composite food index rose by 0.09% to 17.20% while core inflation (inflation less seasonalities) fell by 10bps to 13.91%. The increase in food price pressures largely reflects increased aggregate demand ahead of Easter and Ramadan celebrations.

Like most African countries, Nigeria is grappling with rising inflation and high debt levels. This is partly because the continent is still largely dependent on agric imports (especially grains) despite its resource endowment, which is exposing the region to external shocks and currency crisis. The unrelenting rise in inflation is forcing major African Central Banks to commence tightening cycle. In March, the bank of Ghana increased interest rates by 250bps while the South African Reserve Bank raised its policy rate by 25bps. The Nigerian MPC will meet in May to decide on the monetary policy direction. All eyes are on the MPC to see if it will take after its African peers. Higher interest rates will push up debt service costs.

Headline Vs Month-on-Month Inflation (%)



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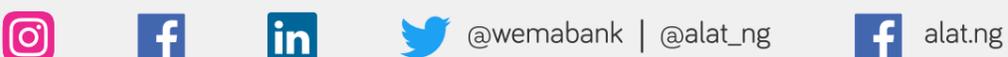
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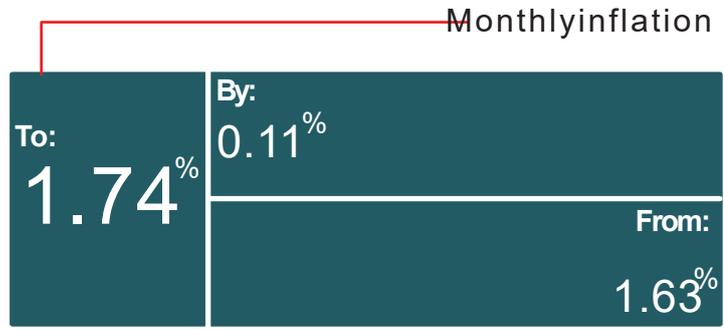


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Inflation Breakdown

Monthly inflation up 0.11% to 1.74%

Month-on-month inflation increased by 0.11% to 1.74% (23.15% annualized) from 0.16% to 1.63% (21.46% annualized) in February. This is largely due to increased aggregate demand amid supply shortages (planting season effect).



Food inflation up as planting season begins

The annual food composite price index rose by 0.09% to 17.20%. On a monthly basis, the index increased by 0.12% to 1.99%. The uptick in food prices was as a result of demand and supply shocks. Aggregate demand typically increases during major celebrations. The Easter and Ramadan celebrations coincide with the beginning of the planting season, which is usually characterized by reduced aggregate supply.



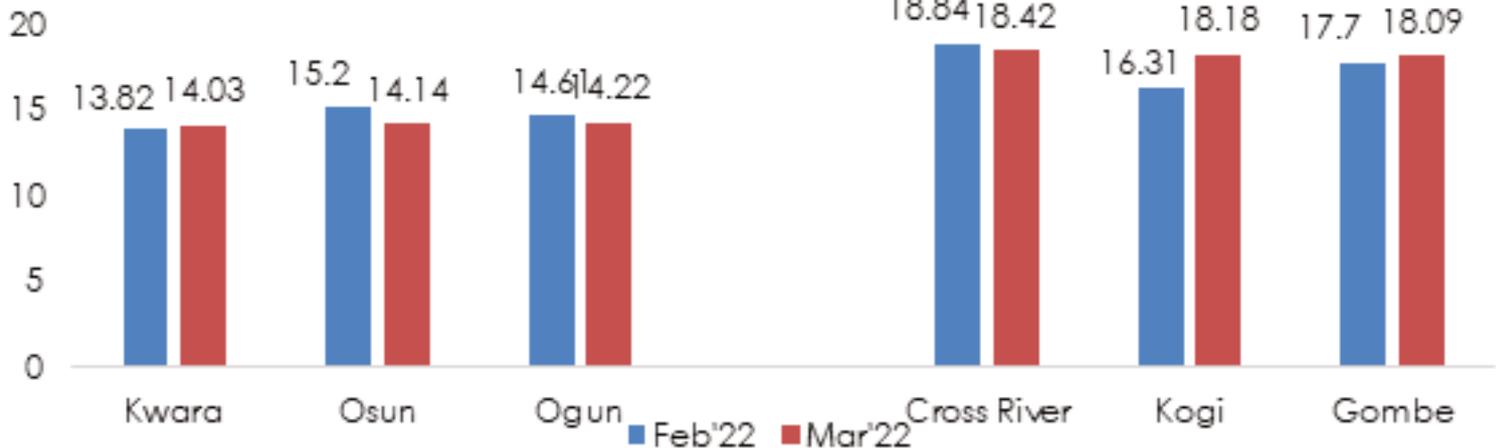
Core inflation fell by 10bps to 13.91%

Contrary to analysts' expectations, both the annual and monthly core inflation sub-indices declined in the month of March. The annual index fell by 10bps to 13.91% while the monthly sub-index slowed by 35bps to 0.98%. This suggests that the passthrough effects of higher energy prices on logistics and logistics costs is beginning to wane.

Urban-Rural inflation differentials narrows as planting season approaches

Both the urban and Rural inflation rates increased in March. Urban inflation rose by 0.19% to 16.44% on an annual basis and by 0.11% to 1.76% on a monthly basis. The year-on-year rural sub-index increased by 0.24% to 15.42% while the monthly sub-index rose by 0.12% to 1.73%. The urban-rural differential narrowed to 1.02% from 1.07% in February.

States with the lowest inflation rates (%)



State-by-state analysis

The states with the lowest inflation rates are mostly in the South West - Kwara state (14.03%), Osun (14.14%) and Ogun (14.22%). Cross River recorded the highest inflation rate (18.42%), followed by Kogi (18.18%) and Gombe (18.09%).

¹NBS, FDCThinkTank

Sub-Saharan Africa: Inflation more to the upside

Rising inflation and high debt levels have become two major problems confronting most African economies. In March, four of the six Sub-Saharan African countries under our review recorded higher inflation rates, largely due to food price pressures. Despite being resource endowed, the African continent is still largely dependent on agric imports especially grains, making the continent susceptible to external shocks (commodity price shocks, currency crisis, etc).

Some African Central Banks have commenced the tightening cycle to contain inflationary pressures. In March, the bank of Ghana increased interest rates by

250bps, the highest increase in more than two decades while the South African Reserve Bank raised its policy rate by 25bps, the 3rd consecutive hike. The Nigerian MPC will meet again in May to decide on the monetary policy direction. Based on the current economic realities, the committee will most likely raise rates by 50bps to 12.5%pa. Higher interest rates will push up debt service costs.

Country	March Inflation (%)		Most Recent Policy rate (%)	
Nigeria	15.92	↑	11.50	↔
Angola	27.00	↓	20.00	↔
Kenya	5.56	↑	7.00	↔
South Africa	5.7 (Feb)	↔	4.25	↑
Ghana	19.4	↑	17.00	↑
Uganda	3.7	↑	6.50	↔
Zambia	13.1	↓	9.00	↔

What to expect in April

Headline inflation is expected to rise again in April due to increased aggregate demand (Easter and Ramadan Celebrations). The planting season has also begun, implying that aggregate supply will decline, mounting pressure on food prices.



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