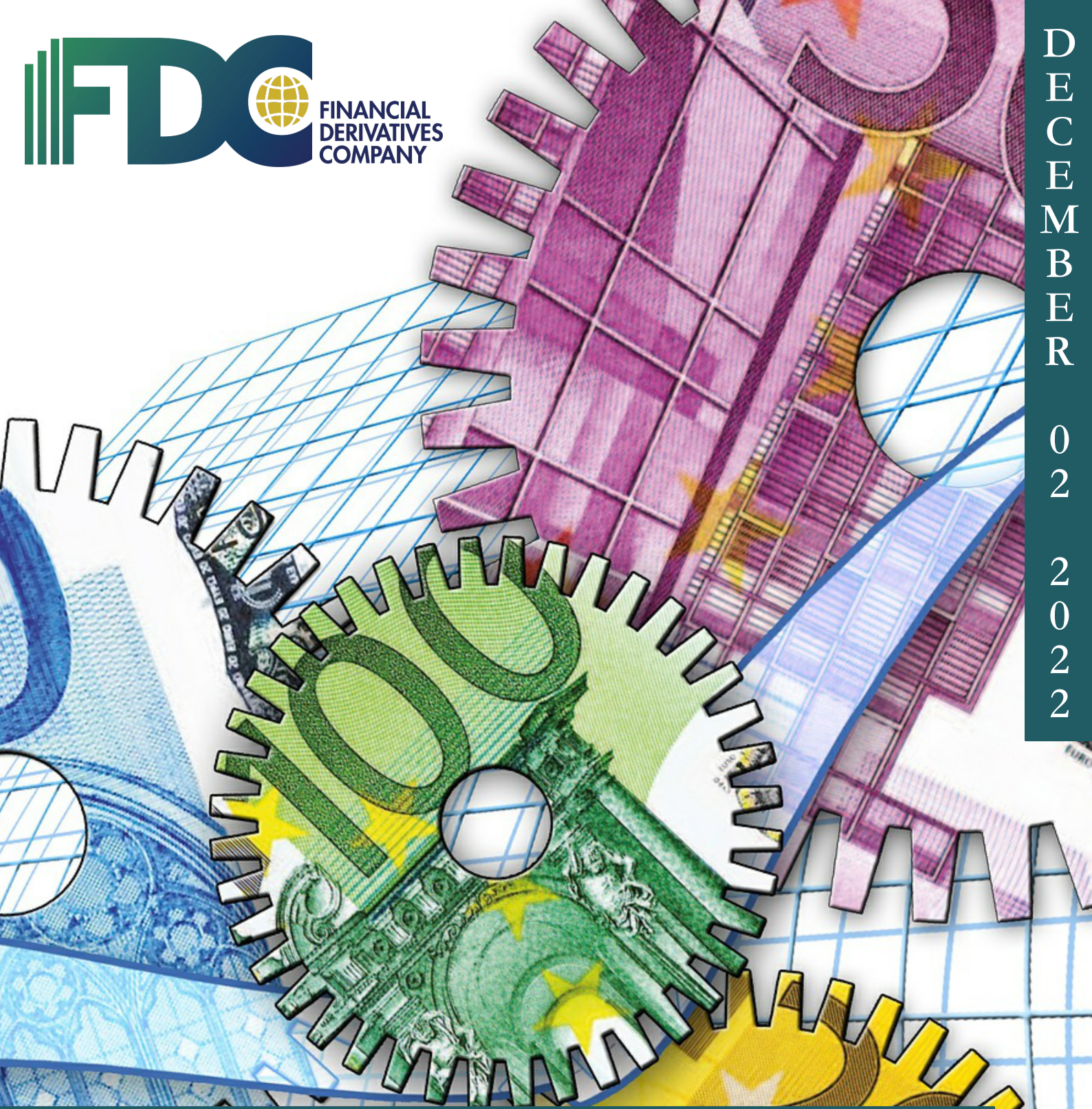




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Economic Bulletin

Headline Inflation

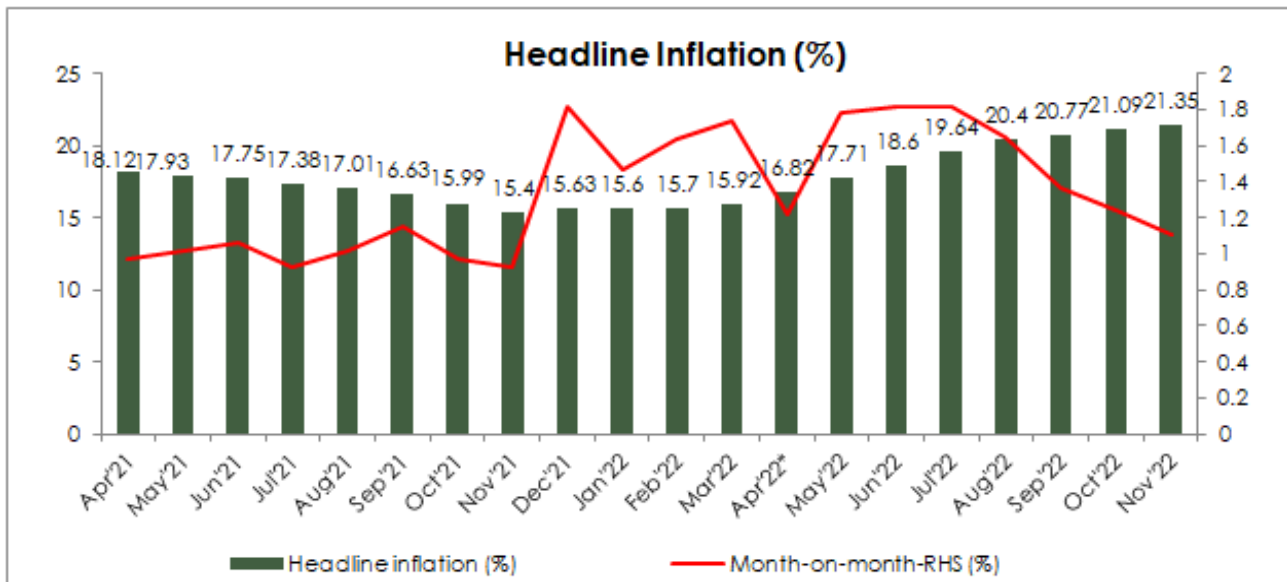
to Inch Up to 21.35%

21.35%

Projected Official headline inflation rate for Nigeria

The National Bureau of Statistics (NBS) will release its November inflation report on December 15. Based on our market survey in Lagos and our econometric model, we forecast a further increase in Nigeria's headline inflation to 21.35% in November 2022, from 21.09% in October 2022.

Food inflation is expected to rise to 23.42 % year-on-year in November, a decline from 23.72% in October. While this may seem like food price increases are beginning to ease, it is important to note that food inflation is still very much present. The decline in inflation was due to the harvest period and consumer resistance as prices of staple goods such as rice, beans, and garri fell in the month of November.



*NBS, FDC Think Tank

On a month-on-month basis, inflation is expected to decline further to 1.1% from 1.24% in October. Meanwhile, core inflation is projected to increase by 0.12% to 17.92% in November. Inflationary pressures in the country have remained elevated largely due to the exchange rate pass-through effect. Naira's exchange rate against the dollar at the parallel market averaged N795.95 in November, a 5.59% depreciation from N751.47 in October. Due to the lag effect, we expect to see the impact of the current fuel scarcity situation on inflation increase in December.

Soaring Inflation is a Global Problem

Rising commodity prices and stubbornly high inflation is not Nigeria-specific. According to the EIU's latest Worldwide Cost of Living (WCOL) survey, prices in the world's largest cities increased by an average of 8.1% in local currency terms over the past year. This is the fastest rate in over 20 years, highlighting the impact of the war in Ukraine and the continued COVID-19 restrictions in China. The most rapid increases in the WCOL index were for the price of a litre of petrol which has risen by an average of 22% on a year-on-year basis in local currency terms.

Food inflation and household goods prices also rose over the year, while prices of recreational goods and services were subdued, reflecting the focus of consumer spending on essential goods. Singapore and New York topped the EIU ranks in the WCOL survey. Although major inflationary pressures stemmed from the aftermath of the Russia-Ukraine war, global prices had been on the rise due to supply chain disruptions arising from the COVID-19 pandemic in 2020. Price pressures are however set to ease in 2023 compared to 2022 as higher interest rates

Monthly inflation



Food Inflation



Core Inflation



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dampen demand pressure and China's supply chain blockage starts to ease. According to the IMF, global inflation is expected to decline to 6.5% in 2023, from 9.4% in 2022.

Nigeria has Legacy Challenge & Low Buffers

About 90% of the total food supply in Nigeria is produced in rural areas, and while prices of food at the farm gates are usually low, there is a steep price increase when it reaches the urban areas. This is due to supply chain constraints such as poor road infrastructure and higher logistics costs. 87% of rural roads all over Nigeria are in bad condition, while the amount of farm-produce storage facilities is inadequate. This increases the risks of post-harvest losses. In Nigeria, the annual loss of tomatoes is between 45-60% of total output.

Central Banks in Sub-Saharan Africa Maintain Hawkish Stance

Out of the seven sub-Saharan countries under our review, five countries raised interest rate including Nigeria as inflationary pressures remained stubbornly high. In addition to raising rate to curb inflation was the need for central banks in sub-Saharan africa to lessen the pressure on their currencies due to capital flight induced by rate hikes by global central banks. Meanwhile, headline inflation rates in Kenya and Uganda each tapered by 0.1% to bring their inflation rates to 9.5% and 10.6% in November respectively. However, headline inflation ticked up to 9.8% in Zambia in November and 7.6% in South Africa in October. Food inflation in most of these countries has slowed considerably amid improvement in food supply due to the harvest season.

Country	November Inflation (%)		Most Recent Policy rate (%)	
Nigeria	21.35*	▲	16.5	▲
Angola	16.68 (Oct)	▼	19.5	↔
Kenya	9.5	▼	8.75	▲
South Africa	7.6 (Oct)	▲	7	▲
Ghana	40.4 (Oct)	▲	27	▲
Uganda	10.6	▼	10	▲
Zambia	9.8	▲	9	↔

* FDC forecast

Concluding thoughts

Nigeria's inflation rate is likely to remain high in the short-medium term due to currency volatility, campaign activities, and flood-induced shocks. This could be accentuated by the festive period and higher fuel price.

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