

Economic Bulletin

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Nigeria's Inflation

To inch up to 21.42% in January

The headline inflation report for January will be published on February 15, 2023 and the FDC econometric model indicates an increase in headline inflation to 21.42% for January from 21.34% in December. It also shows that core inflation could jump to 18.73%, 0.24% higher than 18.49% in the previous month.

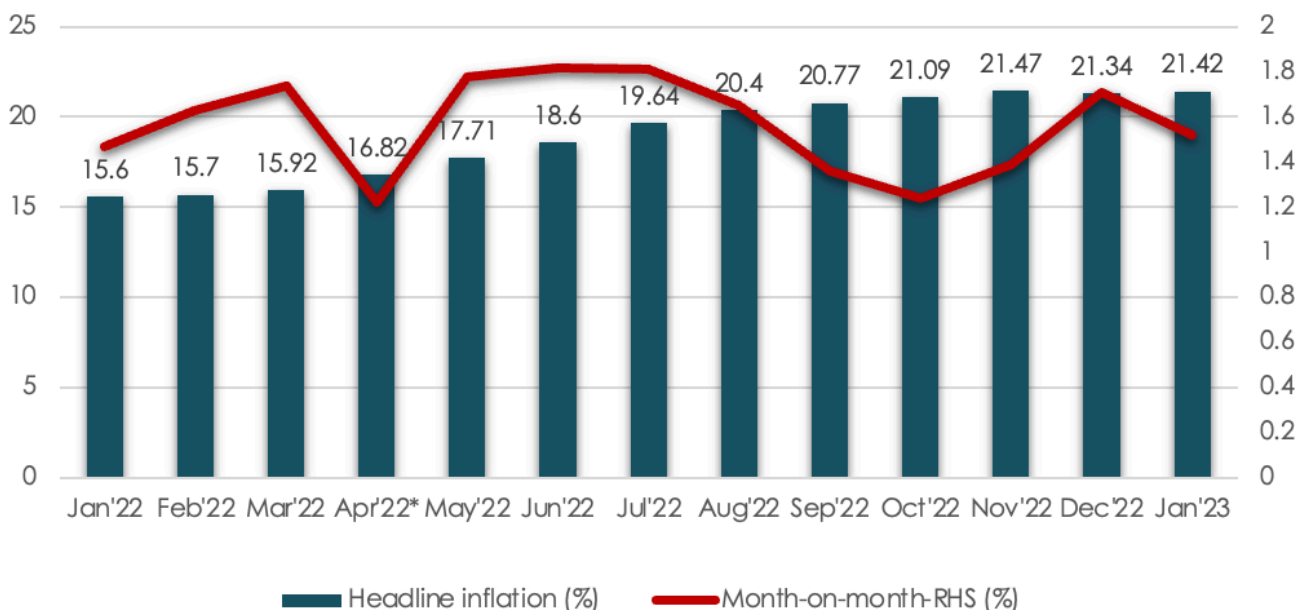
Interestingly, the model reveals that food inflation will decline marginally by 0.09% to 23.64% from 23.75% in December 2022 amid falling consumer demand caused by an income squeeze and food inflation moving in tandem with the FAO food index. Moreso, month-on-month inflation is expected to fall marginally, by 0.19% to 1.52%.

Traditionally, seasonal factors and the post-festive income squeeze drive down prices at the beginning of the year. However, January 2023 is different for so many reasons - pre-election jitters, fuel scarcity, the naira crunch and their unintended consequences.

21.42%

Projected headline inflation rate for Nigeria

Headline Inflation (%)



NBS, FDC Think Tank

Declining global inflation is leaning in.

Our survey shows that food inflation will decline again in Nigeria. This trend is consistent with global food disinflation. The FAO's monthly index, which tracks global commodities prices, averaged 131.2 points in January, indicating the 10th consecutive monthly decline from 132.4 points in December 2022.

However, worthy of note is that Nigeria's inflationary trend is largely disconnected from the global disinflation pattern, especially in terms of the magnitude of the decline. For instance, while inflation declined in the US for three consecutive months, Angola recorded a fall in its inflation throughout 2022, but Nigeria's inflation declined by a minuscule 0.15% in December. In fact, many analysts believe that while the moderation in December likely purports that Nigeria's inflation might have reached a tipping point, inflation could likely edge higher in January. This is because of more recent events like the naira crunch, the energy crisis and heightening transportation costs which will be more reflected in inflation numbers.

Moreso, the interest rate hike cycle by the CBN seems not to have been effective in tackling inflation (the MPR has been increased by a total of 600bps). Traditionally, interest rate hikes are usually employed by the central bank to rein in inflation. This is based on the expectation that all other interest rates, including the short-term rates, are anchored on the policy rate, also known as the MPR. It is also contingent on the implicit assumption that inflationary pressure is a monetary phenomenon. These assumptions are not always true. First, the MPR appears to have become an anchorless anchor. As an anchor and signaling rate, the impact of the MPR hike is expected to be felt through the short-term rates. However, available data shows that after raising the MPR by 100 bps to 17.5% in January 2023, the 1-year Treasury bill rate dropped to 2.24% from

Monthly inflation



Food Inflation



Core Inflation

14.84% in February 2023. This apparent contradiction sends a mixed signal to the market, undermining the potency of the rate hike.

Second, based on our estimates, the major drivers of inflation in Nigeria are the exchange rate, supply shocks, and fiscal deficit monetization. While the currency crisis is reinforced by the multiple exchange rate system and rationing of forex, fiscal deficit monetization is a central bank phenomenon. In the same vein, supply shocks are bookended by structural factors including insecurity, logistics, diesel prices, market imperfections, and declining total factor productivity. These are not primarily monetary phenomena; they are fiscal policy and structural concerns.

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SELECTED COMMODITIES AND THEIR PRICES



TOMATOES

Jan'23	N15,000	
Dec'22	Change	▼6.25%
	N16,000	



ONIONS

Jan'23	N35,000	
Dec'22	Change	▼30.00%
	N50,000	

RICE



Jan'23	N40,000	
Dec'22	Change	▲5.26%
	N38,000	

BEANS (OLOVIN)



Jan'23	N42,000	
Dec'22	Change	▲31.25%
	N32,000	

PEPPER



Jan'23	N17,000	
Dec'22	Change	▼32.00%
	N25,000	

MELON SEEDS



Jan'23	N1,300	
Dec'22	Change	▲30.00%
	N1000	

YAM (MEDIUM)



Jan'23	N1,500	
Dec'22	Change	▼11.76%
	N1,700	



NOODLES

Jan'23	N4,100	
Dec'22	Change	▲20.59%
	N3,400	



PALM OIL

Jan'23	N5,500	
Dec'22	Change	▲10.00%
	N5,000	

SUGAR (ST. LOUIS)



Jan'23	N850	
Dec'22	Change	▲13.33%
	N750	

BOURNVITA



Jan'23	N1,800	
Dec'22	Change	▼10.00%
	N2,000	

BABY FOOD (CERELAC)



Jan'23	N5,200	
Dec'22	Change	▲2.50%
	N5,000	

MARGARINE (BLUE BAND)



Jan'23	N1,800	
Dec'22	Change	▲5.88%
	N1,700	















SEMOVITA (10KG)



Jan'23	N6,700	
Dec'22	Change	↔1.50%
	N6,700	

Inflation trend in sub-Saharan Africa

In line with the moderation in global commodity prices, most countries in the Sub-Saharan African (SSA) region saw a further decline in inflation. Four of the six countries (Angola, Kenya, South Africa, and Zambia) tracked by FDC recorded disinflation in the past month. The downward inflation trajectory is attributable to the sustained decline in global food prices and the relative stability of some of the economies' currencies.

Country	January Inflation (%)	Most Recent Policy rate (%)
Nigeria	21.42* 	17.50 
Angola	13.86 (Dec) 	18.00 
Kenya	9.00 	8.75 
South Africa	7.20 (Dec) 	7.25 
Ghana	54.10 (Dec) 	28.00 
Uganda	10.40 (Nov) 	10.00 
Zambia	9.40 	9.00 

FDC Forecast

Outlook

We expect that the Central Bank is likely to coordinate its activities with the Debt Management Office now that we have an arbitrarily determined yield curve. This will enable the federal government to securitize its ways and means advances to help normalize the yield curve. Also, we expect the inflation rate to remain elevated in Q1 '23. Currency weakness, higher logistics costs, and election uncertainty will further put upward pressure on the price of food and non-food items.

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