

Economic Bulletin

MAY
15
2023



Headline Inflation

Jumps Again to 22.22% in April

The National Bureau of Statistics (NBS) released the April CPI report today (May 15) as scheduled. In line with our forecast, headline inflation increased again by 0.18% to 22.22% from 22.04% in March. This is the fourth consecutive monthly increase and the highest inflation rate in 18 years. The last time inflation spiralled to this level was in 2005 (24.3%). At that time the monetary policy rate (MPR) was 13%p.a. and Nigeria had just completed its debt forgiveness and rescheduling.

The sustained uptick in the general price level was mainly due to a surge in the food basket to 24.61% from 24.45% in March. This is not surprising as the second quarter is typically the peak of the planting season. Some of the commodities that witnessed the highest spikes are tomatoes, yam and other tubers. The price of a basket of tomatoes jumped by 100% to 70,000 from N35,000.

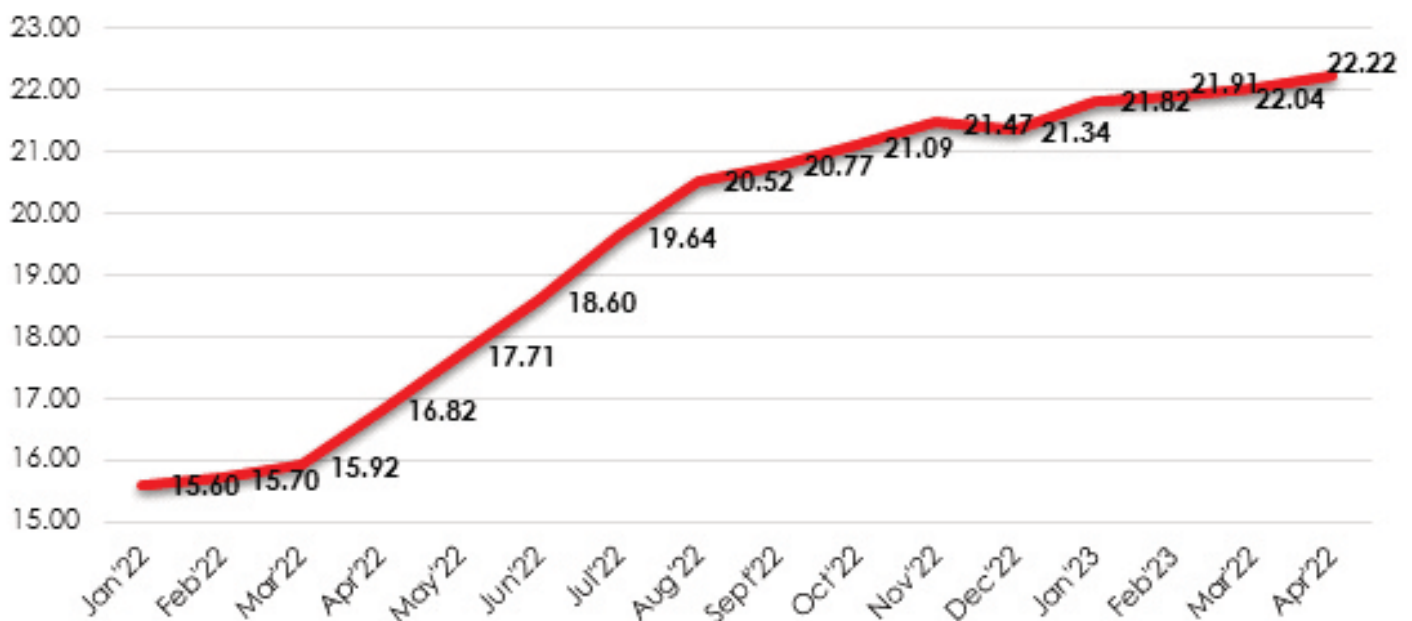
Monetary policy in a transition period

There are two major uncertainties that have been impacting inflation expectations & psychology in the past few months. These are the price of diesel and the temporary appreciation of the Naira in the forex market. In April, the price of diesel declined by 35% to N640/litre while the exchange rate appreciated by 1.33% to N740/\$ in the parallel market.

22.22%

Headline inflation rate for Nigeria

HEADLINE INFLATION (%)



Source: NBS, FDC Think Tank

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The MPC meets next week for the last time in this administration and expectations are for a 25 basis points increase in the MPR, in line with most other Central Banks.

Data breakdown

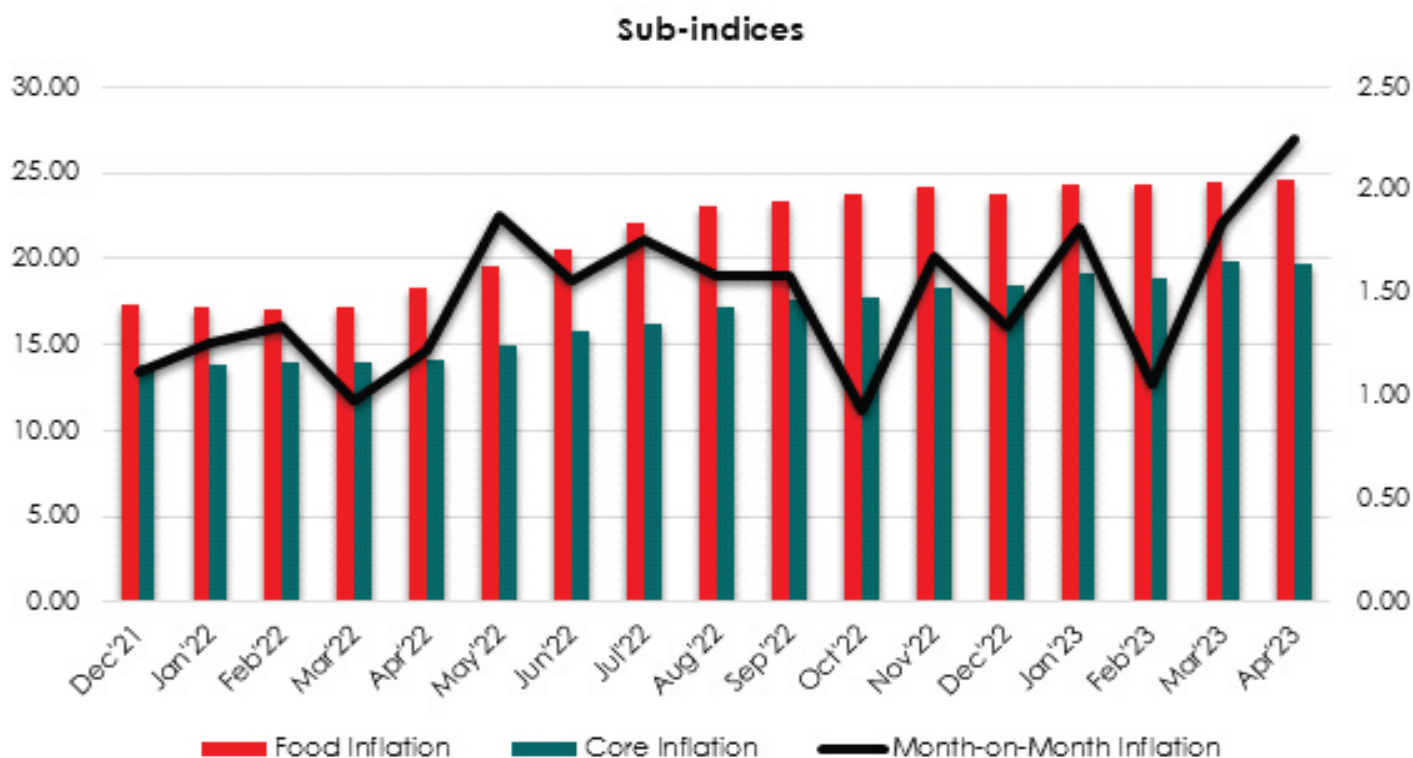
Monthly inflation up 0.05%

Month-on-month inflation rose by 0.05% to 1.91% (25.5% annualized) in April from 1.86% (24.69% annualized) in March. This largely reflects the combined effects of supply shortfalls and a boost in aggregate demand.

Food inflation up again due to the planting season

The Nigerian food basket has consistently increased since the beginning of the year. While the uptick in the first three months of the year have been largely attributed to the disruptive impact of the Naira cash crunch, the increase this time is largely due to the planting season effect. Q2 is typically the peak of the planting season and the resulting impact is a reduction in food supply and ultimately higher prices.

The annual food index rose by 0.16% to 24.61% in April from 24.45% in March while the monthly food index was up 0.06% to 2.13%. The commodities that recorded the highest price increases were oil and fat, bread and cereals, fish, potatoes, yam and other tubers, fruits, meat, vegetable, and spirits.



Source: NBS, FDC Think Tank



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FUNDS MANAGEMENT

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FINANCIAL ADVISORY



Head Office (Lagos)

Union Bank Building (2nd floor)
Plot 1668b, Oyin Jolayemi
Street, Victoria Island, Lagos.
081 51 71 71 71

Abuja Branch

Phase 1, 5th Floor, Suite F5. 1
Rivers House, Plot 83 Ralph
Shodeinde Street, CBD, Abuja.
+234 09 292 5164



www.alphamorgan.com



info@alphamorgan.com

Core inflation increased by 0.28% to 20.14%

Core inflation (inflation less seasonalities) rose by 0.28% to 20.14% in April, the 2nd consecutive monthly increase. This was despite the relatively stable exchange rate and moderating logistics costs (lower diesel prices). Diesel, which accounts for over 30% of firms' logistics costs declined by 35% to N640/litre in April while the exchange rate appreciated by 1.33% to N740/\$ in the same period.

The highest increases were recorded in the prices of gas, passenger transport by air, liquid fuel, vehicle spare parts, fuels, and lubricants for personal transport equipment, medical services, passenger transport by road.

Rural & Urban Inflation

On an annual basis, rural inflation increased by 0.05% to 21.14% whilst urban inflation rose sharply by 0.32% to 23.39% in April. On a monthly basis, both indices climbed to 1.72% and 2.00% in April from 1.78% and 2.05% in March respectively. The urban-rural inflation gap rose to 2.25% in April from 1.98% in March. This suggests the lingering impact of storage and logistics challenges.

Outlook

Headline inflation is expected to continue its upward trend due to the planting season effect. This will be one of the major considerations at the MPC meeting later this month (May 22/23). The committee will most likely increase the MPR by 25bps, in line with global trend.

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