

Economic Bulletin

JUNE 15 2023



Headline Inflation

Inflation hits 22.41% as Commodity Prices Spike

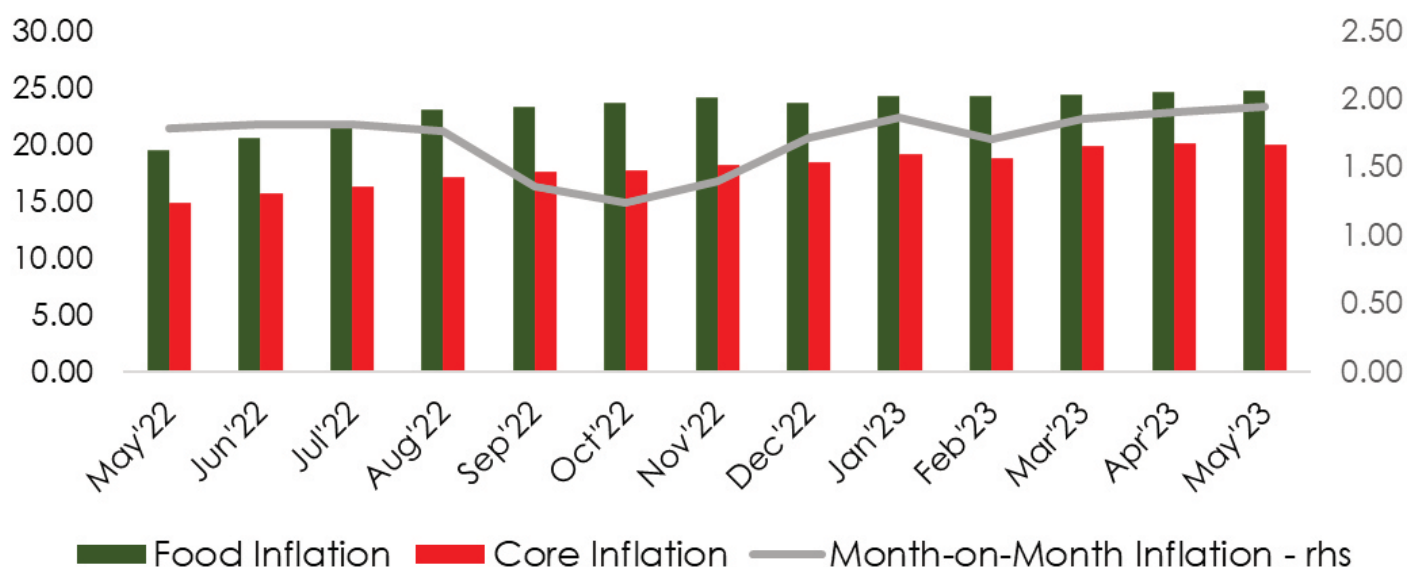
22.41%

Headline inflation rate for Nigeria

Nigerian headline inflation for the month of May rose by 0.19% to 22.41% from 22.22% in April. This was primarily due to the surge in the price of major staples, evidenced by the 0.21% increase in food inflation to 24.82%. The commodities that recorded the highest price increases were oil and fat, yam and other tubers, bread, cereals, fish, potatoes, fruits, meat and vegetables.

The data showed that core inflation, which is inflation less seasonalities, moderated by 0.08% to 20.06%, the first decline since February. The decline in core inflation is cheery news but it is also important to note that the inflation data for May is not reflective of the impact of petrol subsidy removal and exchange rate unification.

Inflation sub-indices (%)



Source: NBS, FDC Think Tank

Data Breakdown

Month-on-month inflation up marginally by 0.03%

Month-on-month inflation inched up by 0.03% to 1.94% (25.93% annualized) from 1.91% (25.5% annualized) in April.

Food inflation increased by 0.21% to 24.82%

The annual food sub-index rose by 0.21% to 24.82% in the month of May from 24.61% in April, while the monthly food index was up 0.06% to 2.19%. This largely reflects the impact of the planting season, characterized by food shortages and higher food prices.

Core inflation down 0.08% to 20.06%

Contrary to expectations, year-on-year core inflation (inflation less seasonalities) declined in May. The index fell by 0.08% to 20.06% from 20.14% in April. This could be attributed to base effects.

However, Month-on-month core inflation surged to 1.8% from 1.46% in the prior month, partly reflecting the increase in the price of diesel towards the end of the month.

Rural & urban inflation

In the month of May, both rural (21.19%) and urban (23.74%) inflation increased annually. On a monthly basis, both indices climbed to 1.80% and 2.09% in May from 1.72% and 2.00% in April respectively. The urban-rural inflation gap rose to 2.55% from 2.25% in April. This largely reflects the impact of the planting season and logistics challenges.

Monthly inflation



Food Inflation



Core Inflation



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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

Domestic inflation continues to defy global trends

Nigeria's inflation is deviating significantly from the global trend. While inflation in major countries is fast decelerating, Nigeria's inflation continues to head northward, crossing the 20% threshold. For example, US inflation moderated to 4% in the month of May, while inflation in the EU and India fell to 6.1% and 4.25%, respectively.

Inflation is also trending downward in some African countries. For instance, Senegal's inflation rate eased for the second month in May to 8.3%, down from 9% in the previous month. Also, Uganda's inflation eased for the fourth consecutive month to 6.2% in May 2023 from 8% in April.

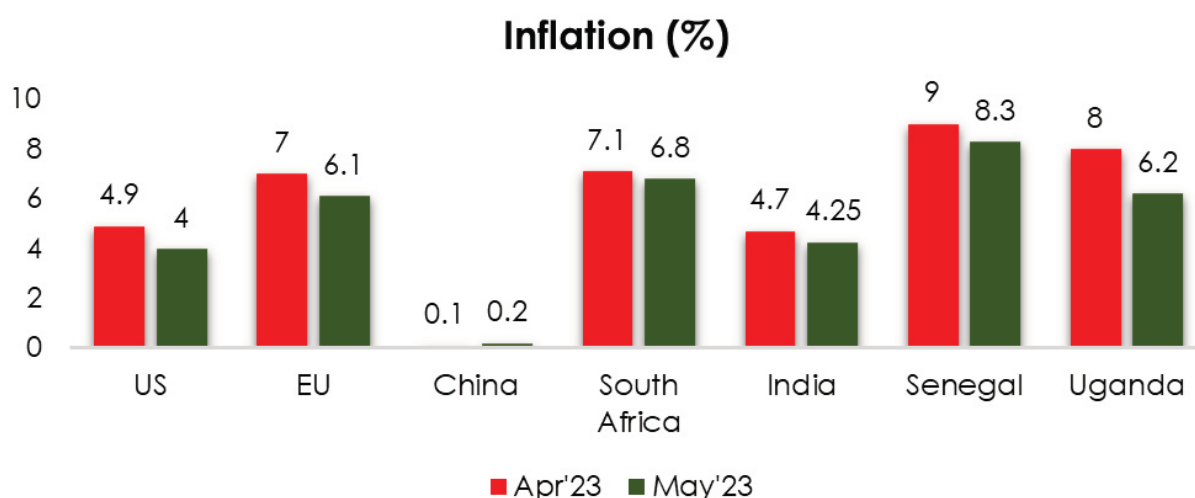
Despite the tightening stance of the MPC, inflation has maintained the upward trend in Nigeria, indicating that the inflation drivers are more structural than monetary. Although President Tinubu signaled his commitment to lower interest rates, the sustained rise in inflation could ramp up pressure on the MPC to go big with its hawkish stance at its next meeting in July.

How has inflation impacted Nigerians?

As a cankerworm and an unauthorized catchpole, inflation imposes inestimable costs and losses on consumers, savers, fixed-income earners, and businesses.

Consumers: Consumers are worse off when prices rise faster than their nominal income, especially in countries where wages or salaries are not indexed to inflation. Inflation erodes purchasing power, and to the extent that consumption is a function of income, it affects the poor disproportionately. Given that low-income households spend a greater proportion of their income on essentials, inflation is indeed hitting the poorest households twice as hard as the rich. With stagnant wages and rising costs of living, deprivation and desperation are currently high.

Savers: When inflation rises quickly, money loses its value. This is because interest rates rarely keep up with increases in the general price level. With a saving rate of 5.55% (30% of MPR) and inflation at 22.41%, savers lose 16.86% p.a. on their savings. In other words, ₦100,000 kept in a savings account



Source: FDC Think Tank

will only buy goods worth ₦83,140 after one year, losing ₦16,860! In other words, inflation discourages savings in the domestic currency and could force savers to fly to safety in dollars, a recipe for dollarization.

Fixed income investment: Inflation shrinks real returns, with double-digit inflation most likely to yield negative real returns. Since the return on fixed-income investments is static, every unit increase in inflation constitutes a unit decrease in real returns.

Businesses: With high inflation, the prices of production inputs (such as raw materials) and capital goods (like machines) also rise. This increases operating expenses and shrinks the bottom line. Also, rising prices of goods and services could result in a decline in turnover, which further weighs on profitability.

Outlook

Nigeria is currently embarking on structural reforms, including a fundamental change in an expensive petrol subsidy regime. It is also attempting to dismantle a cumbersome forex system which in theory is a floating rate but in practice is as rigid as it comes.

While the removal of petrol subsidy is likely to push up inflation by about 3% to 25.4% in the short-term, fears that exchange rate unification will also stoke inflation are misplaced. This is because imported commodities in Nigeria are currently priced using the parallel market rate. Therefore, a floating of the Naira is unlikely to have a major impact on the price level.

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