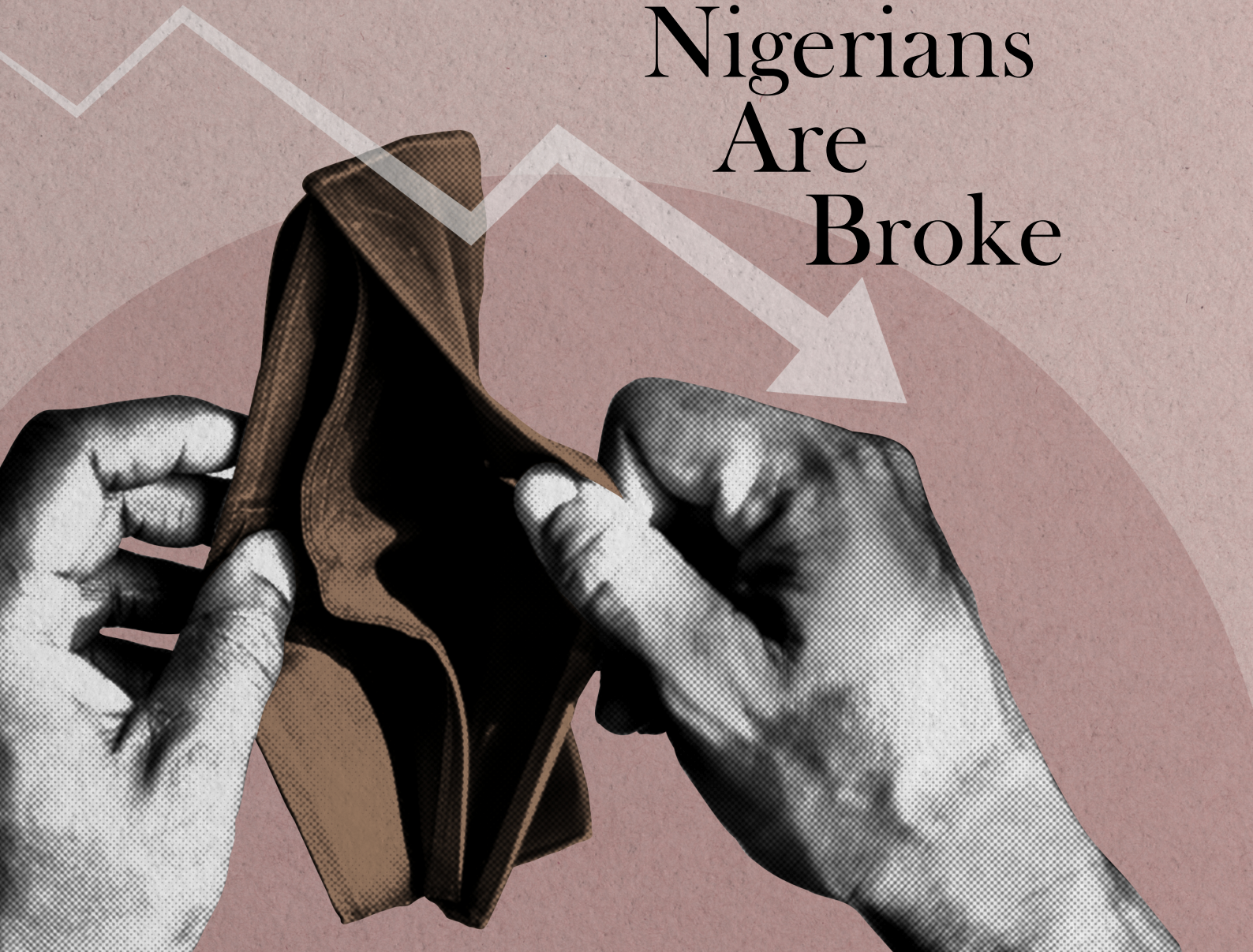


# Economic Bulletin

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Nigerians  
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# Headline Inflation

## Set to spike to 22.8% & food inflation to 24.85%

Based on our time series model and survey of major retail markets in the Lagos Metroplex, headline inflation is likely to surge to 22.8% in June from 22.41% in May. If our projection turns out to be accurate, it will be the sixth consecutive monthly increase and the highest inflation rate in 18 years. It will also be 13.8% above the upper bound of the CBN's 6-9% target.

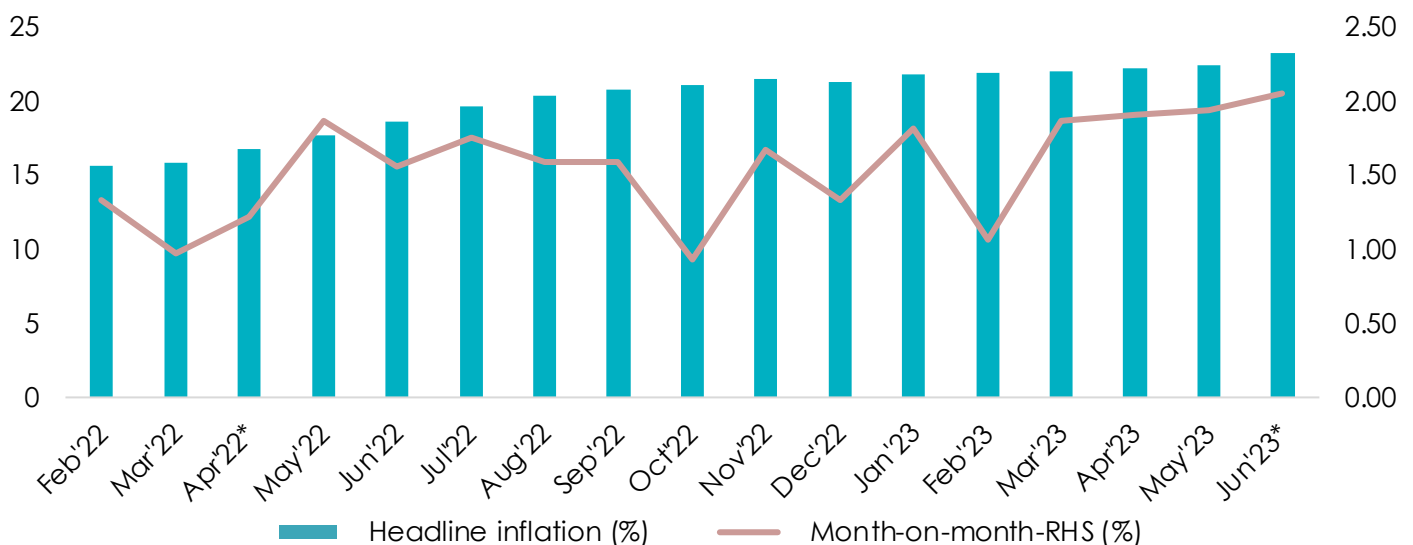
The sustained rise in the general price level is mainly because of the spike in the food basket (estimated at 24.85%) due to the Eid-el-Kabir celebration and planting season effect. The increase in the price level was compounded by higher transport and logistics costs owing to the removal of the petrol subsidy. Notably, the price of pepper jumped by 225% to N65,000 while the price of tomatoes peaked at N110,000 before slipping back to N75,000. The seesaw price movement was more in response to consumer resistance and switching to substitutes. The customer behavior in the local markets has been a classic example of the income and substitution effect of price changes.

Our econometric model shows that core inflation will increase by 0.31% to 20.35% in June. Month-on-month inflation, which reflects

# 22.80%

**Projected headline inflation rate for Nigeria**

## HEADLINE INFLATION (%)



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the current economic situation, is also expected to remain elevated, rising further to 2.16% (annualized at 29.16%) in June from 1.94% (annualized at 25.93%) in May. This indicates that inflation risks are elevated and an inflection point may not be reached anytime soon.

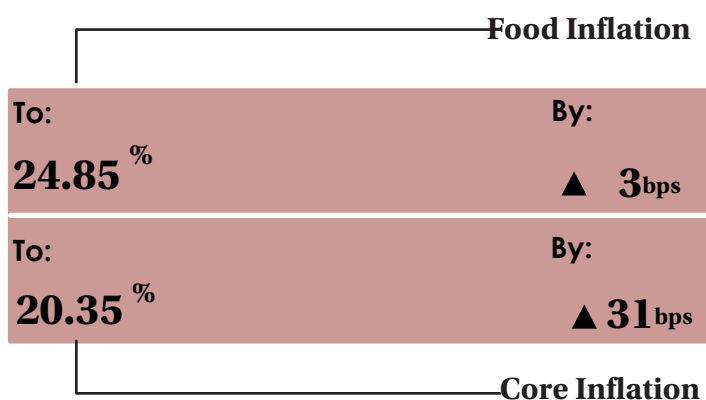
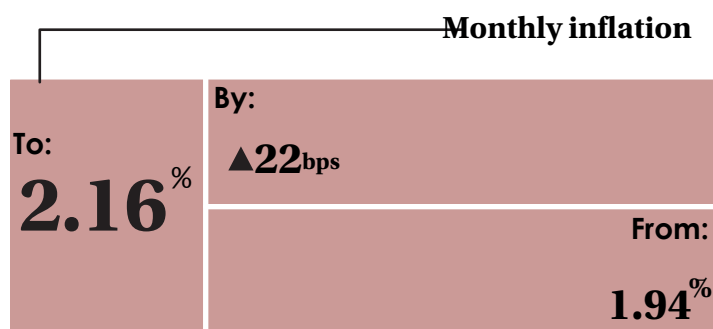
### Currency depreciation and rising logistics costs to drive up core inflation

Core inflation, which is inflation less seasonalities, is expected to increase by 0.31% to 20.35% in June from 20.04% in May. This increase will be driven by currency depreciation and rising logistics costs. In June, the naira depreciated sharply by 43% at the parallel market to close the month at N840/\$. Also, the price of diesel and PMS remained elevated in June.

### Policy reforms and inflation expectations

Policy reforms play a significant role in shaping inflation expectations in Nigeria. With properly designed and effectively implemented policy reforms, inflation expectations can be anchored at lower levels, thereby reducing uncertainty and facilitating economic planning and investment decisions. In Nigeria, major policy reforms have been announced and implemented in the last month, which will most likely drive inflation expectation.

**Currency devaluation:** One of the key developments in June was the de-segmentation of the forex market, which led to a 42.79% depreciation in the value of the Naira at the I&E window (N825/\$). In addition, the exchange rate for computing import duty was adjusted by 40% to N589.45/\$ from N422.3/\$. This is expected to push up the prices of commodities with import content. Already, the price of flour has increased by 5% while the impact on other commodities will be more pronounced in July. Currency devaluation can influence inflation expectations through



psychological and behavioral channels. These expectations can become self-fulfilling as businesses anticipate higher costs and adjust their prices accordingly. Individuals, in turn, may demand higher wages to keep up with the expected inflation, creating a cycle of rising prices and wages.

**Fuel subsidy elimination:** With the removal of the fuel subsidy, the price of PMS has risen by 150% to an average of N500/liter. The increase in energy costs is beginning to reflect in the prices of transport and food, contributing to inflationary pressures and raising inflation expectations. This is in addition to the ongoing exchange rate unification process, which has caused the official exchange rate to depreciate; prices are now being adjusted to reflect the prevailing exchange rates. Already, marketers are beginning to import PMS at the new official exchange rate, which will likely push fuel prices to N600 - N700 per liter in the coming months.

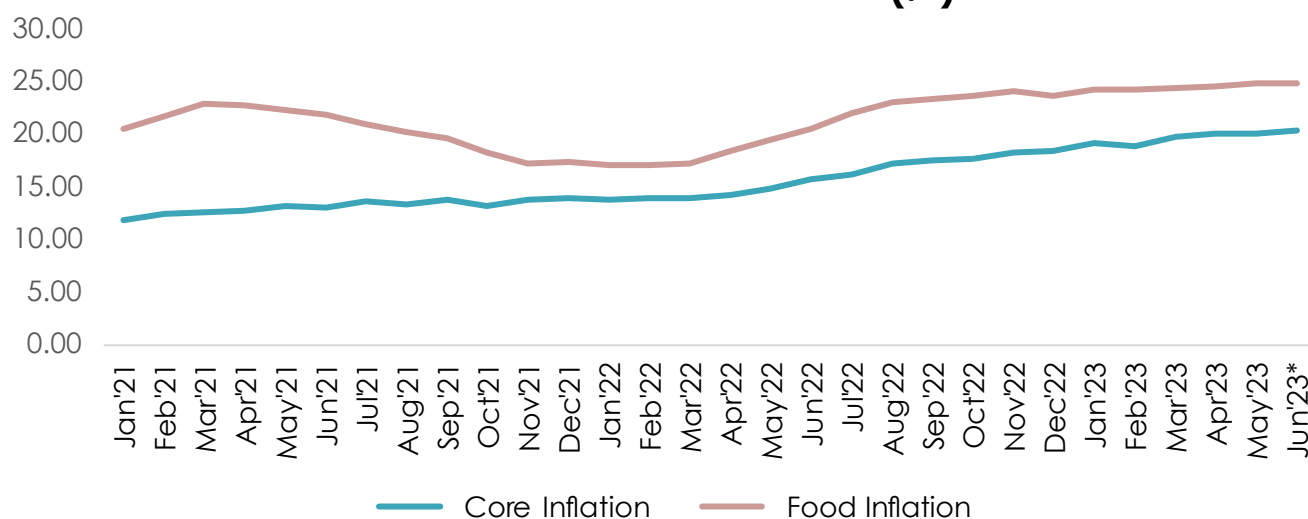
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## CORE VS FOOD INFLATION (%)



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### Inflation tapering across sub-Saharan Africa

In line with the decline in global commodity prices, inflation in most countries in sub-Saharan Africa has begun to ease. Four of the six countries under review reported a lower inflation rate. The data shows that Uganda's inflation rate moderated to 4.9% in June from 6.2% in May. This is the fifth consecutive monthly decline and lowest rate in over a year. The decline was largely driven by lower prices of food items and other related items including Waragi (local gin). Inflation also eased in other countries like Kenya, South Africa, and Zambia.

Country	Inflation (%)	Most Recent Policy rate (%)
Nigeria	22.8* <span style="color: red;">▲</span>	18.5 <span style="color: red;">▲</span>
Angola	10.62 <span style="color: green;">▼</span>	17 <span style="color: gray;">↔</span>
Kenya	7.9 <span style="color: green;">▼</span>	10.5 <span style="color: red;">▲</span>
South Africa	6.3 <span style="color: green;">▼</span>	8.25 <span style="color: red;">▲</span>
Ghana	42.2 <span style="color: red;">▲</span>	29.5 <span style="color: gray;">↔</span>
Uganda	4.9 <span style="color: green;">▼</span>	10 <span style="color: gray;">↔</span>
Zambia	9.8 <span style="color: green;">▼</span>	9.5 <span style="color: gray;">↔</span>

FDC Forecast

### Outlook for Q3'23

Inflation is expected to remain elevated in Q3 due to the lingering planting season characterized by food shortages. This increase will be supported by currency depreciation and the impact of the fuel subsidy elimination on food and transport prices.

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