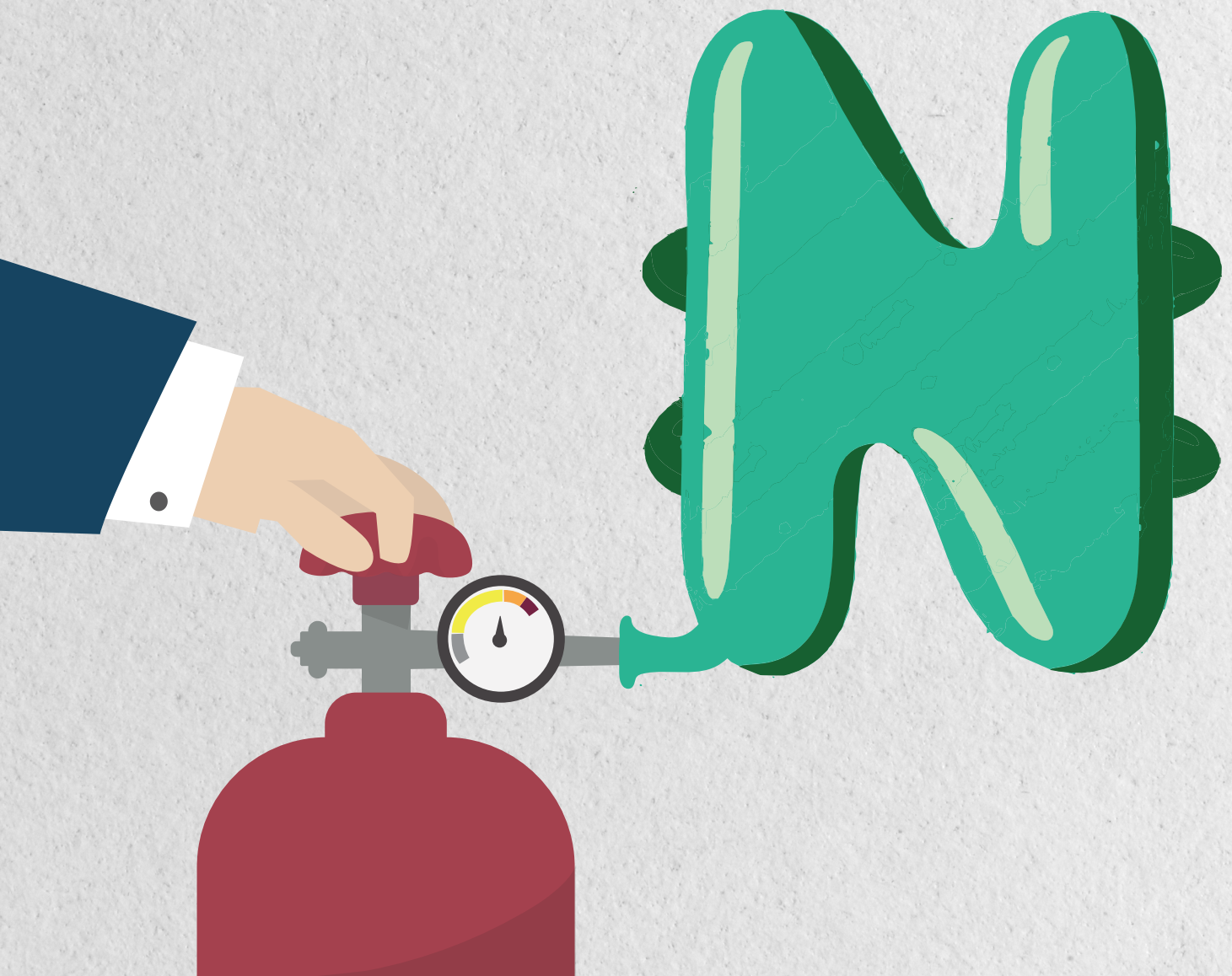


# Economic Bulletin

AUG  
15  
2023



# Headline Inflation

## Surges to 24.08% as Cost-Push Factors Go Awry

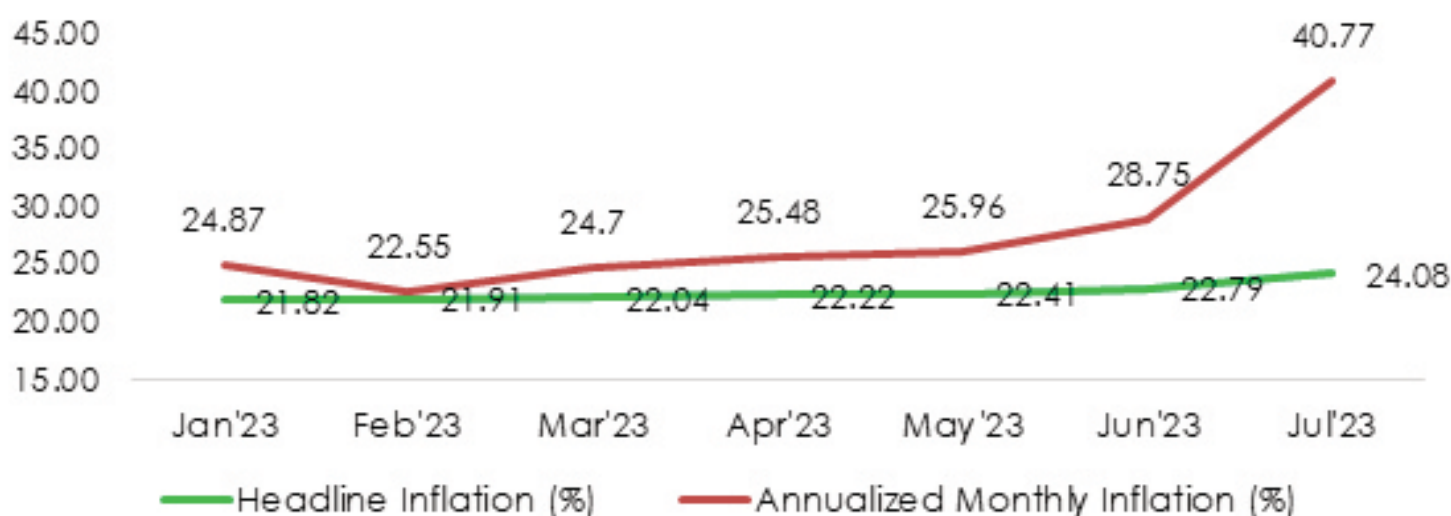
# 24.08%

Headline inflation rate for Nigeria

Nigeria's headline inflation maintained its upward trajectory according to the CPI report released by the National Bureau of Statistics today. The index increased sharply by 1.29% to 24.08% in July. This is the seventh consecutive monthly increase and the highest inflation rate in 18 years. What is more striking is that the month-on-month inflation measure, which when annualized, jumped to 40.77% from 28.75% in June. The steep rise in consumer price inflation largely reflects the impact of recent policy changes on food and transport costs. Food inflation rose sharply by 1.73% to 26.98%.

Since the policy pronouncement on May 29, the pump price of petrol has increased twice by a cumulative of 233.5% to N617/ltr and is likely to rise further as the landing cost of the product rose by 37.4% to N632.17/ltr in July from N460/ltr in June. This is primarily

### INFLATION (%)



NBS, FDC Think Tank

because of higher global crude oil prices (up 16% to \$81.80pb) and a weaker currency.

The naira depreciated sharply by 12.04% to an all-time low of N955/\$ at the parallel market due to heightened seasonal (summer travel) and speculative demand amid persistent forex shortages. The currency also lost 3.11% at the official window, depreciating to N799.90/\$ from N755/\$ at the end of June.

The other inflation contributory factors are money supply growth (up 33% to N64.91trn) and higher diesel prices. The price of diesel, a major fuel used by trucks for food distribution and logistics surged by 18.06% to N850/ltr due to naira depreciation and the 7.5% VAT.

## DATA BREAKDOWN

### Month-on-month Inflation up 0.76% to 2.89%

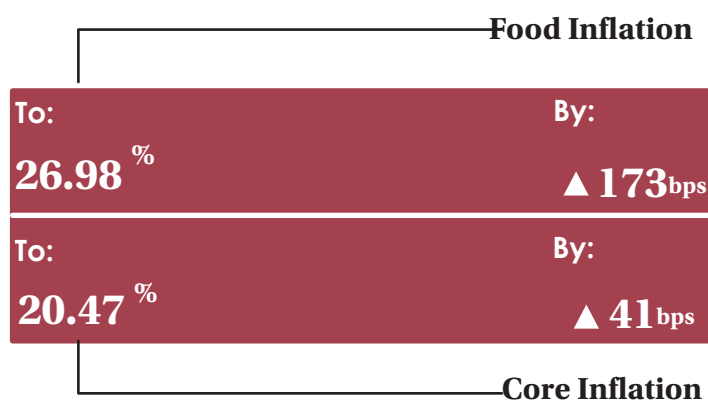
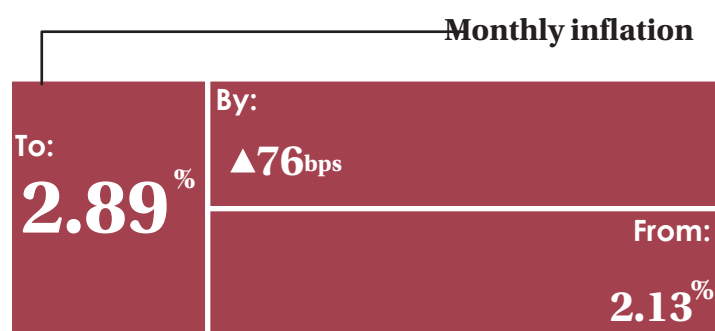
Month-on-month inflation, which reflects the current economic situation, surged by 0.76% to 2.89% (40.77% annualized) from 2.13% (28.75% annualized) in June. This indicates that Nigerians are feeling the pain of recent policy changes.

### Core inflation up 0.41% to 20.47%

Core inflation, which is inflation less volatile items like food and energy costs, increased by 0.41% to 20.47% in July from 20.06% in June. This increase in core inflation is due to naira depreciation and rising logistics costs. Monthly core inflation rose to 2.11% from 1.77% in June.

### Food inflation surges by 1.73% despite the harvest

Food inflation spiked further to 26.98% up from 25.25% in June, while the monthly food index was up 1.05% to 3.45%. The commodities that recorded the highest price increases were oil



and fat, bread and cereals, fish, potatoes, yam and other tubers, fruits, meat, vegetable, milk, cheese, and eggs. The increase in food inflation reflects the impact of the surge in logistics costs, naira depreciation, and the customs duty exchange rate adjustment on food prices. This impact outweighed the harvest season effect.

### Rural and urban inflation

Both rural inflation and urban inflation increased sharply by 1.12% and 3.45% to 22.49% and 25.83% respectively. Monthly, both indices climbed to 2.74% and 3.05% in July from 1.96% and 2.31% in June respectively. Notably, the urban-rural inflation gap rose sharply to 3.34% from 1.01% in June, largely reflecting the impact of higher logistics costs on commodity prices.

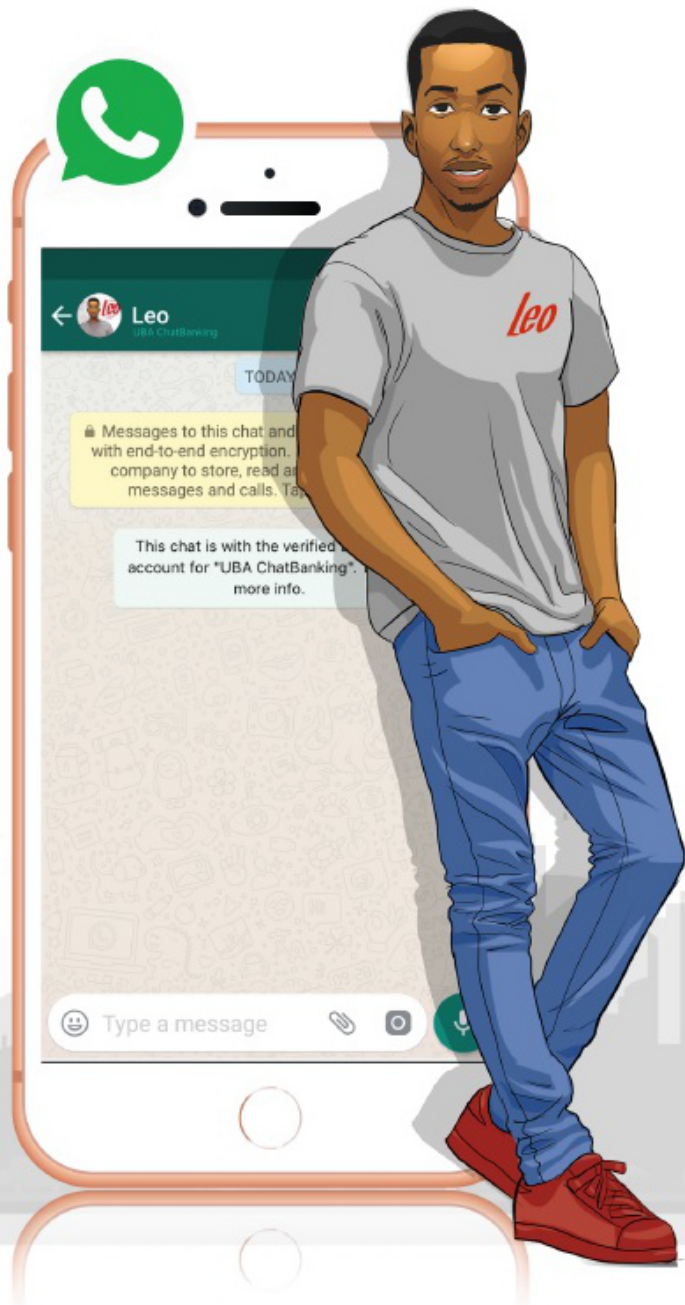
### The Naira's dance: How depreciation's rhythm is impacting inflation

In the bustling corridors of Nigeria's economic landscape, a delicate dance unfolds between the naira and the rhythmic fluctuations of

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inflation. One of the most profound effects of naira depreciation is its strong correlation with inflation. As the naira depreciates, its impact on inflation reverberates across sectors, creating a symphony of economic challenges.

A devalued naira leads to higher import costs. This elevated cost of imports ripples through the economy, influencing production costs, supply chain dynamics, and consumer behaviour. Then inflation is unmasked, haunting households and businesses alike. As businesses face increased expenses, consumer prices rise, eroding purchasing power and reshaping living, spending, and saving patterns for consumers. What once was affordable is now luxury.

More so, the nexus between depreciation and inflation initiates a cascading effect across various sectors. The transportation industry grapples with rising fuel prices, leading to increased fares for commuters. Farmers encounter elevated costs for machinery, fertilizers, and other inputs, which can result in higher food prices. The real estate and construction industries feel the pinch as building materials become more expensive. The manufacturing sector grapples with increased expenses for raw materials, leading to elevated production costs.

Ultimately, the average citizen bears the brunt of this interconnected web of rising costs. Beyond monetary adjustments, fiscal strategies, and international trade dynamics play a pivotal role in mitigating the impact of naira depreciation on inflation.

### **Rising global food prices fan the flames of inflation in Nigeria**

Russia's withdrawal from the Black Sea grain deal, combined with India's restrictions on some rice exports due to unfavourable weather conditions, are fueling fears of a supply crisis and a spike in global food prices. Prices of commodities like rice and vegetable oil are already hovering at decade-highs, contributing to the increase in July's global food price index by 1.3% to 123.9 points.

Nigeria relies heavily on imported food items like rice and wheat to meet its domestic consumption needs. For instance, Nigeria spent N249.22bn on wheat imports in Q1'23, accounting for 4.48% of the country's import bill. Therefore, the sustained rise in global food prices will increase import costs, pushing up the domestic prices of the commodities. This will be compounded by the steady depreciation of the naira, the adjustment of the import duty, and the recent border closure.

### **Outlook**

We expect inflation to rise further in August despite the harvest season. This will be driven by the sustained impact of higher energy costs and currency depreciation. The steep rise in consumer price inflation will be a major consideration at the MPC meeting on September 25/26. Meanwhile, some policy-makers are beginning to question the effectiveness of interest rate increases as a panacea for controlling inflation. However, many analysts are of the view that a cocktail of policy measures including an interest rate hike is now imperative to rein in price inflation.

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