



INFLATION FORECAST **20**
AUG **23**

SEPTEMBER 12, 2023



Headline Inflation

set to rise again to 25.47%

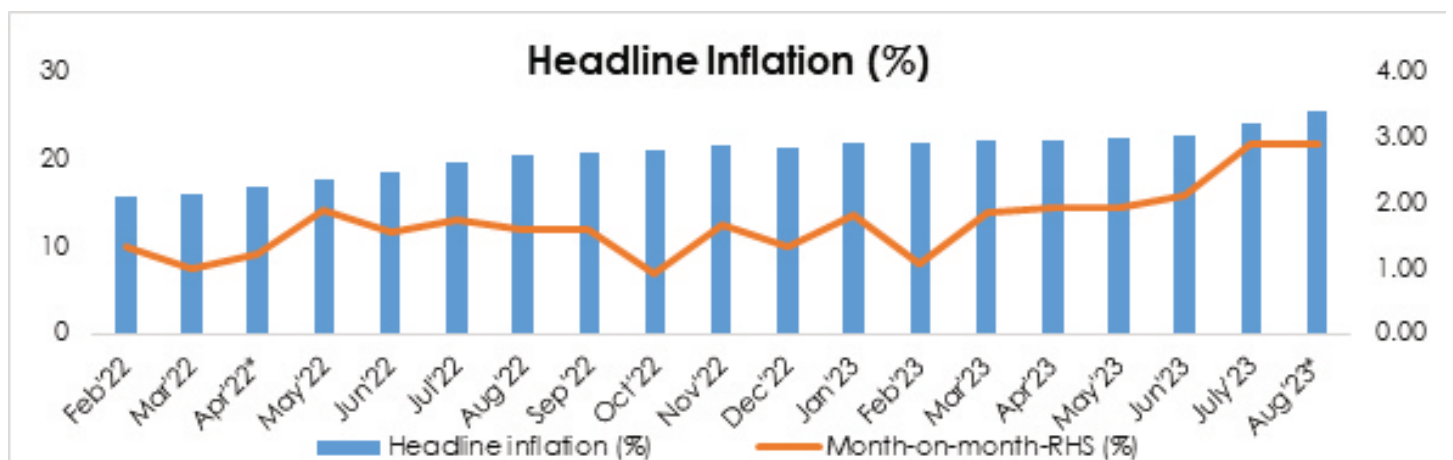
25.47%

Projected Official headline inflation rate for Nigeria

The jury is out as to what the true level of inflation is in Nigeria. One thing that is clear is that it is widely believed that inflation is high and is rising.

The Nigerian Bureau of Statistics (NBS) will release its official inflation data on Friday, September 15, 2023. Based on our market survey and econometric model, we expect Nigeria's headline inflation for August to increase further to 25.47% from 24.08% in July. This will be the 8th consecutive monthly increase and the highest level in 18 years.

The contributory factors to inflation in Nigeria remain basically the same. Prominent among these factors are naira depreciation, higher logistics costs, money supply growth and cost push factors. In the months of July and August, the Naira swung between N775/\$ and N955/\$ at the parallel market. The pass-through effect of a weak currency on domestic prices remains potent. Notable among the commodities that have high import contents are wheat, sugar, rice and dairy products.



*NBS, FDC Think Tank

Food inflation is projected to accelerate to 28.12% from 26.98%, while core inflation (inflation less food and energy prices) is projected to increase by 0.85% to 21.32%. Moreso, month-on-month inflation is expected to inch up by 0.01% to 2.9% (40.97% annualized) from 2.89% (40.77% annualized) in July.

Food inflation to accelerate to 28.12%

The year-on-year food inflation is projected to rise to 28.12% in August from 26.98% in July. The commodities that recorded price increases were mostly those with imported raw materials. This is largely due to the naira depreciation. The currency lost 4.89% to close at N920/\$ in August. The spike in the price of rice was partly because of India's ban on rice exports. According to the Food and Agriculture Organization of the United Nations, The global rice index rose by 9.8% to a 15-year high in August.

Commodities	July 2023	August 2023	%Change
Noodles	4,300	4,700	9.30
Palm Oil	4,500	4,800	6.67
Rice	50,000	61,000	22.00
Flour	35,000	38,000	8.57
Semovita	7,200	8000	11.11
Beans	36,000	38,000	5.56

Also, the prices of a few commodities such as tomatoes, pepper, plantain, ogbono and melon seeds, moderated. This is largely because of the harvest season, which typically peaks in Q3.

Currency pressures to push up core inflation

Core inflation, which is inflation less volatile items like food and energy costs, is expected

Monthly inflation



Food Inflation



Core Inflation

Commodities	July 2023	August 2023	%Change
Tomatoes	65,000	40,000	-38.46
Onions	55,000	45,000	-18.18
Pepper	40,000	35,000	-12.5
Melon seeds	1,500	1,000	-33.33
Ogbono	3,000	2,500	-16.67
Plantain	5,000	4,500	-10.00





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to increase by 0.85% to 21.32% in August. This increase will be largely driven by naira depreciation. During the month, the naira touched a new low of N955/\$ before appreciating to close the month at N920/\$.

costs. In August, the Zambian Kwacha depreciated by 6.69% to K20.26/\$, pushing inflation to a 17-month high of 10.8%. Also, Angola's inflation increased for the third consecutive month to 12.12% in July, largely due to the reduction in fuel subsidy.

Inflation is not Nigeria specific - It cuts across SSA

Inflation trends across Sub-Saharan Africa (SSA) have shown mixed directions. Three of the SSA countries under our review recorded higher inflation rates, while three reported declines. Price pressures in Sub-Saharan Africa have been mainly due to currency depreciation and higher energy

Country	August Inflation (%)		Most Recent Policy rate (%)	
Nigeria	25.47*	▲	18.75	▲
Angola	12.12(July)	▲	17	↔
Kenya	6.7	▼	10.50	↔
South Africa	4.7 (July)	▼	8.25	↔
Ghana	43.1 (July)	▲	30	↔
Uganda	3.5	▼	9.5	▼
Zambia	10.8	▲	10	▲

Impact on policy decision

This is political season in Abuja where political issues are more profound than economic reality. It is against this background that the MPC will meet on September 25-26. Prudent policy-making will suggest that a tightening is almost imminent whilst the political reality suggests otherwise. It is our view that a tightening at this time is almost inevitable.

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