INFLATION REPORT OCT 2023

November 13, 2023

ECONOMIC SPLASH

Headline Inflation

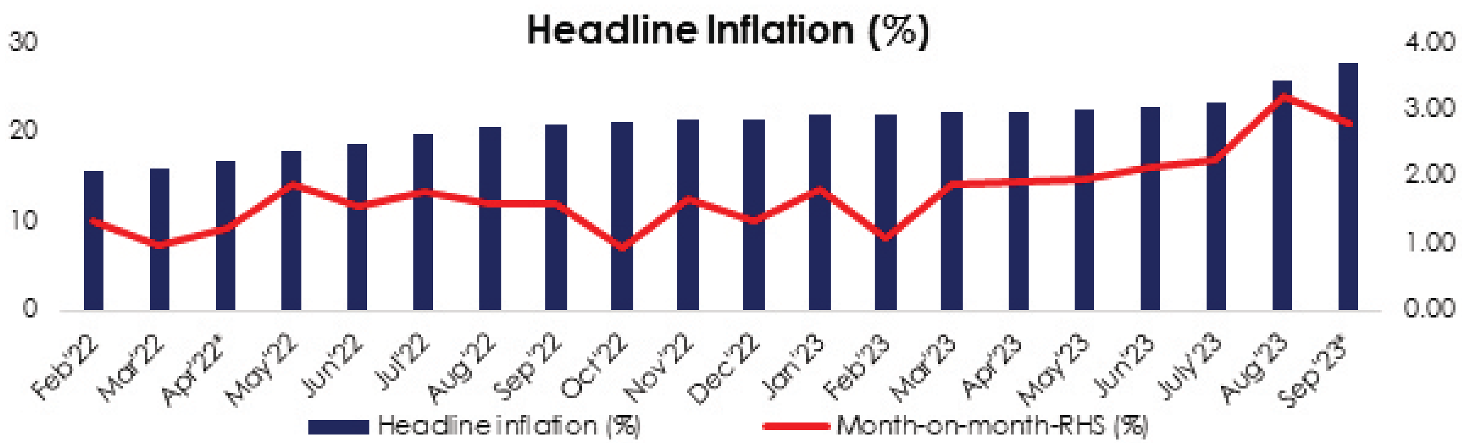
To surge to 27.8% in October

27.8%

Projected Official headline inflation rate for Nigeria

In the past four years, inflation has been a front burner issue in most economies. The quantitative easing, near-zero interest rates, and fiscal stimulus aimed at alleviating the impact of the COVID-19 pandemic in 2020 stoked inflationary pressures. Forward to 2022, supply chain disruptions due to the Russia-Ukraine war pushed inflation to record highs in most economies. In the US and UK, inflation peaked at multi-decade levels of 9.1% (Jun'22) and 11.1% (Oct'22) before falling to 3.7% and 6.7% respectively in response to aggressive monetary policy tightening. Unfortunately, inflation has maintained its upward trend in Nigeria despite the CBN's hawkish monetary stance. Between May 2022 and July 2023, the monetary policy rate was raised by 575bps to 18.75%p.a from 13%p.a.

The National Bureau of Statistics will publish its October inflation data on Wednesday (November 15). Based on our market survey and econometric model, we forecast a 1.08% increase in headline inflation to 27.8%. This will be the 10th consecutive monthly increase this year and the highest level of inflation in 18 years. The monthly inflation sub-index is also projected to increase to 2.13% (28.75% annualized) from 2.10% (28.33% annualized) in September.



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[1]NBS, FDC Think Tank

Our time series model points to a 1.21% increase in the food basket to 31.85%. The commodities that recorded the highest price increases were flour, semovita, sugar and noodles. Typically, food prices decline in October through December, which is typically the harvest season. However, this year, we have witnessed an abberational movement in food prices due to the cross elasticity of demand impact of imported foods on locally produced commodities like yams, garri, beans and cassava. An example of this phenomenon is the relationship between the price of wheat flour and yams. The price of flour has spiked by 46.88% to N47,000 per 50kg bag from N32,000 a year ago. The knock-on effect on yam is evident in its price, which rose by 16.7% to N3,500 per tuber during the month.

Monthly inflation

To: 2.13%

By: ▲3bps

From: 2.10%

Food inflation

To: 31.91%

By: ▲131bps

From: 30.6%

Some noticeable trends during the month

- *Imported commodity prices were high due to the exchange rate pass-through effect*

The price of imported commodities increased by an average of 15.36% in October despite the decline in the global food price index by 0.5% to 120.6 points. This is mainly because of the depreciation in the value of the Naira. At the parallel market, the Naira touched an all-time low of N1,300/$ on October 25 before appreciating to N1,115/$ as the CBN commenced the settlement of some of its backlog of matured Non-Deliverable Forwards (NDF).

Commodities	Sep-23	Oct-23	%Change
Flour	39,500	47,000	**18.99%**
Semovita	8,500	9,800	**15.29%**
Noodles	4,800	5,100	**6.25%**
Sugar (St. Louis - 1pkt)	1,000	1,400	**30%**
Bournvita	1,600	1,700	**6.25%**

- Local food prices up despite the harvest

Despite the harvest, the prices of locally produced commodities have remained sticky downwards. This is largely because of higher logistics costs, poor road infrastructure, and other logistics constraints.

Commodities	Sep-23	Oct-23	%Change
Tomatoes	35,000	50,000	**42.9%**
Yam	9,000	10,500	**16.7%**
PLantain	3,000	4,000	**33.3%**
Pepper	35,000	40,000	**14.3%**
Melon	1,000	1,000	**0%**

Bright spots: The Return of Monetary Orthodoxy and Inflation Expectations

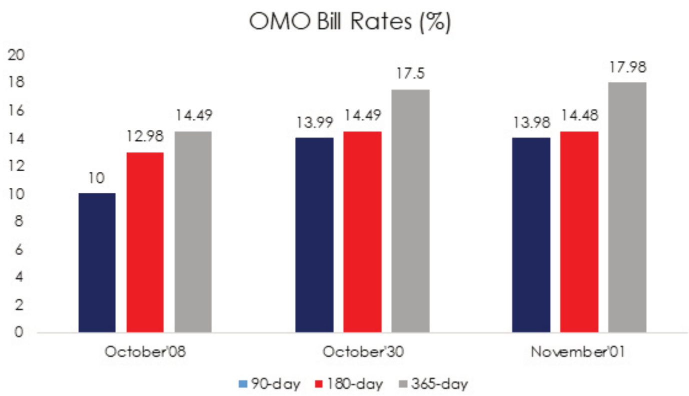
In what can be described as the most aggressive monetary policy tightening in over two decades, the CBN has hiked the monetary policy rate (MPR) by 7.25% to 18.75%pa to not only catch up with the global economy but curtail inflation.

Disturbingly, inflation continues to bite, retarding growth and eroding consumer disposable income. Thankfully, to restore monetary policy consolidation and properly anchor inflation expectations, the CBN is retracing its steps to monetary orthodoxy to achieve its core mandate of price stability. The CBN has reconsidered its interventionist programs such as the Anchor Borrowers Scheme that heightened the loose monetary conditions, heightened forex demand pressures and accelerated inflation.

Additionally, the CBN has started using Open Market Operations (OMO) as a liquidity management tool, a move that increased the stop rate to 17.98%pa (1-year) from 14.49%pa, narrowing the gap between the MPR (18.75%pa) and OMO Bill rate to 0.77%.

However, while some pundits argue that the suspension of monetary unorthodoxy will reverse the growth gains of the past years, the debilitating consequences of 27% inflation are even better imagined than experienced. The CBN's core mandate is price stability, and any other mandate that conflicts with this deserves to be relegated, at least until the inflation war is won. The paradox is that inflation rates above 11.5–12.5% will mute any effort to stimulate growth.

More importantly, fiscal consolidation, addressing insecurity, dealing with infrastructure decay, and dismantling structural bottlenecks are critical for achieving price stability in the long run.



SOURCE: CBN, FDC Think Tank

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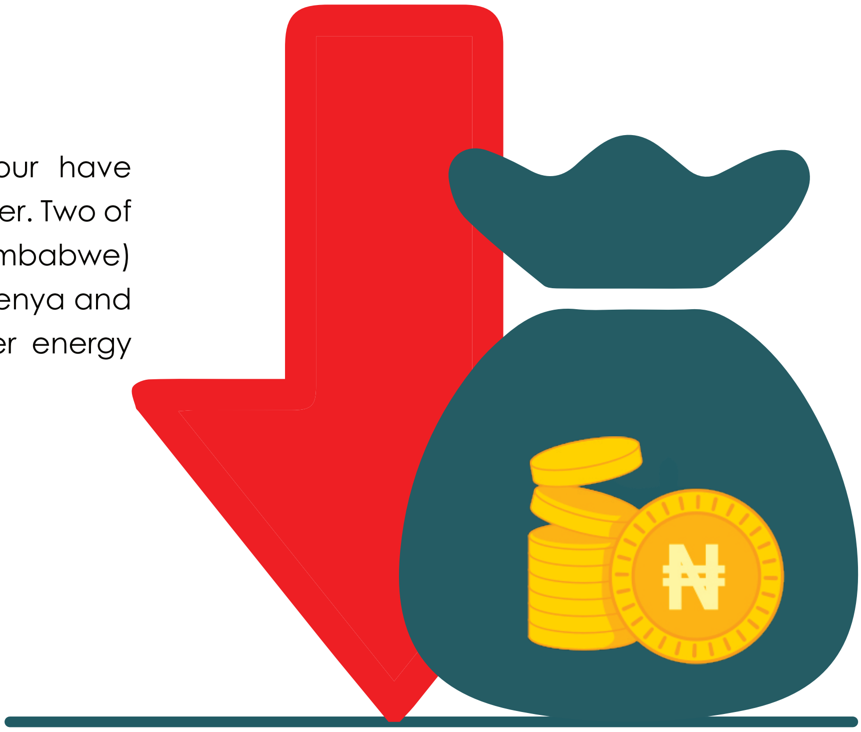
Sub-Saharan Africa

Of the 48 Sub-Saharan Africa, only four have released their inflation numbers for October. Two of these countries (Uganda and Zimbabwe) recorded declines while the other two (Kenya and Zambia) posted increases due to higher energy costs and currency pressures.



Country	Inflation (%)		Most Recent Policy rate (%)	
Nigeria	27.8*	▲	18.75	↔
Angola	15.01	▲	17	↔
Kenya	6.9	▲	10.50	↔
South Africa	5.4	▲	8.25	↔
Ghana	38.1	▼	30	↔
Uganda	2.4	▼	9.5	↔
Zambia	12.6	▲	10	↔

Impact on policy-making

The MPC is likely to meet this November. We expect the continued rise in inflation to be a major deliberation. However, the MPC is likely to follow in the footsteps of the Fed and ECB to leave interest rates unchanged as it keeps its eyes fixed on inflation and the exchange rate.