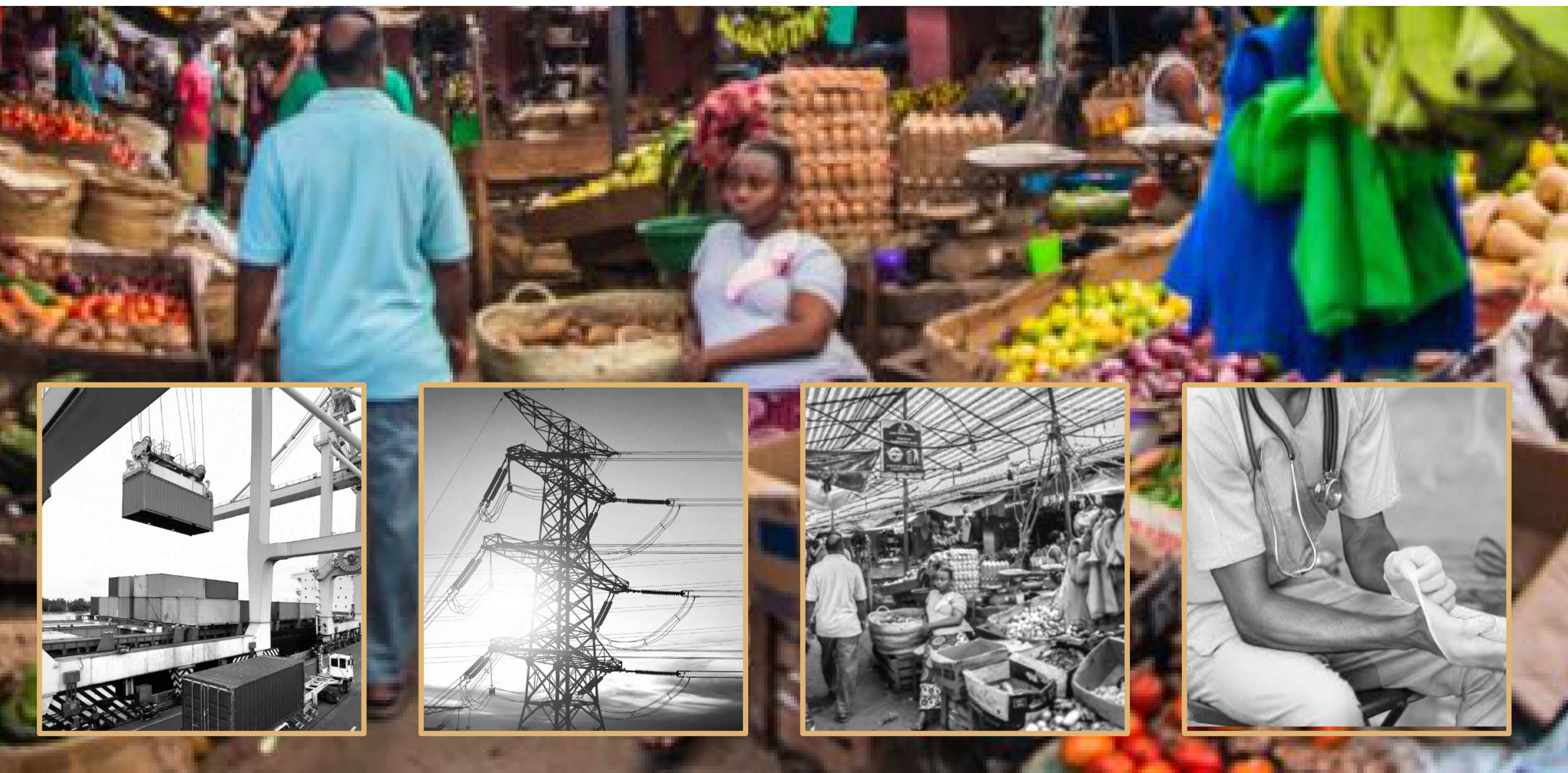
ECONOMIC SPLASH

POST-INFLATION REPORT

DECEMBER 15, 2023



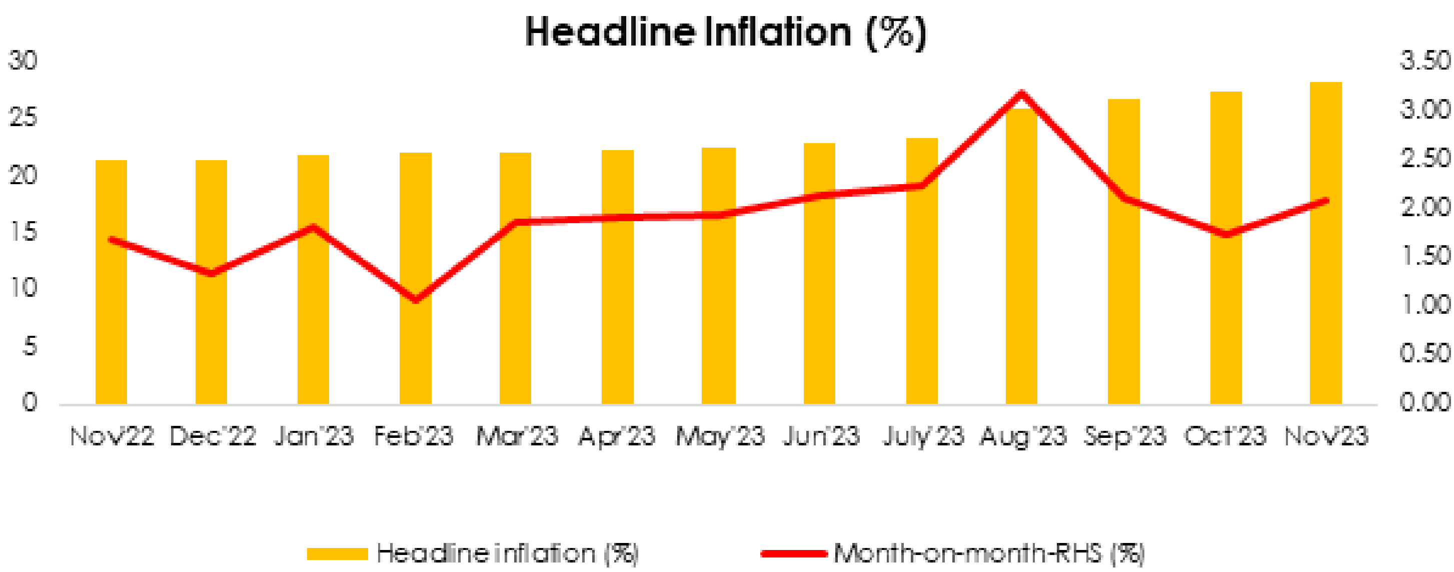
Headline Inflation
spirals to 28.20% in November

28.20%

Official headline inflation rate for Nigeria

The National Bureau of Statistics released its inflation data for November today. In line with expectations, Nigeria's headline inflation rate climbed to a record high of 28.20% from 27.33% in October. This means that so far in 2023, we have witnessed a monthly consecutive increase in headline inflation, bringing the average inflation rate to 24.12%, which is significantly higher than 18.29% in the corresponding period in 2022.

This steep rise largely reflects the impact of money supply saturation (M3 grew by 36% y-o-y), exchange rate depreciation (currently trading at N1,230/$) and high logistics costs (diesel price remains elevated at N1,080/litre) on food prices. This was compounded by the festive-induced boost in aggregate demand. Food inflation rose by 1.32% to 32.84% with bread, cereals, yam, fish, meat, vegetables, and eggs recording the highest price increases. Meanwhile, core inflation (inflation excluding volatile items like food and energy prices) fell slightly by 0.2% to 22.38%, an indication that the inflation momentum may be tapering.



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[1]NBS, FDC Think Tank

On the policy front, what is more comforting is that the CBN has reiterated its commitment to achieving price stability, suggesting a further hike in the monetary policy rate at its next meeting in January 2024. Therefore, inflation is likely to flatten out in the next quarter and begin to decline afterwards.

Data Breakdown

Month-on-month inflation spikes to 2.09%

Month-on-month inflation, which gives a better reflection of the inflationary trend, rose sharply to 2.09% (annualized at 28.19%) from 1.73% (annualized at 22.79%) in October due to cost pressures and festive-induced boost in aggregate demand.

Core inflation declines 0.20% to 22.38%

Core inflation, which is inflation less volatile items like food and energy costs, fell by 0.2% to 22.38% in November from 22.58% in October. However, monthly core inflation rose to 1.53% from 1.39% in the previous month, reflecting the impact of the persistent naira depreciation and rising logistics costs.

Food inflation accelerates to 32.84% as currency depreciation fuels import costs

Food inflation rose by 1.32% to 32.84% on an annual basis and increased by 0.51% to 2.42% on a monthly basis. The increase was mainly due to exchange rate depreciation, which has inflated the costs of imports. Other stoking factors include scarcity (due to the border closure with Niger Republic and low production) and logistics challenges. These factors muted the impact of the harvest effect on food inflation.

Monthly inflation

To: 2.09%

By: ▲36bps

From: 1.73%

Food inflation

To: 32.84%

By: ▲132bps

From: 31.52%

Rural and urban inflation

In November, inflation in both the rural and urban areas ballooned to 26.43% and 30.21% respectively, 0.85% and 0.92% higher than 25.58% and 29.29% in the previous month. Monthly, both indices climbed to 1.99% and 2.23% in November from 1.67% and 1.81% in October respectively. Notably, the urban-rural inflation gap climbed to 3.78% from 3.71% in the previous month, highlighting persistent logistics and storage challenges.

Will the US Fed dictate the rhythm, or will Nigeria chart its own economic course?

Global commodity prices have eased from the peak witnessed during the Russia-Ukraine conflict. In November, the global food price index averaged 120.4 points, closely aligning with the October level, marking the lowest since March 2021. The reduction in global food prices, coupled with falling energy costs (Brent is


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trading below $80pb), is easing inflationary pressures in advanced economies. In the US, for example, inflation has continued to decelerate, reaching 3.1% in November from the peak of 9.1% in June 2022. Although above the US Fed's 2% target, the sustained deceleration in price inflation influenced the US Fed's decision to halt rate hikes for the third consecutive time, setting the stage for potential rate cuts through 2024 and beyond. Other major central banks, including the European Central Bank and the Bank of England, have followed suit, maintaining their key policy rates at 4.5%p.a. and 5.25%p.a., respectively, as inflation declined to 2.4% and 4.6%, respectively.

In the African region, the inflation trend was a mixed bag. Whilst inflation eased to 26.4% in Ghana (after touching a 22-year high of 54.1% in December 2022) and to 5.5% in South Africa, it climbed to 12.9% in Zambia and 18.19% in Angola due to currency pressures. In line with the global trend, the Bank of Ghana kept its interest rates steady at 30% for the second consecutive time. South Africa's central bank also opted to keep its key policy rate at 8.25% due to declining inflation.

However, the Central Bank of Nigeria (CBN) is poised to take a potentially divergent path at its next meeting in January 2024, primarily driven by its renewed commitment to ensuring price stability. Sustained interest rate hikes will not only taper inflationary pressures but also reduce capital flights, which could lead to an appreciation in the value of the Naira. However, it is crucial to note that other factors contributing to Nigeria's elevated inflation, such as structural issues, supply chain disruptions, and external factors, are beyond the control of domestic monetary policy. Hence, a judicious blend of fiscal and monetary policies is necessary to effectively tackle inflation.

Outlook

We expect inflation to rise further in December supported by festive demand. However, it could flatten out in January 2024 and begin to decline afterwards as the CBN maintains its hawkish monetary stance. The MPC is expected to hike interest rates at its first meeting in 2024 in line with the CBN's goal of achieving price stability.

Important Notice