ECONOMIC SPLASH

POST-INFLATION REPORT

JANUARY 16, 2024

Headline Inflation

surged to nearly 30%, hits 27-year high in 2023

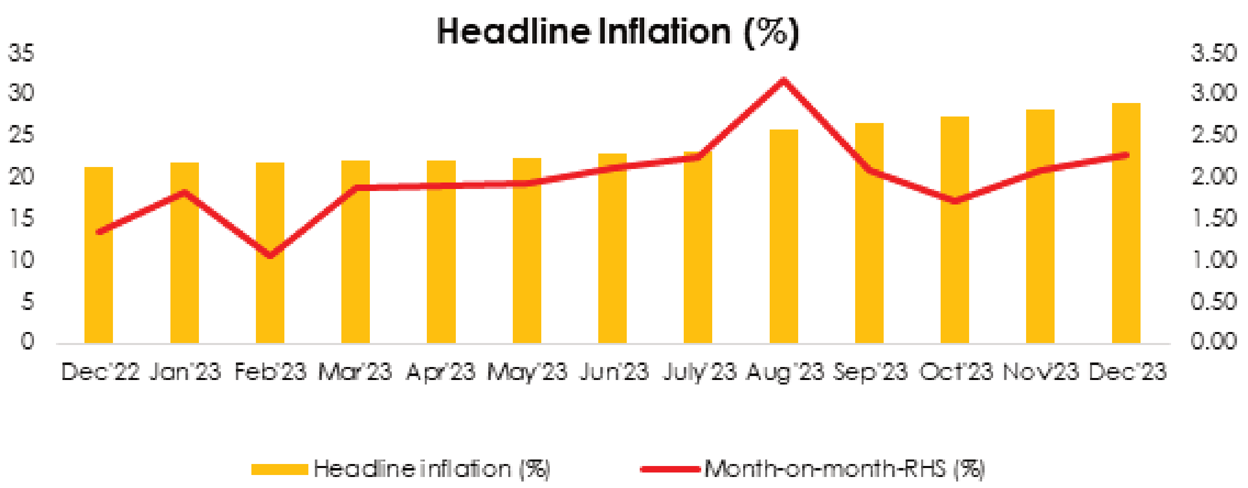
28.92%

Headline inflation rate for Nigeria

The National Bureau of Statistics released its inflation data for December 2023 yesterday. Nigeria's headline inflation rose by 0.72% to a 27-year high of 28.92% in December from 28.20% in November 2023. This marked the twelfth consecutive increase since January 2023. The spiralling inflationary pressure, which started in 2021, heightened in 2023 following the reduction of PMS subsidy and the devaluation of the naira.

The data showed that core inflation (inflation less seasonality and energy costs) rose by 0.68% to 23.06%, indicating that the inflationary impact of non-food factors such as exchange rate and money growth is still potent. This is likely to force the hands on the monetary policy authorities to be more aggressive in the management of money supply in the near term. Inflation in Nigeria has been further stoked by the surge in diesel price and growth in money supply by 39.33%(y-o-y).

However, the item that contributed most to the headline index was food & non-alcoholic beverages (14.98%). This was followed by housing, water, electricity, gas, & other fuels (4.84%), clothing & footwear (2.21%) and transport (1.88%). Food inflation surged by 1.09% to 33.93%, driven by domestic supply disruptions stemming from elevated logistics costs and insecurity in Nigeria's food belt.



[1]NBS, FDC Think Tank

Data Breakdown and Analysis

Month-on-month Inflation rises to 2.29%

Month-on-month inflation, a better reflection of Nigeria's inflationary trend, climbed to 2.29% (annualized at 28.97%) from 2.09% (annualized at 28.87%) in November due to a weaker naira and increased festive demand.

Core inflation accelerates by 0.68% to 23.06%

Core inflation, which is inflation-less volatile items like food and energy costs, rose by 0.68% to 23.06% in December from 22.38% in November. This signals that inflationary pressures may not have reached their peak yet. Similarly, monthly core inflation was 0.29% higher at 1.82% in December.

Food inflation climbs to 33.93% on currency pressures and supply disruptions

Food inflation experienced a surge of 1.09% on an annual basis, reaching 33.93% in December. On a monthly basis, it increased by 0.30% to 2.72%. The elevation in food inflation could be attributed to diminished crop supply in the market due to heightened transportation costs and escalating insecurity in the northern regions. Additionally, the persistent depreciation of the naira has led to a substantial increase in import costs, with the exchange rate for duty computation reaching N951.94/$ in December. These factors collectively dampened the impact of harvest on food inflation.

Rural and urban inflation

Inflation in the rural and urban areas were 0.67% and 0.79% higher at 31.00% and 27.10% respectively. This brought the urban-rural inflation gap to 3.9% during the review period. Furthermore, both indices (m-o-m) climbed to 2.42% (urban) and 2.17% (rural).

Monthly inflation

To: 2.29%

By: ▲20bps

From: 2.09%

Food inflation

To: 33.93%

By: ▲109bps

From: 32.84%

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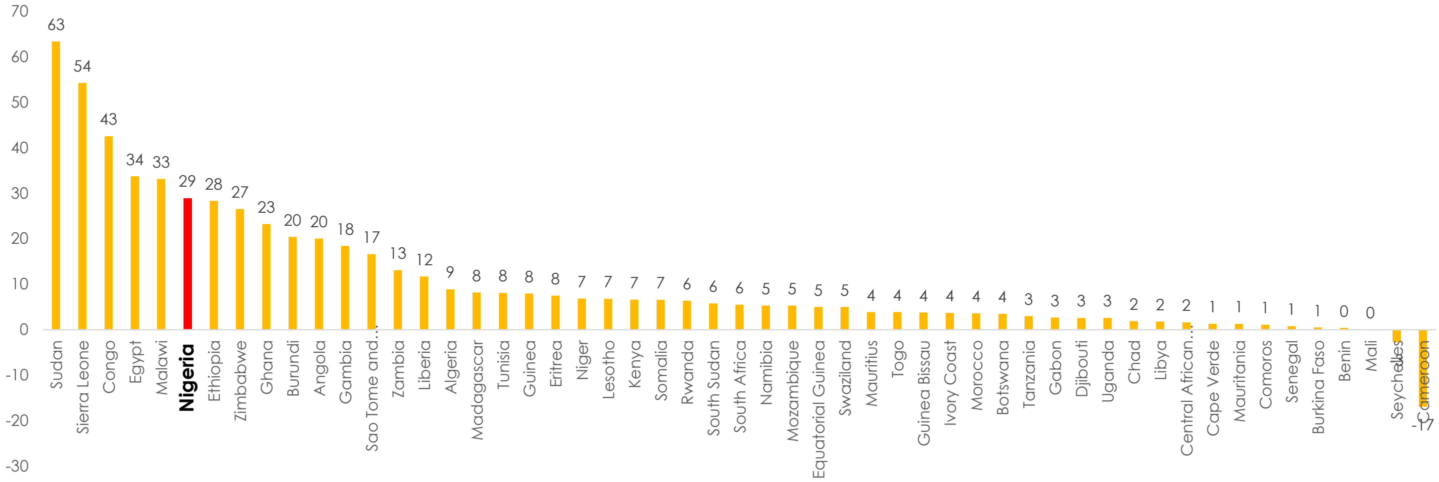
Interest rate paths: from coordination to fragmentation.

Although the Nigerian economy is more sensitive to exchange rates than interest rates, the interest rate path is a major elixir for inflation control and exchange rate stability. An overwhelming consensus among economists is that, in an era of high inflation, one cannot desire a low interest rate and a strong currency. There seems to be manifest disharmony between the fiscal and monetary policy corridors. While the CBN seems to be poised for a high interest rate, the ministry of finance seems to favour low interest rates. While the CBN-issued one-year OMO (open market operation) rose to 17.5% p.a. (just 1.25% shy of the MPR of 18.75% p.a.), the DMO-issued one-year Treasury bill fell to 8.40% p.a. (10.35% lower than the MPR).

The current divergence in interest rates may lead to confusion among market participants, potentially influencing the overall effectiveness of monetary policy in managing inflation and naira exchange rates. To anchor inflation expectations, the term structure of interest rates needs to align with CBN communications, especially its forward guidance.

Inflation in Africa as at December 2023



Outlook

We expect Nigeria's headline inflation to remain elevated in January 2024 as lingering issues of suboptimal domestic production, excessive money supply growth, and a weaker naira persist. Moreso, the increase in core inflation is likely to prompt monetary policy authorities to adopt a more aggressive stance in managing money supply in the near term.