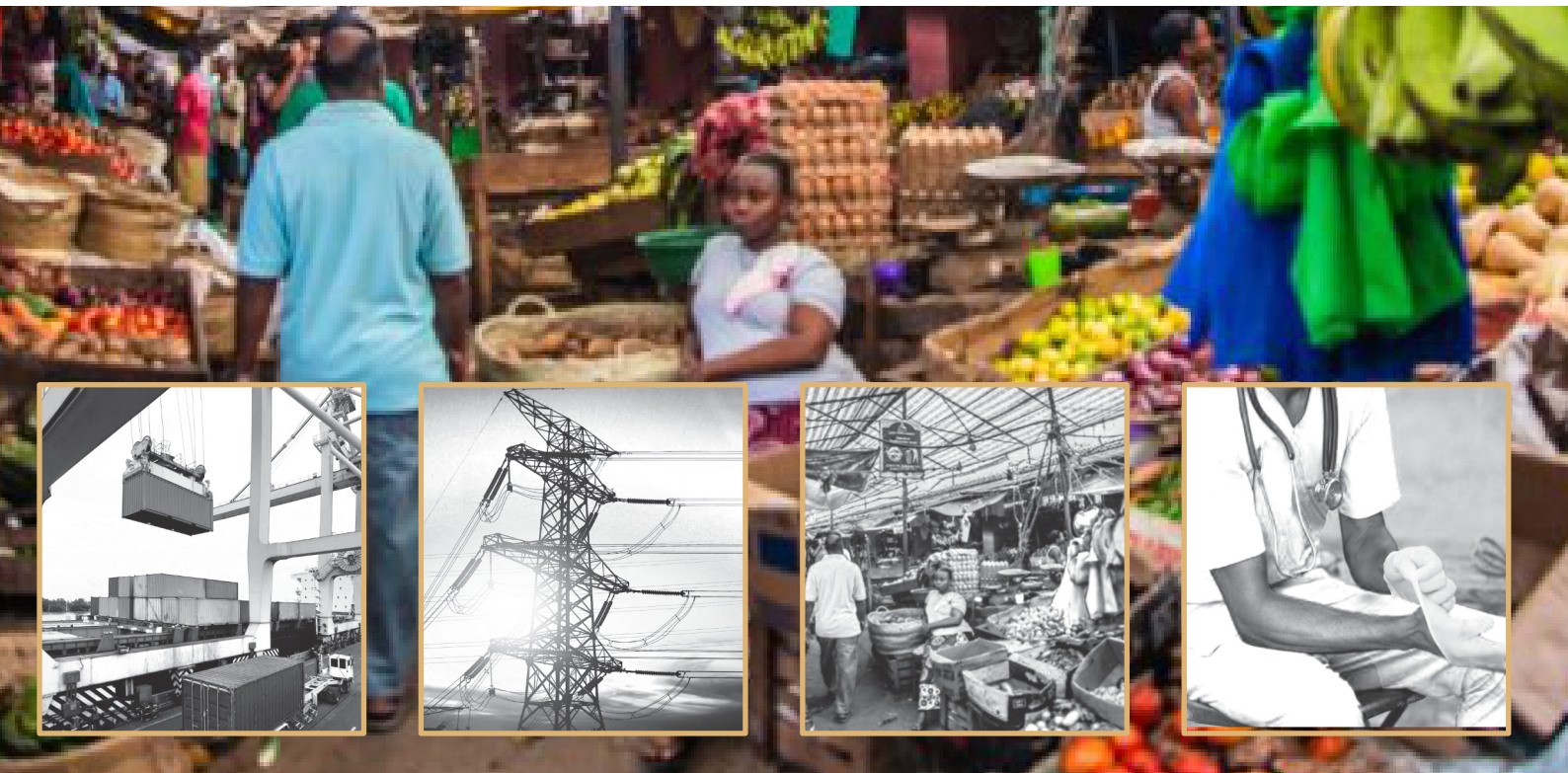




**ECONOMIC SPLASH**

# POST-INFLATION REPORT

**February 15, 2024**



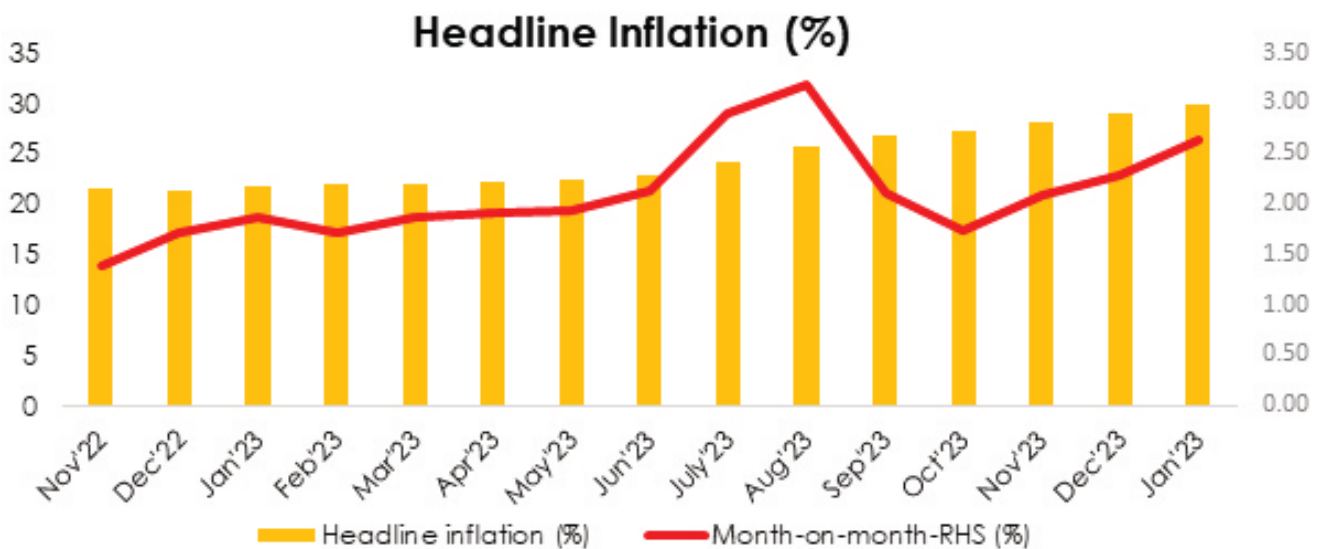
# Headline Inflation

**climbs towards 30% as food inflation surges to 35.41%**

# 29.90%

**Headline inflation rate for Nigeria**

The National Bureau of Statistics released the January 2024 inflation data today. As widely expected, and anticipated by FDC Think Tank, headline inflation spiked by 0.98% to 29.90% from 28.92% in December. The reasons for this incessant rise in price relative to the prior months are not farfetched. The key elements causing this rate of spiraling inflation remain the usual suspects including high diesel prices, cost of logistics, weakened naira, and the cross-elasticity effect on domestic commodities (substitutes). Conversely, there is a total disconnect between inflation expectations and the rising inflation rate. Inflation expectation have risen significantly compared to prior months and consumers now adjust their behavior leading to higher actual inflation. This unanchored inflation expectation is triggered by uncertainty due to the unrelenting rising inflation and policy lags to rein it in. This has further exacerbated the cost-of-living crisis as the purchasing power of the average citizen is being eroded leading to a rise in the standard of living.



<sup>1</sup>NBS, FDC Think Tank

Core inflation, excluding volatile items like food and energy costs, rose by 0.52% to 23.59% from 23.07%, indicating significant inflationary impact from non-food factors such as exchange rates and money growth. The currency rate further declined to N1,500/\$ in February, while money supply surged by 51% year-on-year in January. However, food and non-alcoholic beverages remain major contributors to the headline inflation index at 15.49%, followed by housing, water, electricity, gas, & other fuels at 5.00%, clothing & footwear at 2.29%, and transport at 1.85%. Food inflation increased by 1.48% to 35.41% from 33.93% in December due to pass-through effects, domestic supply constraints driven by rising logistical costs, and insecurity in Nigeria's food belt.

### Data Breakdown and Analysis

#### Month-on-month Inflation surges to 2.64%

Monthly inflation, which is a more accurate measure of the current inflation trend increased to 2.64% (annualized at 29.20%) from 2.29% (annualized at 28.97%) in December. This is largely because of the exchange rate pass-through effect and higher logistics costs. The currency lost 38% in January alone and is currently trading at a record low of N1,610/\$.

#### Food inflation jumps by 1.48% to 35.41%

A rise of 33.93% to 35.41% was seen in the annual food composite price index. On a month-on-month basis, the index increased by 0.49% to 3.21%. Reduction of subsidies, high production costs, and currency devaluation are the main causes of the increase in food inflation. Subsidy reduction has led to a significant hike in the prices of food as the cost of energy, and logistics increased. Also, weak currency affected the availability and cost of food, exacerbating food inflation in Nigeria

#### Monthly inflation



#### Food inflation



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### Core inflation rises to 23.59%

Monthly and annual core inflation sub-indices rose in January. The monthly sub-index grew by 0.42% to 2.24%, while the yearly sub-index jumped by 4.71% to 23.59%. The highest price hikes were observed in the cost of transportation both by road and air, pharmaceutical products, accommodation, and medical services, among others.

### Rural and urban inflation

Both the urban and rural inflation sub-indices saw an increase in inflation in January. Urban inflation increased by 0.30% to 2.72% on a month-on-month basis but by 9.4% to 31.95% on an annual basis. In addition, on a month-on-month basis, rural inflation increased by 0.40% to 2.57%, while the annual sub-index rose by 6.97% to 28.10%. This brought the urban-rural inflation gap to 0.15% during the review period.

### State-by-state analysis

On a month-on-month basis, Ondo recorded the highest inflation rate in January (3.79%), followed by Osun (3.77%) and Jigawa (3.58%). The states with the lowest inflation rates are Bayelsa (0.45%), Yobe (1.10%) and Ogun (1.35%) states. While states with the highest rise in food inflation include Ondo (4.69%), Osun (4.59%), Edo (4.58%)

### Rising Inflation- Policy Impact

Delays in MPC meetings have led to timely policy adjustment lag. The MPC has observed the continued uptick in inflationary pressure and has kept a close eye on the need for decisive measures to address likely liquidity surfeit. However, we anticipate that Nigeria's headline inflation will stay high in February 2024 due to ongoing challenges related to inadequate domestic production, excessive growth in the money supply, and a continued depreciation of the naira. This places additional pressure on the MPC to hike rates further at its next meeting in a bid to rein in the spiraling inflation.

In the month of February, we expect headline inflation to surge further due to exchange rate pass-through, rising logistics costs, and supply chain shortages.

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