ECONOMIC SPLASH

February inflation report

March 15

At 31.70%, has inflation in Nigeria become intractable?

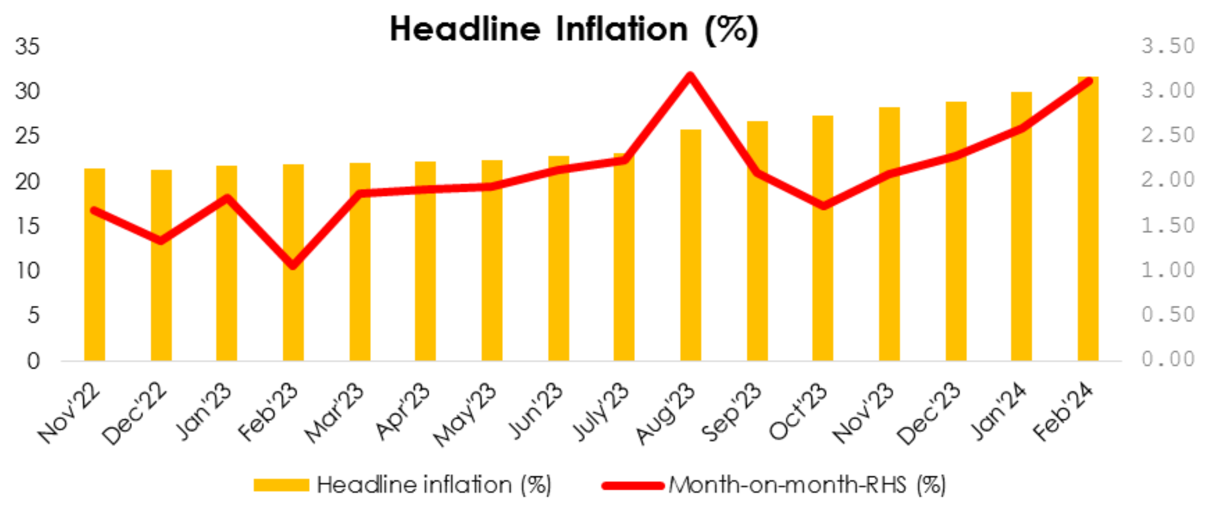
2024

At 31.7%, is inflation in Nigeria becoming intractable?

31.70%

Headline inflation rate for Nigeria

The National Bureau of Statistics released the inflation data this afternoon. Exceeding anticipated consensus and expectations, headline inflation rocketed by 1.8% to 31.7% from 29.9% in January. This is a 28-year high and is making policymakers scratch their heads. The food and non-food inflation baskets showed surges in price. Food inflation, which is the more politically sensitive, climbed to a high of 37.92% from 35.41% in January. The commodities that witnessed the sharpest price increase in the food basket include rice (35.7%), beans (17.6%), tomatoes (40%), pepper (41%), garri (28%), eggs (18.4%), Turkey (25%) and onions (33.3%). The incessant increase in food prices is linked to cost-push inflation, driven but not limited by weaker naira and forex translation costs. Importers attempt to reprice inventory at the current exchange rate, especially for imported commodities. In recent times, there has been looting of warehouses and stores by desperately hungry citizens. Some have expected the release of grains from the strategic grain reserve to ameliorate food prices, but that did not materialize.



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[1]NBS, FDC Think Tank

In the non-food basket, the cost of transportation and speculation showed a marginal increase, especially intercity fares. A noteworthy development is the direction and magnitude of core inflation, excluding food and energy. Core inflation, which is inflation less food and energy items, ticked up by 1.54% to 25.13% from 23.5%. This could mean that inflation could be more structural than transient. It also calls into question the appropriateness and effectiveness of relying on monetary policy tools as the antidote to the current bout of inflation. It means that in addition to interest rates, there is a need to add fiscal measures to the existing cocktails of policies to bring inflation under control (importation of food).

The markets still find it ironic that the domestic prices of commodities continue to rise at a time of a global reduction in prices. Those who argued that this is because of a rapid depreciation in the exchange rate are unable to defend the view because the exchange rate in naira appreciated marginally. The lowest point of the naira was at N1915/$ on February 21st to N16,04/$ in March. Inventory holders were of the view that the appreciation of the naira after February was not convincing.

Monthly inflation

To: 3.12%

By: ▲48bps

From: 2.64%

Food inflation

To: 37.92%

By: ▲251bps

From: 35.41%

Monetary policy tightening- Implication of decision lags

To counteract rising inflation, the MPC decided to tighten monetary policy by increasing the Monetary Policy Rate (MPR) and modifying other key rates. These actions will have a gradual influence on inflation and economic stability as they become operative and interact with different economic forces. However, because there is a transmission lag between the time a policy decision is made and when it will fully impact inflation targeting and the economy, the impact of the decisions

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has not yet been seen in headline inflation. In addition, the interest rate hike propelled foreign portfolio investment inflows, improving foreign exchange liquidity and gradually correcting exchange rate misalignment.

Nevertheless, there is a need for NBS to reconstitute the inflation basket sooner or later to address the questioning of the authenticity of the data in capturing the general price level. But in the absence of any change, we make do with what we have.

Breakdown of inflation sub-index

Month-on-month Inflation on the run

On a month-on-month basis, the headline inflation rate increased by 0.48%, to 3.12% (annualized at 44.52%) which was higher than the rate for January (2.64%). This indicates that in February 2024, the average price level is increasing at a faster rate than it was in January 2024. The persistent increase in the prices of commodities could be tied to cost-push inflation, triggered by weaker naira and forex translation costs. Combined with the Importer's attempt to reprice inventory at the current exchange rate, especially for imported commodities.

Food inflation piloting headline inflation at 37.92

Food inflation (year-on-year) increased by 2,51% to 37.92% in February. Month-on-month inflation which gives a true picture of inflationary pressure for the month rose by 0.58% to 3.79% from 3.21%, due to cost-push inflation and supply shortage coupled with weaker naira and forex translation costs.

Core inflation ticked up to 25.13% - structural factor prevailing

Core inflation, which is inflation less seasonality, surged by 1.64% to 25.13% from 23.5% in January. On a month-on-month basis, the Core Inflation rate was 2.17% in February 2024. It stood at 2.24% in January 2024, a decline of 0.07%. The core inflation rate is currently below the primary and secondary market T/bills rates. This implies a positive real rate of return.

States inflation indices

In February, some states witnessed a decline in inflation numbers while some had a surge in the rate of inflation. In all item inflation, Kogi (37.98%), Oyo (36.60%), Bauchi (35.62%), while Borno (26.28%), Taraba (26.72%), and Benue (27.40%) recorded the slowest rise in Headline inflation on Year-on-Year basis. In food inflation, states with the largest year-over-year increases in food inflation in February 2024 were Kogi (46.32%), Rivers (44.34%), and Kwara (43.05%). The regions with the slowest year-over-year increases in food inflation were Bauchi (31.46%), Plateau (32.56%), and Taraba (33.23%). On a month-to-month basis, however, Adamawa experienced the greatest food inflation in February 2024 (5.61%),

Urban-rural inflation on the rise

In the rural and rural sub-indices, Inflation increased both in the urban and rural sub-index in February. On a month-on-month basis, the Urban inflation rate was 3.17% in February 2024, this was 0.45% points higher compared to January 2024 (2.72%). The corresponding twelve-month average for the Urban inflation rate was 27.93% in February 2024. While rural inflation on a month-on-month basis, was 3.07%, up by 0.50% points compared to January 2024 (2.57%). The corresponding twelve-month average for the Rural inflation rate in February 2024 was 24.61%. This is propelled by the higher cost of living aided by supply change disruptions and the cost of logistics.

Inflation trajectory in Sub-Sahara Africa region

Most Sub-Saharan African (SSA) countries recorded an increase in their inflation rates, the effect of the stability in global food prices is yet to be felt. Reasons for this are not farfetched as currency pressures, supply chain disruption, and several structural challenges hamper productivity in individual countries. Aside from Nigeria, Zambia, and Uganda, most of the SSA countries under review adopted an accommodative stance.

	February Inflation (%)	Interest rate policy(%)
Uganda	3.4	10
Zambia	13.5	12.5
Kenya	6.3	13
Zimbabwe	47.6	130
Tunisia	7.5	8
Niger	6.88 (Jan'24)	5.5
Ghana	23.5 (Jan'24)	29
South Africa	5.3 (Jan'24)	8.25
Angola	21.99 (Jan'24)	18.0
Tanzania	3 (Jan'24)	5.5

Outlook

We expect that the inflationary trends increase will continue in March due to the demand push effect of Ramadan and Easter. The MPC at its next meeting will be in a dilemma as to whether to tighten further or maintain the status quo. The most likely outcome is a 100-basis point increase in the MPR to 23.75%p.a. The real challenge will be the lag between the rate increase and the moderation in the headline inflation whilst attempting to achieve macroeconomic stability.