

August Inflation: The Northward trend lingers

Headline inflation for the month of August rose significantly by 40bps, printing at 13.22% YoY, 23bps above our estimate of 12.99% YoY, spurred by uptick in both food and core inflation, with former leading the pack. Notably, this marked the highest pace of expansion in headline inflation since June 2018. While we expected the green harvest¹ season in the Southern region and in some Northern states to curb the pace of increase in food inflation, prolonged dry spell season², lean season as well as the lingering impact of the pandemic, weighed heavily on food prices. According to FEWSNET, the lengthened dry spell in localized areas of Niger and Benue States resulted in the wilting of some crops. To shed more light, staple cereal prices including that of millet, maize, and sorghum are relatively higher than 2019 levels and five-year average across the country. Consequently, food inflation rose 51bps to 16% YoY reflecting a 38bps increase in farm produce to 16.34% YoY and a 7bps rise in imported food to 16.42% YoY. Similarly, core inflation ticked 42bps higher to 10.52% YoY, mirroring increases across all core sub-indices. For context, we witnessed expansions in HWEGF³ (+16bps), Transport (+41bps), Furnishing (+23bps), Clothing (+20bps), Health (+48bps), amongst other core sub-indices.

Akin to the annual numbers, the month on month numbers revealed headline inflation rose 10bps to 1.34% MoM and 20bps above our estimate of 1.14% MoM. However, core inflation led the pack with a 30bps increase to 1.05% MoM, while food inflation advanced 15bps to 1.67% MoM. On the former, slight increases in Transport (+2bps), HWEGF (+2bp) and Clothing (+4bp) sub-indices anchored the rise. Meanwhile, increases in processed food (+3.27bps) and 1bp uptick in imported food drove food inflation higher.

Going forward, we expect the impact of regulations to outweigh base effects

In our NSR H2 2020 (*NSR H2 2020 Excerpts - Nigeria Inflation: A dance to the rhythm of Regulations*), we stated that inflation will dance to the tune of the government regulations as they gradually get unveiled over the rest of the year. Since March, a combination of devaluation in currency, restrictions in movement which led to elevated transport cost and adoption of the market-based pricing mechanism by the PPPRA left consumer prices on an upward trajectory. In a surprising move, the increase

¹ The period between planting and harvests that lasts from May to August in the Southern areas and July to September in the Northern areas.

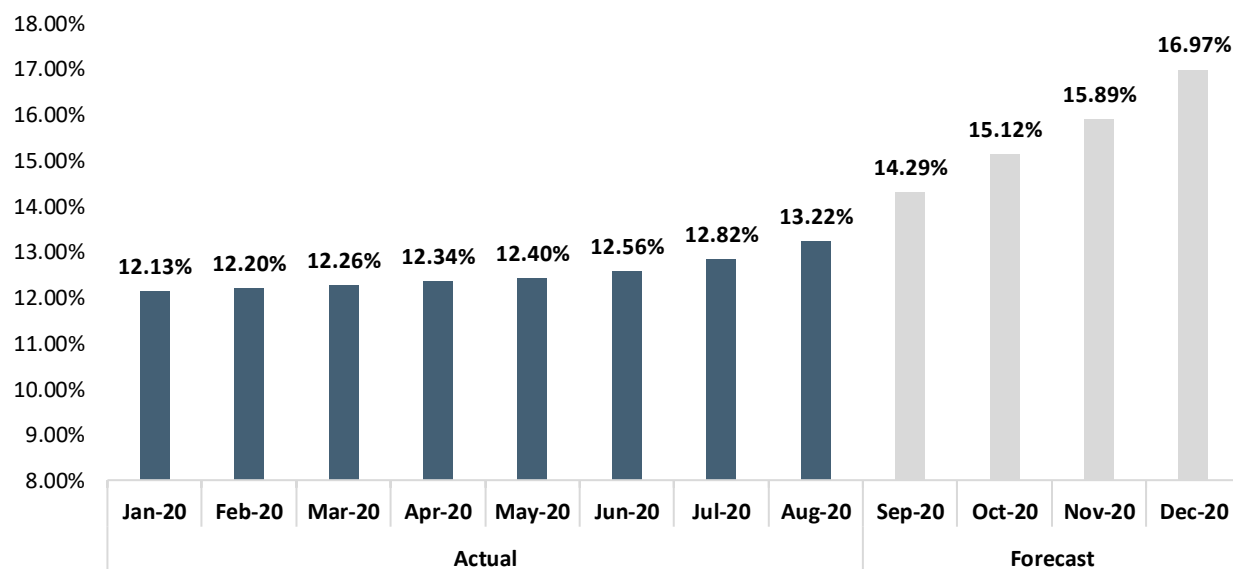
² A period without rain between the months of July and August

³ HWEGF: Housing, Water, Electricity, Gas and Fuel.

in electricity tariff this month which was previously postponed till 2021 coupled with the deregulation of the Nigerian downstream sector further sets more fire to the already elevated inflation rate. Both policies became effective on the 1st of September 2020. On the former, the new electricity tariff translates to an average increase of 108%, which is higher than the tariff hike implemented in 2016. On the other hand, the ex-depot price for petrol now stands at ₦151/litre (previously: ₦138.62/litre), taking the PMS retail selling price to a range of ₦155/litre to ₦160/litre. Furthermore, the adverse impact of elevated transport cost, dry spell season as well as recent flooding encountered in the north will place more pressure on consumer prices over the rest of the year. For context, the recent release of water from the Goronyo dam and upstream floods from Niger Republic damaged infrastructure and cropping lands in Kebbi, Sokoto and Niger states. While the extent of this damage is yet to be ascertained, food harvest across these regions would likely be affected.

To add, by our analysis, we believe a full deregulation of the downstream sector will take petrol prices to a range of ₦170/litre to ₦185/ litre before the end of this year. That said, coupled with the varying triggers highlighted above, we see inflation going north of 16% by year end. For the month of September, Inflation is expected to print at 14.29% YoY and 2.00% MoM. These adjustments take our FY 2020 estimate to 13.52% YoY (prior forecast: 12.56% YoY).

Figure 1: Monthly inflation trend and Forecast (%)



Source: NBS, ARM Research