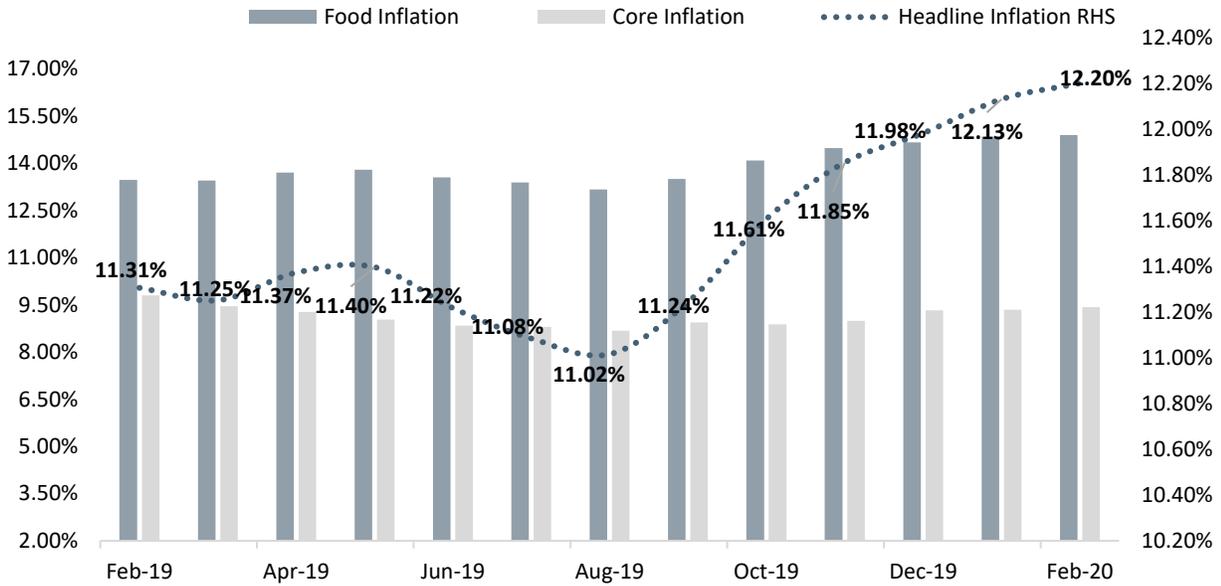


Economic Report | **Inflation*****February Inflation: Consumer prices remained pressured***

- The pace of expansion in headline inflation came in lower than expected for the month of February as inflation ticked 7bps higher to 12.20%. This was 10bps shy of our estimate of 12.3% YoY as we expected the increase in VAT which took effect from 1st of February 2020 to filter into inflation numbers in addition to unfavourable base effect. Although recent numbers showed an increase in inflation, we believe this was not reflective of the increase in VAT as MoM inflation numbers showed a moderation in headline inflation numbers. Notably, core inflation accounted for bulk of the hike in inflation as it ascended 9bps to 9.43% YoY, while food inflation rose 6bps to 14.9% YoY. Taking a closer look at the core inflation numbers revealed increases across sub-indices including HWEGF (+3bps to 7.81%), Furnishing (+16bps to 9.39%), Health (+16bps to 9.39%) and Transport (+8bps to 9.43%), amongst others.
- Meanwhile, uptick in food inflation was driven by a 4bps expansion in both farm and imported food inflation to 15.39% and 16.14% YoY respectively. While the unfavourable base effect remained the anchor of the expansion, we believe the buoyant supply from carryover stocks from the previous harvest season helped taper the pace of increase. According to FEWSNET, save for imported rice, market remained copious across the country as staple cereals including maize, millet, sorghum, tubers as well as the cassava harvest kept market in a surplus position.
- Contrary to the annual numbers, Month-on-month numbers dipped 9bps to 0.79% MoM (9bps shy of our estimate: 0.88% MoM) hinged on declines in both core and food inflation. Core inflation tanked 9bps to 0.73% MoM reflecting moderation in HWEGF, Clothing, Health and Transport sub-indices. Similarly, food inflation declined 12bps to 0.87% MoM mirroring 7bps and 60bps decline in farm produce and processed food to 0.86% and 0.99% respectively.
- We expect inflation to remain at double digits hinged on the unfavourable impact of the low base effect on food inflation and the expectation of a hike in electricity tariff in April 2020. Against this backdrop, we expect the upward trend to linger, with headline inflation for the month of March printing at 12.2% YoY and 0.80% MoM. This brings our expectation of average inflation for 2020 to 12.7% (Previous: 13.0%), which is our base case scenario.

- The downside to our forecast will be the possibility of a currency depreciation should the viral spread and its impact on oil prices persist. In that case, we expect inflation to average at 14.3% YoY for FY 2020.

Figure 1: One-year trend in Inflation rate



Source: NBS, ARM Research

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