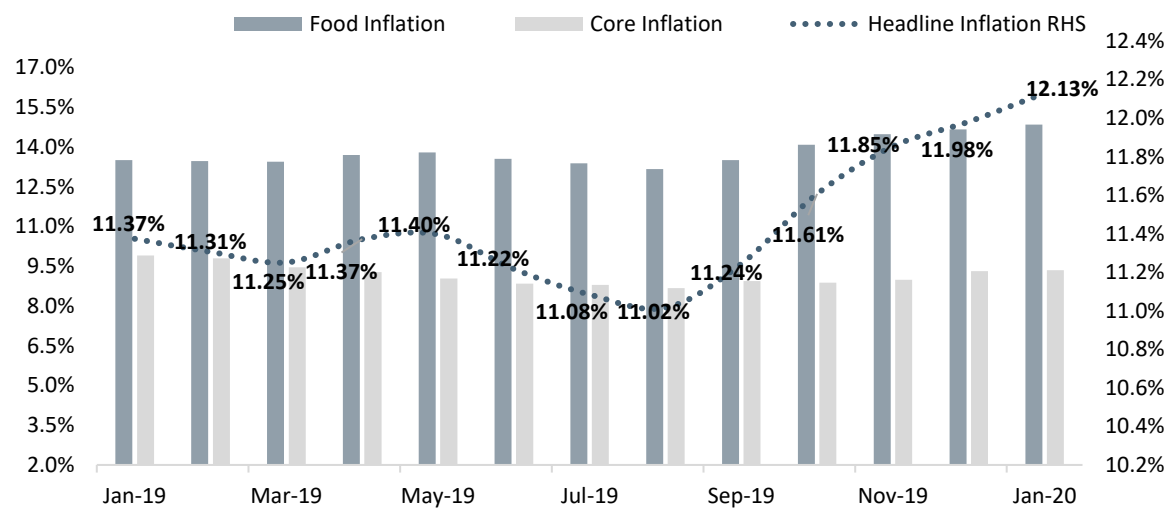


Economic Report | **Inflation***January Inflation: CPI maintained upward trajectory*

- As anticipated, inflation for the month of January ascended by 15bps to 12.13% YoY (vs December: 11.98% YoY) and 4bps shy of our estimate of 12.09% YoY. In our monthly economic update, we highlighted that the low base from food prices would send inflation on an upward trajectory. Unsurprisingly, food inflation rose 18bps to 14.85% YoY, accounting for bulk of the uptick in headline inflation, while core inflation moderately expanded by 3bps to 9.35% YoY. On the former, the pickup was anchored by 29bps and 6bps increase in farm produce and imported food to 15.35% YoY and 16.10% YoY respectively. Nonetheless, the buoyant supply from main harvest season has helped in moderating the pace of increase. Also, Core inflation ticked up by 3bps to 9.35% YoY, reflecting increases in HWEGF (+8bps to 7.78%), Transport (+10bps to 9.35% YoY), Health (+19bps to 9.78% YoY) amongst others.
- Following similar trend, Month-on-month numbers rose slightly by 2bps to 0.87% MoM (3bps shy of our estimate: 0.84% MoM) due to minute expansion in both core and food inflation. Food inflation ticked up 1bps to 0.99% MoM mirroring 2bps expansion to 0.93% MoM in farm produce. Similarly, core inflation rose 1bps to 0.82% MoM as increases in HWEGF, Health, Transport, Clothing, Education.
- We retain our view for an expanse in headline inflation owing to two key factors. First is the lingering impact of the low base on food inflation. Secondly, the increase in VAT from 5% to 7.5% which took effect from 1st of February 2020 with the aim of the generating more revenues for the government is expected filter into inflation numbers. Consequently, we expect the northward trend to persist, with headline inflation for the month of February printing at 12.3% YoY and 0.88% MoM. Against this backdrop, we expect average inflation for 2020 to print at 13.0% (FY 19: 11.4%).

Figure 1: One-year trend in Inflation rate



Source: NBS, ARM Research

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