



### *January Inflation set sail at high tide*

Headline inflation for the month of January printed at 16.47% YoY, 7bps above our estimate of 16.4% and 72bps above the prior month of 15.75% YoY anchored by uptick in both food and core inflation. As we stated in our Strategy report (See Report: *Nigeria Inflation – Sailing in the sky*), while the reopening of the land border should provide some respite to food inflation on a MoM basis, we expected inherent pressures such as the hike in electricity tariff in September 2020, devaluation of the Naira and higher PMS prices to spur both food and core inflation northwards on a YoY basis. Precisely, food inflation ticked 101bps higher to 20.56% YoY – highest since September 2017, reflecting expansion in farm produce (+98bps YoY), imported food (+6bps YoY) and processed food (+107bps YoY). To buttress, food prices remained elevated relative to January 2020, owing to lower main season harvest<sup>1</sup> as well as high demand, according to FEWSNET.

Similarly, core inflation rose by 48bps to 11.86% YoY, echoing increment across core subindices. For context, expansions were seen in HWEGF<sup>2</sup> (+33bps), Transport (+48bps), Health (+51bps), Clothing (+29bps), Furnishing (+30bps) YoY, amongst other sub-indices.

Contrary to the annual numbers, month on month numbers revealed headline inflation declined by 11bps to 1.49% MoM and 1bp below our estimate of 1.50% MoM. A 24bps moderation in food inflation to 1.82% MoM anchored the downturn in headline inflation. Specifically, deteriorations in farm produce (-37bps MoM) as well as imported food (-2bps MoM) drove the downward trend in the food basket. On the other hand, core inflation rose 12bps to 1.25% MoM due increases across HWEGF (+2bps), Transport (+2bps), Clothing (+2bps) and Health inflation (+6bps) sub-indices MoM.

We retain our view for an expanse in headline inflation hinged on two key factors. Firstly, we believe the deregulation of the downstream sector will remain a stoking influence on inflation in forth coming months. Precisely, we believe that brent crude oil price – currently above \$60/barrel - is suggestive of further hike in PMS prices, which is expected to adversely affect CPI numbers. Secondly, the low base from the prior period is expected to aggravate inflation numbers. Against this backdrop, we expect the northward trend to

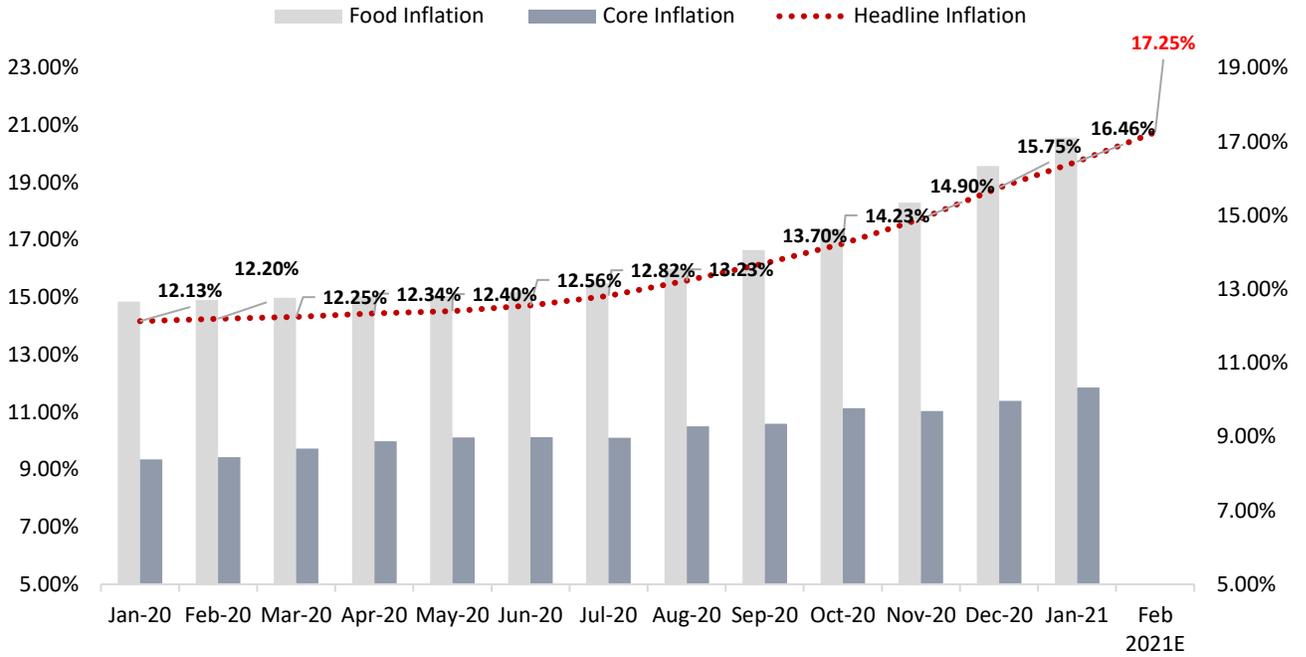
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<sup>1</sup> Main season harvest was low due to the adverse impact of the pandemic as well as flooding in some Northern states.

<sup>2</sup> HWEGF: Housing, Water, Electricity, Gas and Fuel.

persist, with headline inflation for the month of February 2021 printing at 17.25% YoY. However, on a MoM basis, we expect a mild moderation in inflation numbers to 1.47% MoM.

**Figure 1: One-year trend in Food, Core and Headline inflation (%)**



Source: NBS, ARM Research.

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