

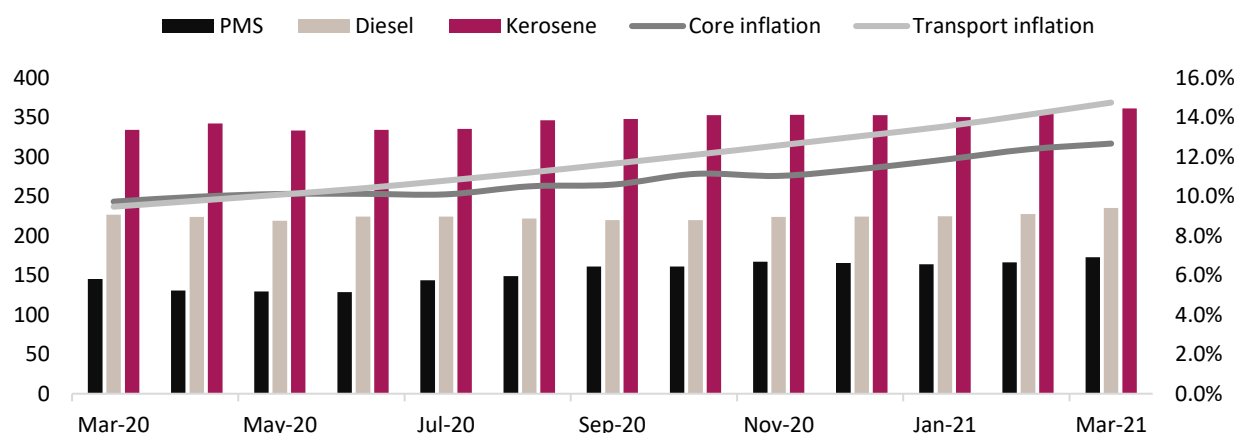


Nigerian CPI fast-tracks its ascent in March

Nigeria's headline inflation rate in March rose by 18.17% YoY, from 17.33% in February. This outturn fell 5bps below our expectation of 18.22% YoY. Akin to previous months, food and core inflation were the primary drivers of the uptick in headline inflation, with food inflation leading the charge. Precisely, food inflation in the review month accelerated by 115bps to 22.95% YoY- the highest in over 10 years. The uptrend continued to reflect the twin impact of an unfavourable base effect as well as partial deregulation of the downstream sector. The ascent in food inflation mirrored price increases in farm produce (+149bps YoY) and imported food (+6bps YoY). To buttress, FEWSNET¹ noted lower market supplies - a fallout of lower main season harvest and poor macroeconomic conditions, which in our view, amplified the pressure on food prices.

Elsewhere, core inflation rose by 29bps to 12.67% YoY, reflecting increase in energy prices. To shed more light, petrol scarcity² witnessed across key states in Nigeria, inflated pressure on energy prices. For emphasis, average cost of PMS (+4% MoM and 18.8% YoY to ₦172.7/litre), Diesel (+3% MoM and 3.8% YoY to ₦234.4/litre) and kerosene (+2% MoM and 8.1% YoY to ₦361.3/litre) rose sharply during the month under review, according to recently published data from the NBS. Consequently, Transport (+62bps YoY), HWEGF³ (+36bps YoY), and other core sub-indices including Health (+60bps), Clothing (+40bps YoY), rose during the period.

Figure 1: Avg. energy prices (₦/litre) vs. Core & Transport Inflation (% YoY)



¹ Famine Early warning systems network

² Early in March 2021

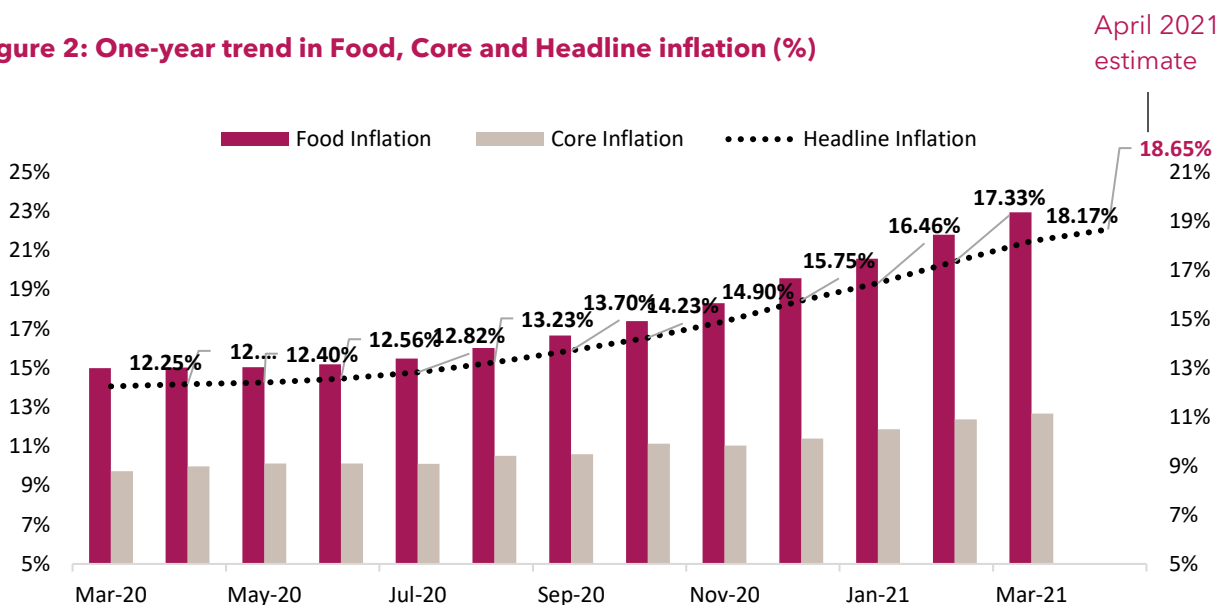
³ Housing, water, electricity, gas and fuel

Source: NBS, ARM Research

Meanwhile, Month-on-month numbers rose marginally by 1bp to 1.56%, (3bps below our estimate: 1.59% MoM). This was driven solely by the marginal increase in food inflation (+1bp to 1.90% MoM) despite +18bps MoM increase in farm produce. On the other hand, core inflation surprisingly declined by 14bps to 1.06% MoM, despite the rise in energy prices, as stated earlier. Across core sub-indices, we noted slight expansion in Clothing (+2bps MoM), HWEGF (+2bps MoM), Health (+1bp MoM), Furnishing (+1bp MoM), while transport inflation flatlined. This comes as a surprise to us as core inflation should have increased considering the uptick in energy prices as well as expansions in core sub-indices.

For the month of April, we believe the ongoing off-season harvest in the Northern part of Nigeria will provide respite for food prices on a MoM basis. That said, we see headline inflation printing at 1.43% MoM. However, we expect the base effect, coupled with foreign exchange pressures to spur both food and core inflation upwards on a YoY basis. Against this backdrop, we expect the northward trajectory in consumer prices to linger, with headline inflation for the month of April at 18.65% YoY.

Figure 2: One-year trend in Food, Core and Headline inflation (%)



Source: NBS, ARM Research.

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