



### ***Nigerian Inflation - Inflation fast-tracks its ascent in February***

Headline inflation for the month of February 2021, printed at 17.33% YoY, +8bps above our estimate of 17.25% YoY, and +86bps above the prior month (February:16.47% YoY). This was spurred by increases in both food and core inflation, with food inflation leading the pack. In our January inflation report (See report: [\*\*\*January Inflation set sail at high tide\*\*\*](#)), we had mentioned that the twin impact of unfavourable base effect as well as partial deregulation of the downstream sector poses a risk to inflation in forthcoming months. We believe these factors came to fruition for the month of February. For context, food inflation rose 122bps to 21.79% - the highest in over 10 years, mirroring increases in farm produce (+129bps), imported food (+8bps YoY) and processed food (+51bps YoY). To buttress, according to FEWSNET, the confluence of higher demand and lower supply - a fallout of lower main season harvest, poor macroeconomic conditions, and high levels of conflict in Northern - resulted in higher prices for staples and cash crops, which currently seats above the historical five-year average.

Stripping out volatile food prices, core inflation rose by 53bps to 12.38% YoY, reflecting increment across core subindices. For context, bulk of the expansions were seen in Health (+60bps), Transport (+59bps), Clothing (+43bps), HWEGF<sup>1</sup> (+38bps) and Furnishing (+30bps) YoY, amongst other sub-indices.

Month-on-month numbers showed a similar trend, with headline inflation expanding by 6bps to 1.55% MoM (+8bps above our estimate: 1.47% MoM) anchored mainly on food inflation. Specifically, uptick in farm produce (+18bps MoM) and increases in imported food (+2bps MoM) drove the upward trend in the food basket. On the other hand, core inflation dipped 5bps to 1.20% MoM despite marginal expansion across core sub-indices such as HWEGF (+2bps MoM), Health (+2bps MoM) and Transport (+4bps MoM).

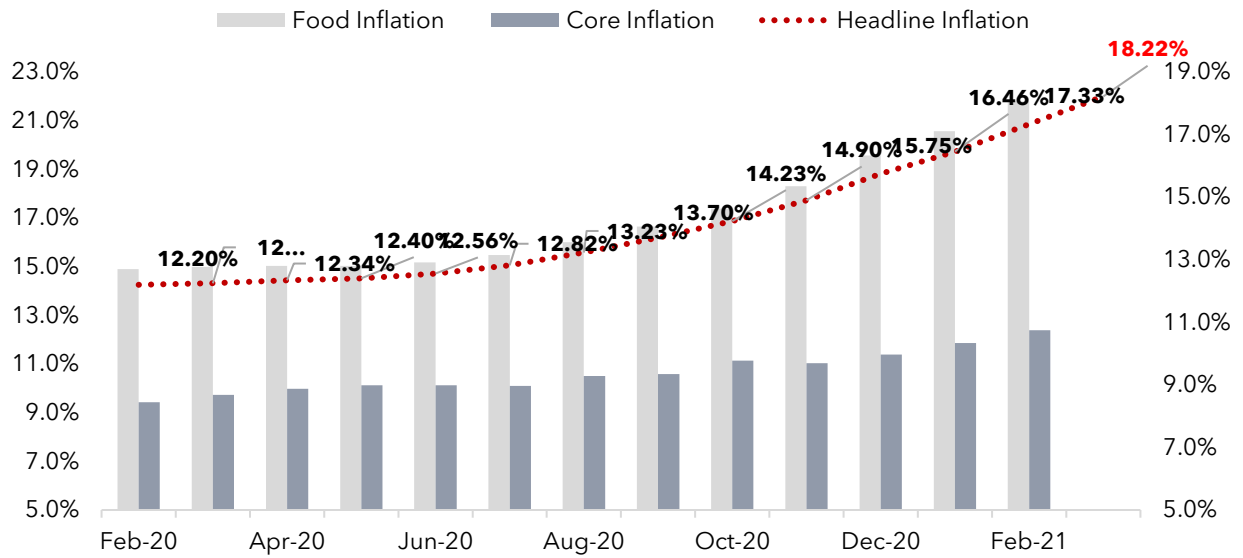
For the month of March, we expect the northward trend to persist. To shed more light, while we believe the ongoing dry season harvest in the Northern part of Nigeria will provide respite for food prices, we expect higher transportation cost - a fallout of petrol scarcity<sup>2</sup> witnessed across key states in Nigeria - will stoke both food and core inflation upwards. On that note, we expect the northward trajectory in consumer prices to linger, with headline inflation for the month of March at 18.22% YoY and a month-on-month inflation of 1.59%.

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<sup>1</sup> HWEGF: Housing, Water, Electricity, Gas and Fuel.

<sup>2</sup> Early in March 2021

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



Source: NBS, ARM Research.

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