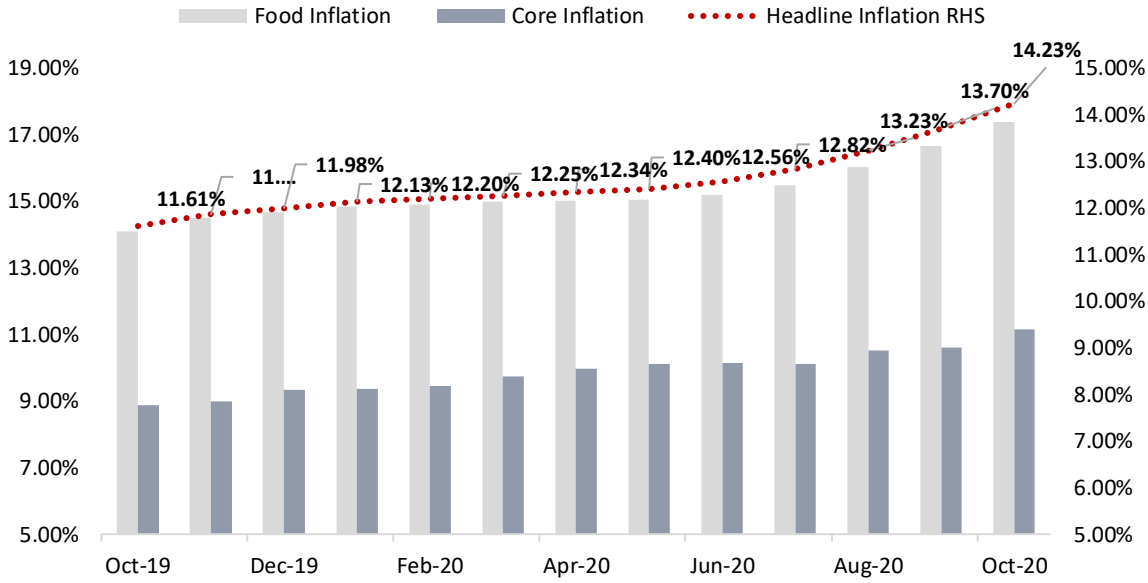


Inflation continues its Northward trend

- Just as expected, headline inflation continued its northward trend in October 2020, increasing for the eight-consecutive month to 14.23% YoY, 8bps above our expectation of 14.15% YoY. The faster increases in headline numbers was driven by higher food and core inflation, with food inflation leading the pack. In our September inflation report, we had mentioned that the flooding in key food producing states in the North poses a risk to food prices in the near term as the potential reduction in food supply viz-a-viz the demand for food products may continue to exact upward pressures on prices. To buttress, recent report from FEWSNET revealed the flooding in Kebbi State destroyed about 450,000 hectares of rice farmland while maize, millet, sorghum, and rice crops worth billions of Naira were destroyed by flooding across Jigawa State. Consequently, food inflation rose 73bps to 17.38% YoY mirroring uptick in farm produce (+52bps) and imported food (+7bps). Similarly, core inflation continued its upward trajectory for the third consecutive month, printing at 11.14% YoY (+54bps). Across the core index, expansions were seen in HWEGF (+20bps), Health (+49bps), Transport (+46bps), Furnishing (+25bps), Clothing (+24bps), amongst other core sub-indices.
- Akin to the annual numbers, the month on month numbers revealed headline inflation rose 8bps to 1.54% MoM and 7bps above our estimate of 1.47% MoM. We saw faster increases in core inflation, rising 27bps to 1.25% MoM. On a component basis, Transport (+3bps), HWEGF (+4bps), Clothing (+6bps), Furnishing (+4bps) all rose on a sequential basis amongst other sub-indices. Meanwhile, food inflation rose 10bps to 1.96% MoM reflecting increases in imported food (+6bps) and processed food (+279bps) MoM.
- Going forward, we expect the uptick in PMS prices which was recently increased by 5.2% to ₦161/litre for the month of November, combined with lower food output to continue to exact upward pressure on both food and core inflation. That said, inflation for the month of November is expected to print at 14.71% YoY and 1.45% MoM.

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



Source: NBS, ARM Research.