

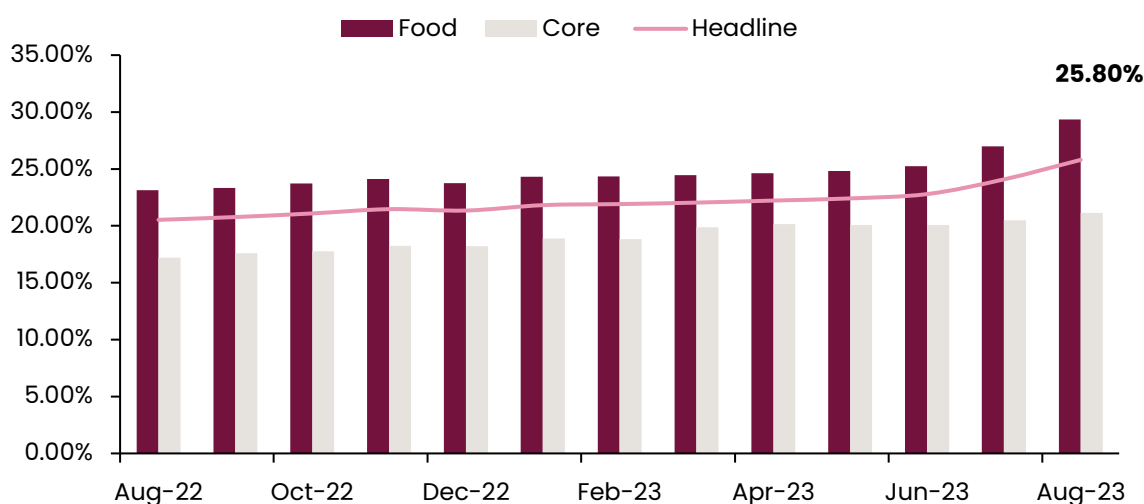


August 2023 CPI Report: Elevated Price Level – The New Normal?

Headline Inflation Surged to 25.80% YoY in August 2023

Earlier today, the National Bureau of Statistics (NBS) released its inflation report for August 2023. Headline inflation continued to surpass its 18-year high as it climbed higher by 172bps Year-on-Year (YoY) to 25.80% from 24.08% in July 2023. Similarly, Food inflation surged by 235bps YoY to 29.34% (vs. 26.98% in July 2023), marking the highest rate since September 2005. Furthermore, Core inflation recorded its highest rate since December 2006, as it added 67bps YoY to settle at 21.15% (vs. 20.47% in July 2023). We believe that the record-breaking increases in inflation figures rests on the back of the continued impact of the removal of Premium Motor Spirit (PMS) subsidy and further depreciation of the exchange rate. On a Month-on-Month (MoM) basis, Headline inflation increased by 29bps to settle at 3.18% from 2.89% in July 2023.

Figure 1: One Year Trend in Food, Core and Headline Inflation (%)



Source: NBS, ARM Research

Food inflation sustained its onward march in August 2023, fueled on by the PMS subsidy removal, FX challenges, insecurity in the North, logistics issues, poor storage facilities and other structural issues. Furthermore, August was characterized by the 'peak lean season' (little rainfall) particularly in the Northern Nigeria. Hence, Food inflation jumped from 26.98% in July 2023, to 29.34% in August 2023. On a MoM basis, Food inflation went up by 41bps to 3.87% in August 2023 (vs. 3.45% in July 2023).

In August 2023, Core inflation increased by 67bps YoY to 21.15% compared to 20.47% in July 2023. This is following notable increase in Transport (+83bps YoY to 27.10%), Health (+107bps YoY to 22.92%), Restaurant and Hotels (+212bps YoY to 22.77%). For the most part, Core inflation rose by 7bps MoM to 2.18% in August 2023 from 2.11% in July 2023.

Outlook

The sustained rise in inflation bolstered by elevated PMS prices and FX deterioration, has continued to impact economic activities as indicated by the continued fall in Purchasing Managers' Index (PMI) figures (50.2 points in August 2023 vs. 51.7 points in July 2023). We opine that these protracted issues will continue to persist in September 2023, posing a concern for the Monetary Policy Committee (MPC) in this month's meeting. Overall, we expect higher inflation reading for the month of September.

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