



### ***December 2021 CPI Report: Prices Inch Higher for the first time in Nine Months***

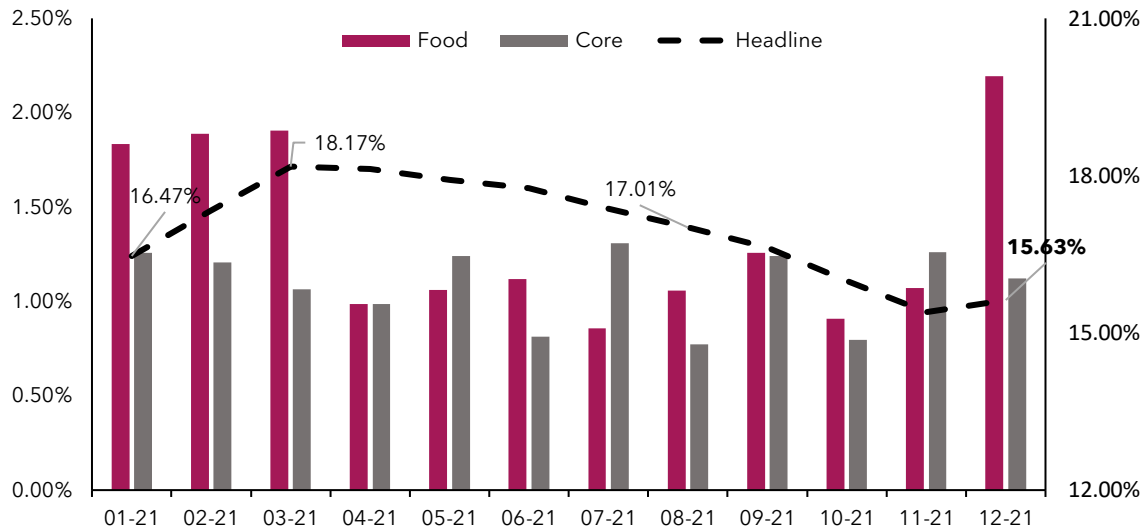
Headline inflation rose (+13bps) for the first time since April 2021 to 15.63% YoY in December from 15.40% YoY in November. The acceleration of growth in prices is largely due to a swift 17.37% YoY (17.21% in November) rise in the Food index. Our early prognosis points to improved demand that usually headlines festive period and foreign exchange pressures. We anchor the assumptions on the 6bps YoY increase in imported food inflation to 17.34%. Similarly, core inflation grew marginally by +2bps to 13.87% YoY in December (13.85% in November) despite an overwhelming surge across nine (9) of the eleven (11) sub-components of the index. By and large, the rise in HWEGF (+0.5% YoY), Clothing and Footwear (+0.33% YoY), and Transport (+0.02% YoY) which accounts for 60.21% of the index prodded its direction in the period.

Month-on-month analysis revealed a clearer picture as headline inflation surged 74bps to 1.82% due to a 112bps uptick in food inflation to 2.19% (the highest rate since May 2017) in December, despite a static (1.4%) imported food inflation. Conversely, the core index eased by 14bps to 1.12% in December, further supporting the notion that movement in headline inflation is largely anchored on the rise in prices of food items.

Food inflation was the main driver for increased inflation rate in December 2021. Besides the festive-induced demand for food items, we opine those issues of local productivity in the cultivation of food items created the other layer of concern that affected food prices. Insecurity leads the line among the issues hampering agricultural productivity in the country. This makes sense when considered especially in the light of the 144bps and 39bps rises on the prices of farm produce on a MoM and YoY basis respectively.

For 2022, we expect that high-base effect from H1 2021 when inflation averaged 17.63% will keep price growth contained in H1 2022. On the other hand, price movement in H2 2022 would be heavily influenced by the proposed removal of energy subsidies. However, we acknowledge that political will (in preparations for 2023 general elections) as well as industrial actions from labor unions may deter the FG from implementing the removal the subsidy. Any unfavorable adjustment in exchange rate would also affect inflation numbers, given the country's penchant for food imports.

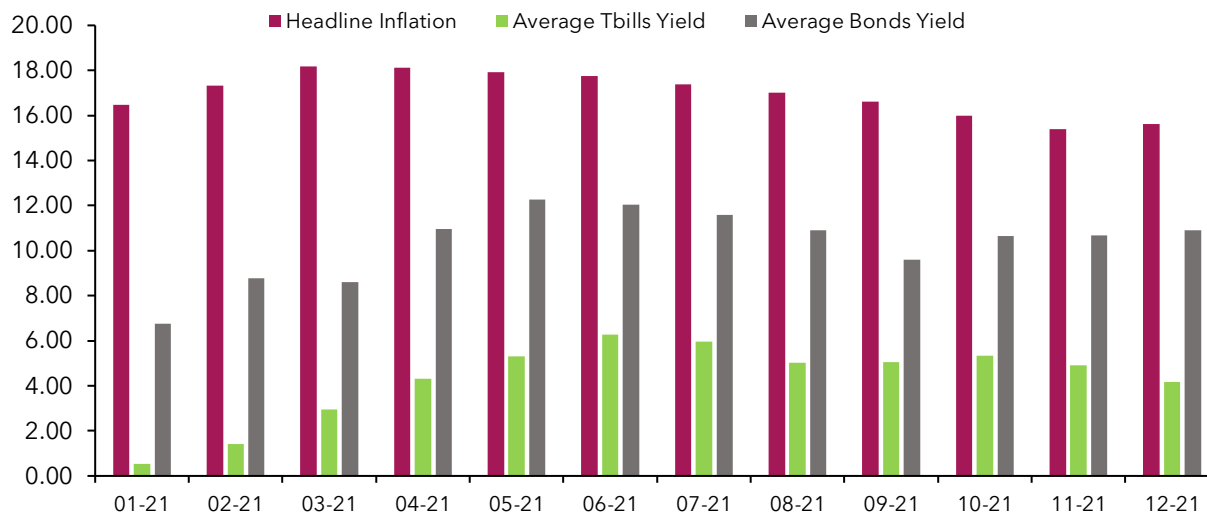
**Figure 1: One-year trend in Food, Core and Headline inflation (%)**



Source: NBS, ARM Research.

On the market front, negative real yields would persist for as long as long-term yields remain below inflation at 13%. In anticipation of Q4 and FY 2021 GDP numbers which is expected to reflect sustained economic recovery, we expect that the monetary policy committee would consider the current inflation trajectory in its decision later this month. However, we expect the committee to maintain status quo while waiting for proposed rate hike by the global systemically important central banks before swinging into action.

**Figure 2: 2021 Headline Inflation, Average T-bills and Bond Yields (Monthly'%)**



Source: NBS, ARM Research.

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