



### ***January 2022 CPI Report: Disinflation Resumes on Base and Fundamental Changes***

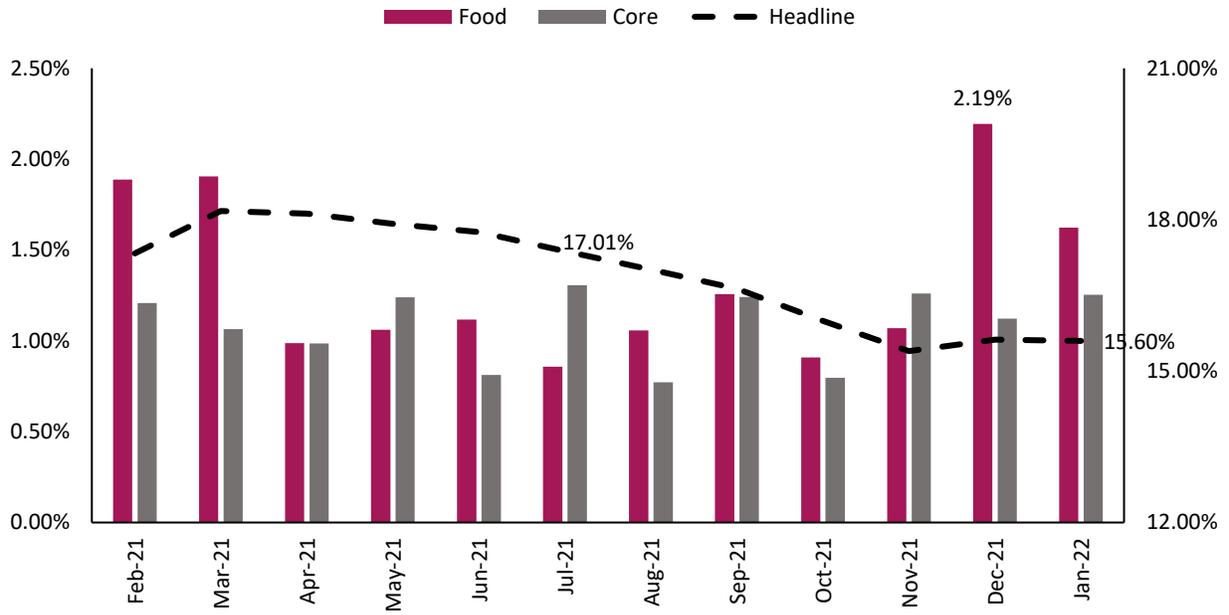
Headline inflation tapered (-3bps) to 15.6% YoY in January 2022 from 15.63% YoY in December 2021. The slow-paced growth in prices is largely due to a decline in the Food index to 17.13% YoY (17.37% in December). We allude the movement in the Food index partly to base effect given the sharp rise reported in January 2021. Similarly, farm produce prices and cost of processed foods grew slower YoY. On the flip side, Core inflation came in flat at 13.87% YoY in January, like December levels despite a surge in the highly-weighted sub-components of the index especially HWEGF (+0.38% YoY), and Clothing and Footwear (+0.31% YoY) which accounts for 47.5% of the index.

A month-on-month analysis reveals a similar picture as headline inflation declined 34bps to 1.47% due to a 57bps downtick in food inflation to 1.62% in January. Conversely, the core index ticked higher by 13bps to 1.25% in January, further supporting the notion that movement in headline inflation remains largely anchored on the rise in prices of food items.

For 2022, we maintain our base case expectation of 14.1% average inflation rate, barring the removal of energy subsidies and significant adjustments in exchange rate. We expect that high-base effect from H12021 when inflation averaged 17.63% will keep price growth contained in H1 2022. According to the Nigeria Metrological Agency (NiMeT), early onset and cessation of rainfall is predicted in 2022 resulting in dry spells of varying severity across the different regions of the country. This may severely hamper planting and harvest season and hurt food prices in the year.

On the market front, negative real yields would persist for as long as long-term yields remain below inflation at 12.71%. Although current inflation levels exceed the apex bank's target, we expect that the monetary policy committee of the bank would capitalize on the marginal decline in inflation and maintain current accommodative stance despite a change of monetary policy direction globally. However, we expect the bank to continue its use of unorthodox monetary policy tools in achieving its core objectives.

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



**Source: NBS, ARM Research.**

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