



### ***Inflation Maintains Downtrend for the Fifth Consecutive Month***

Headline inflation soft-pedalled in August to 17.01% from 17.38% in July, representing the fifth consecutive month of decline since April 2021. The slower pace of growth in prices, which is 22bps lower than our estimated 17.23%, is majorly due to a softer 20.30% (July: 21.03%) rise in the food basket due to the onset of harvest and less disruptions in the food-producing regions of the country. Core inflation also grew slower at 13.41% in August (July: 13.72%) due to decline in health (-0.17%), Transport (-0.05%) and softer growth across Household Equipment and Maintenance (+0.12%) and Education (+0.21%).

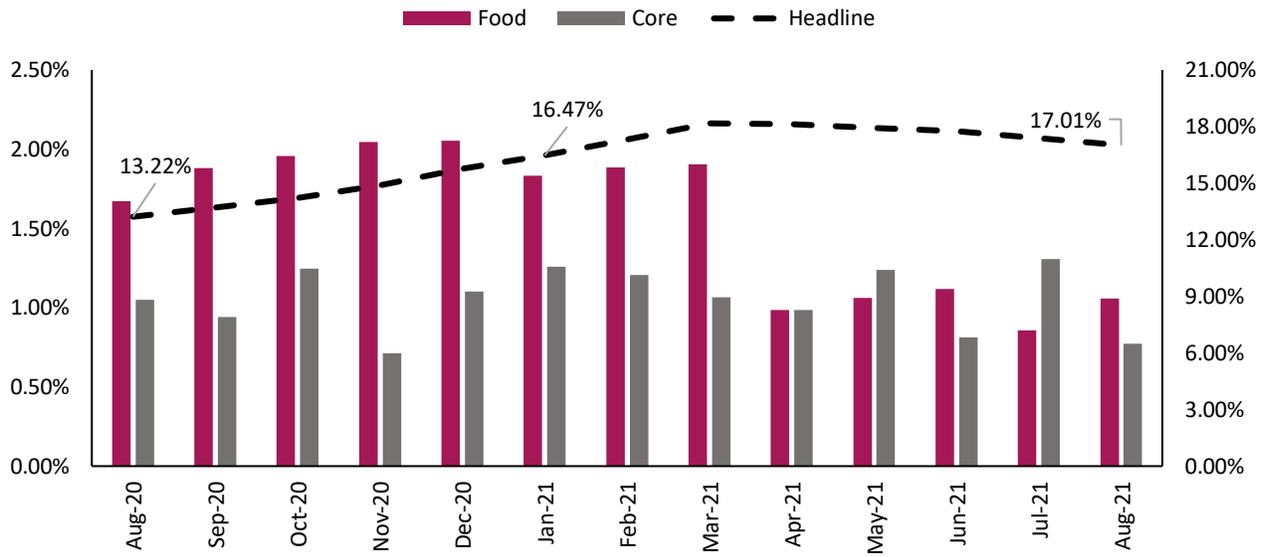
A month-on-month analysis however reveals a different picture as headline inflation ticked higher by 10bps to 1.02% in August due to a 20bps uptick in food inflation to 1.2%. The core index however eased by 53bps to 0.77% in August, providing reprieve for the headline inflation given rising food and imported food inflation.

The month-on-month figures reveal a more current and realistic view of inflationary trends. We may possibly be approaching a bottom-out in inflation and expect an uptick in inflation going forward on the back of the pass-through effect of exchange rate rationing for manufacturers and lean harvest due to floods following heavy downpours in some states as predicted by the Nigerian meteorological agency. Although the decision to raise electricity tariff has been suspended by NERC, the possibility of a rate hike before year-end remains a potential risk to inflation.

With the month-on-month rate on the upswing while the Year-on-Year rate declines, the effect of the base from last year is more evident and thus raises concerns on whether the country is really enjoying a slower pace of growth in prices. We believe that as the year draws to a close and the base effect withers, a better picture of the pace of growth in prices will become more evident.

On the market front, negative real yields persist as yields are declining faster than the pace of moderation in inflation. While we expect that moderating inflation would shape the decision of the monetary policy committee meeting this week, we believe the committee will maintain status quo, holding all parameters constant.

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



Source: NBS, ARM Research.

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