



16 November 2023

Economic Research

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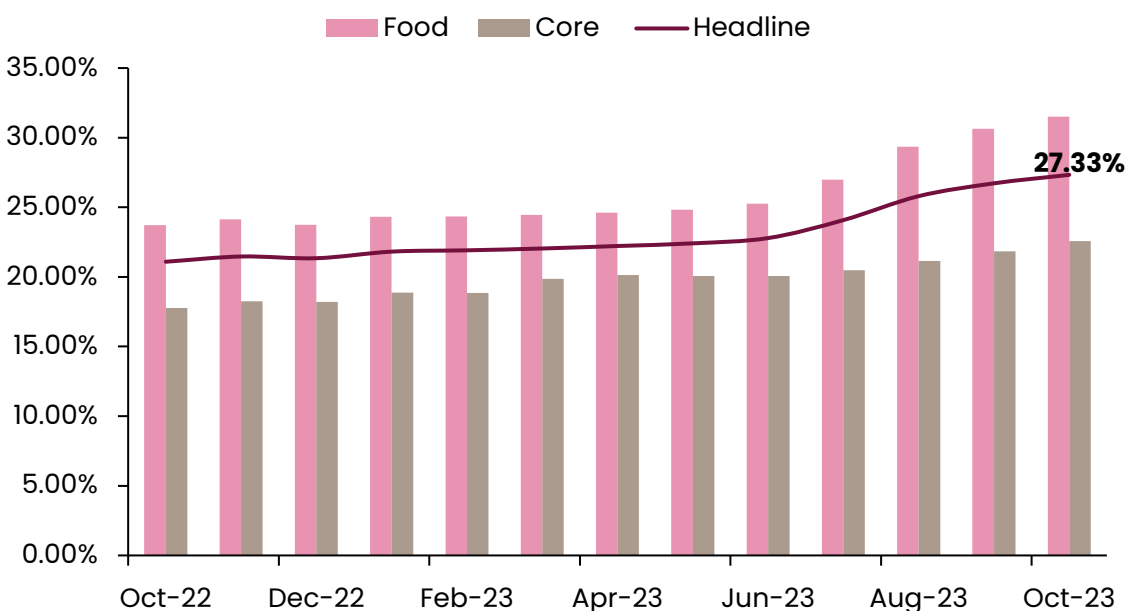
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October 2023 CPI Report: Rising Prices Remain Unabated

Headline Inflation Skyrockets to 27.33% in October 2023

Yesterday, the National Bureau of Statistics (NBS) released the inflation report for October 2023. Headline inflation jumped by 61bps to reach 27.33% YoY¹ (vs 26.72% YoY in September 2023). This is on the back of increases in its two major sub-components, Food inflation (+88bps to 31.52% YoY) and Core inflation (+73bps to 22.58%). However, on a MoM² basis, Headline inflation sustained its descent as it fell by 36bps to settle at 1.73% MoM (vs. 2.10% MoM in September 2023), following reductions in Food inflation (-54bps to 1.91% MoM) and Core inflation (-83bps to 1.39% MoM).

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



Source: NBS, ARM Research

¹ Year-on-Year

² Month-on-Month

Food Inflation

In October 2023, Food inflation surged by 88bps to 31.52% YoY (vs 30.64% YoY in September 2023). Notably, its sub-components Farm produce (+61bps to 30.88% YoY), Processed food (+96bps to 31.71%YoY) and Imported food (+104bps to 22.76% YoY) all recorded increases. We opine that the prevailing structural inefficiencies, elevated import costs, and the substantial rise in petrol costs (+226.75% YoY to NGN626.21 per liter as of September 2023) have driven up logistics costs, ultimately resulting in escalated food prices. Conversely, Food inflation decreased by 54bps to 1.91% MoM, likely due to the ongoing harvest season nationwide, which has enhanced food availability. Consequently, there was a 17bps decrease in Farm produce prices, dropping from 2.13% MoM in September 2023 to 1.96% MoM.

Core Inflation

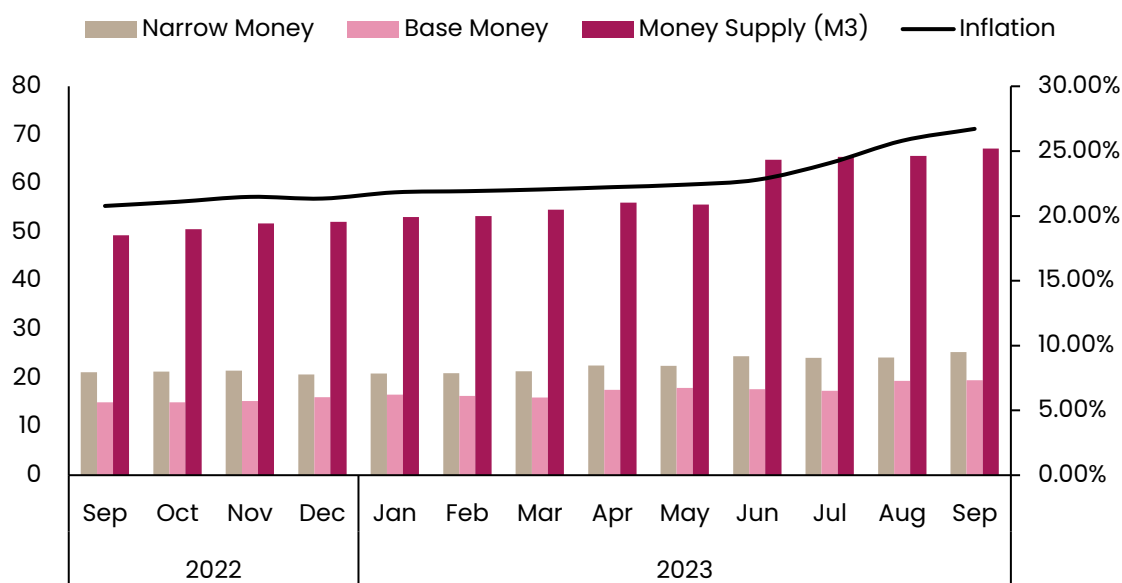
Core Inflation went up by 73bps to 22.58% YoY in October 2023 (vs 21.84% YoY in September 2023). This is following increases in Restaurant and Hotels (+26bps to 24.03% YoY), Clothing and Footwear (+31bps to 16.38% YoY) and Alcoholic Beverage, Tobacco and Kola (+73bps to 16.45% YoY). However, Core inflation decreased by 83bps to 1.39% MoM (vs 2.22% MoM in September 2023). We allude this to the decline in cost of Transport (-26bps to 1.35% MoM in October 2023) and Education (-48bps to 1.16% MoM in October 2023).

Money supply

Another important sources of inflationary pressure includes the money supply glut observed in recent months. Looking at the recent trend, we observe that there is a positive relationship between overall money supply and the movement of prices. The Narrow money supply, which includes currency in circulation and current account

deposits with commercial banks, increased by 4.65% MoM to NGN25.36trn in September 2023 (vs. NGN24.23trn in August 2023). Conversely, Base money supply (M0), which indicates the amount of physical currency in circulation, went up marginally by 0.40% MoM to NGN19.51trn in September 2023, compared to NGN19.43trn in August 2023. Overall, Money supply (M3) rose by 2.26% MoM to NGN67.18trn in September 2023 (vs. NGN65.70trn in August 2023). We expect this trend to moderate in the coming months, supported by the Federal Government’s inclination to finance its NGN2.18trn supplementary budget through domestic borrowing.

Figure 2: Nigeria Money Supply Movement vs Inflation rate



Source: CBN, ARM Research

Outlook

We expect that the fast-depreciating exchange rate, rising fuel costs and structural imbalances will continue to further exacerbate inflationary pressures, particularly in respect to food and transportation. Hence, we opine that the Monetary Policy Committee (MPC) will move to hike interest rates by an additional 25bps–50bps to curb

inflation in its upcoming meeting. Overall, we anticipate that the inflation rate will remain elevated in November 2023.

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