



17 October 2023

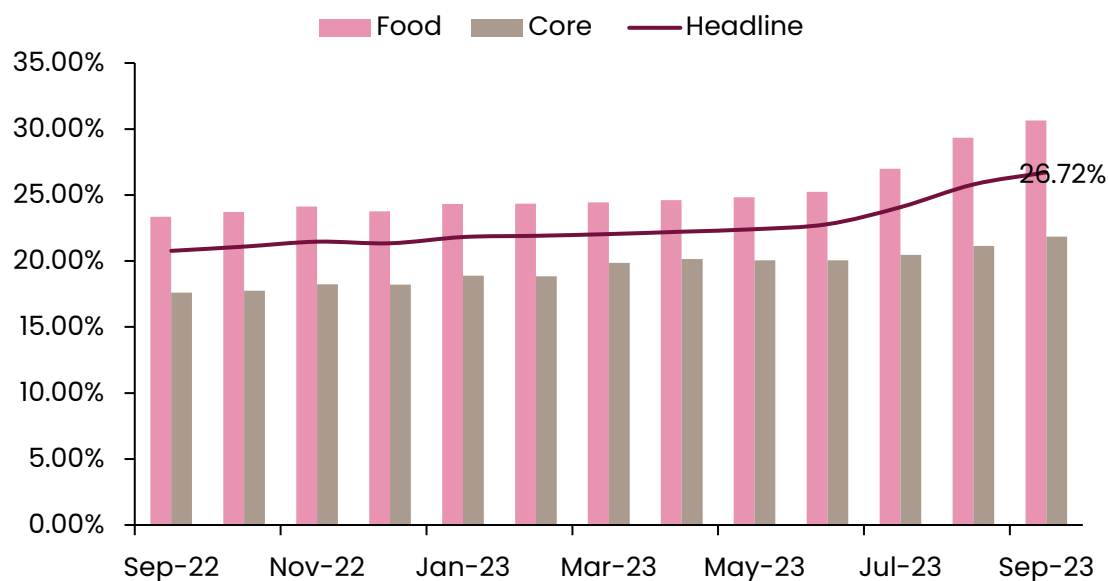
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September 2023 CPI Report: A New High

Headline Inflation Advanced to 26.72% in September 2023

Yesterday, the Nigerian Bureau of Statistics (NBS) released the inflation report for September 2023. Headline inflation soared by 92bps Year-on-Year (YoY) to 26.72% (vs 25.80% YoY in August 2023). The increase in headline inflation can be attributed to the rise in the food inflation (+130bps YoY to 30.64%) and core inflation (+69bps YoY to 21.84%). On a Month-on-Month (MoM) basis, headline inflation declined by 108bps MoM to settle at 2.10% (vs. 3.18% MoM in August 2023). This is following a dip in food inflation as it went down by 141bps MoM to settle at 2.45% (vs. 3.87% MoM in August 2023). However, core inflation increased by 5bps MoM to 2.22% (vs. 2.18% MoM in August 2023).

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



Source: NBS, ARM Research

Food Inflation and Core Inflation

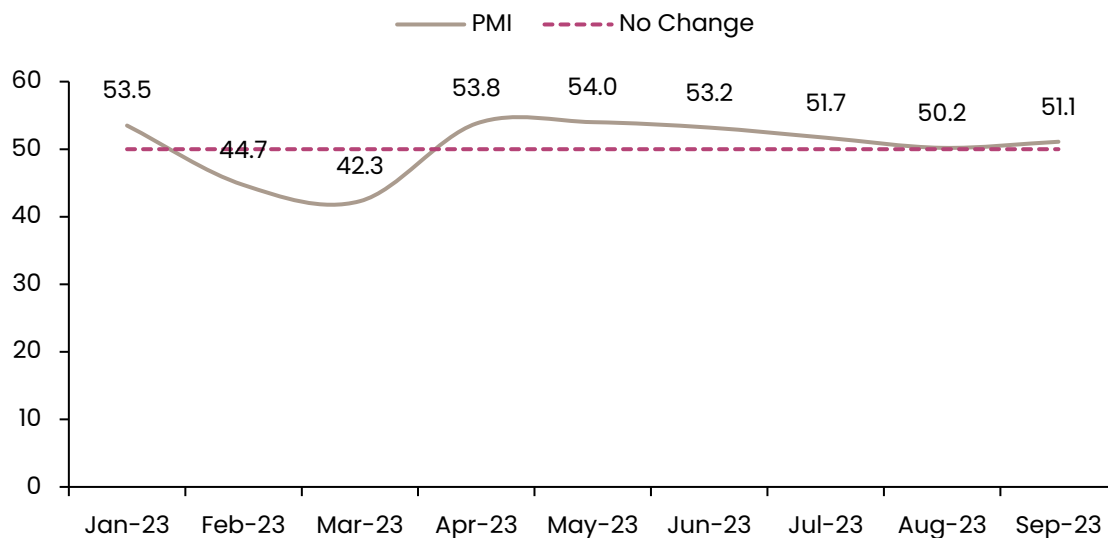
In September 2023, food inflation reached a new high, as it soared by 130bps YoY to 30.64% from 29.34% in August 2023. Notably, this is due to the unfavorable low base effect from the previous year amid existing structural and security challenges. However, on a MoM basis, food inflation declined by 141bps to 2.45% (vs. 3.87% in August 2023). We attribute this to the early harvest season observed in some parts of the country, which has helped reduce consumption gaps in September. Consequently, Farm produce declined by 177bps MoM to 2.13% and Processed food went down by 131bps MoM to 2.55% in September 2023.

Core inflation rose by 69bps YoY to 21.84% in September 2023 (vs 21.15% in August 2023). This is due to rising costs relating to Restaurant and Hotels (+100bps YoY to 23.77%), Health (+19bps YoY to 23.11%) and Transport (+8bps YoY to 27.18%). Despite significant declines in its major components, core inflation increased by 5bps MoM to 2.22% (compared to 2.18% in August 2023). For context, Restaurants and Hotels (-80bps MoM to 2.30%), Transport (-70bps MoM to 1.62%), and Health (-64bps MoM to 1.66%) declined in the month.

PMI: An Uptick Amid Economic Challenges

In September 2023, the Stanbic IBTC Bank Nigeria Purchasing Managers' Index (PMI) noted a modest increase. The PMI rose by 90bps to 51.1 points, compared to 50.2 points in August 2023, marking the sixth consecutive month above the 50.0 points benchmark. Despite the mounting inflationary pressure, underpinned by the removal of the PMS subsidy, and the devaluation of the Naira, this uptick in the PMI figure can be attributed to salary increments implemented by several companies. These increments served to offset the cost pressure, leading to a slight uptick in purchasing power and subsequently increased demand for commodities during the month.

Figure 2: PMI Trend in 2023



Source: Stanbic IBTC Bank, ARM Research

Outlook

We opine that the challenges relating to the current dearth of USD, as well as high fuel costs are expected to aggravate expenses relating to food, transportation, and energy. Also, despite the start of the main harvest season, the insecurity, poor storage facilities, and infrastructural deficiencies across the country would likely support elevated food prices, ultimately driving an upward trend in prices. Therefore, we maintain our December 2023 inflation forecast of 29.40%.