

Nigeria's Headline Inflation hits 6-year high at 18.60% in June; serves policymakers a la cart.....

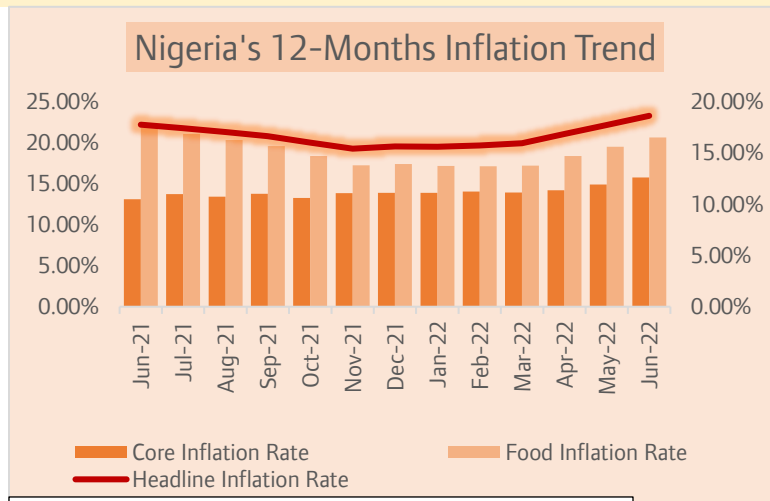
Latest data from the National Bureau of Statistics (NBS) on Friday shows that the Consumer Price Index (CPI) which measures the average change in prices of goods and services consumed by households over time, accelerated for the eight straight month to 18.60% in June 2022 from 17.71% reported in May as there was increases in all the composite indices at the 12 Classification of Individual Consumption by Purpose (COICOP) functions and all-items levels that yielded the headline index.

This increase exceeded our expectations (18.30%) and indicates the highest increase in 77 months (since January 2017) when the headline index hit 18.72%; and further indicates that the demand-supply mismatches which have exerted pressure on commodities prices since the start of the year has brought about the manifestation of a spiraling inflationary cycle. To this, the headline inflation increased to 1.82 percent in June 2022, this is 0.03 percent higher than the rate recorded in May 2022 (1.78 percent).

This huge expansion in inflation could be partly attributed knocks on the doors of Nigerians and businesses where price of diesel increased approximately 278% since January 2022 to around N810 per litre plus the adjustment in the PMS pump price above the N165 per litre. This recent development can be seen as many businesses depended on fuel or diesel for daily operation as well as trucks used to transport food items to various parts of the country.

Furthermore, we see the combined effect of exchange rate pressure where the Naira has depreciated the more due to dollar scarcity across the FX market and the saturation of money supply as some major culprits while the rate of insecurity concerns in some major parts of the country has contributed to the acceleration of inflation as food supplies were hampered by effects of kidnapping and incessant clashes in some communities.

A principal driver of this acceleration in the headline index, as we noticed, was the surge in food inflation which printed at 20.6% in June 2022 from 19.50% in the prior month and was caused by higher foods prices volatility caused by COVID 19. Consequently, the acceleration in food inflation was caused by increases in prices of bread and cereals, food





Inflation Update: June 2022

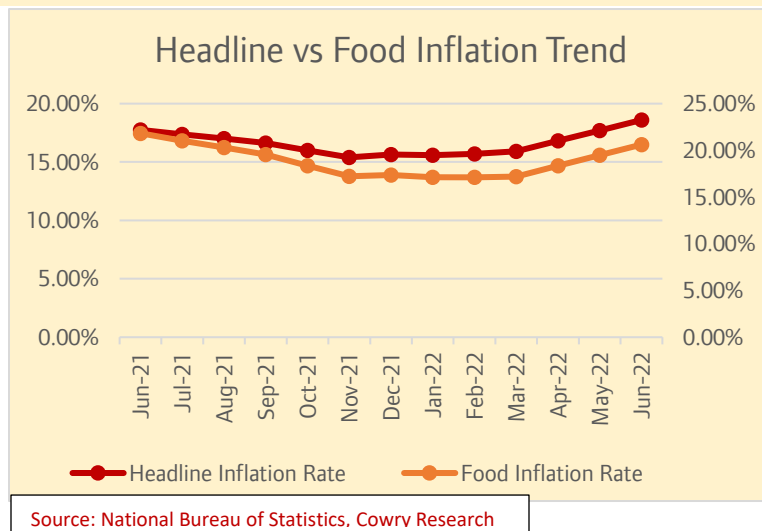
MPR: 13.00% June Inflation: 18.60%

Q1'22 Real GDP Growth: 3.11%

products, potatoes, yam, and other tubers, wine, fish, meat, and oils. From our analysis, this rise can be attributed to cost-push impacts raised by connective factors which are both domestic and exogenous to Nigeria.

Meanwhile, the increases in the food and its sub-index echo the collective effects of seasonality, war-induced global supply chain interruptions, and output shocks which have precipitated an unprecedented but expected hike in commodity prices.

For the core inflation, which excludes the prices of volatile agricultural produce stood at 15.75 percent in June 2022 on a year-on-year basis, up by 2.66% when compared to 13.09 percent recorded in June 2021 and rose 85 basis points from 14.90% in May 2022. From this index, increases were recorded in prices of gas, liquid fuel, solid fuel, garments, passenger transport by road just as seen in recent time with average increase by 25% due to fuel scarcity, cleaning, repair and hire of clothing, passenger travel by Air.



Analyzing price movements across states during the review month, food inflation was recorded highest in Kwara (25.62%), Kogi (24.81%), and River (24.34%), while Jigawa (16.01%), Sokoto (16.24%) and Kaduna (17.75%) states recorded the slowest rise on a year on year basis. Month-on-month, food inflation was highest in Ebonyi (3.52%), Bayelsa (3.27%), and Ondo (3.25%), while Sokoto (0.11%), Taraba (0.94%) and Adamawa (1.22%) recorded the slowest rise.

Global macro-economic stability is now under threats from inflation which is no longer Nigeria's specific phenomenon. Thus, the policy changes in responding to it would have substantial repercussions across emerging and frontier market economies as central banks in these markets employ policy tightening strategies to confront the problem. For Nigeria, the CBN/MPC is not left out as all efforts to combat the cost-push inflation shows the exhaustion of weapons in its arsenals.

However, we see the acceleration in the inflation numbers in June offering policymakers limited room to maneuver rates at the next Meeting on July 18 & 19, though a marginal rate tweak is inevitable. Thus, we project July inflation to further accelerate to 18.90%.

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