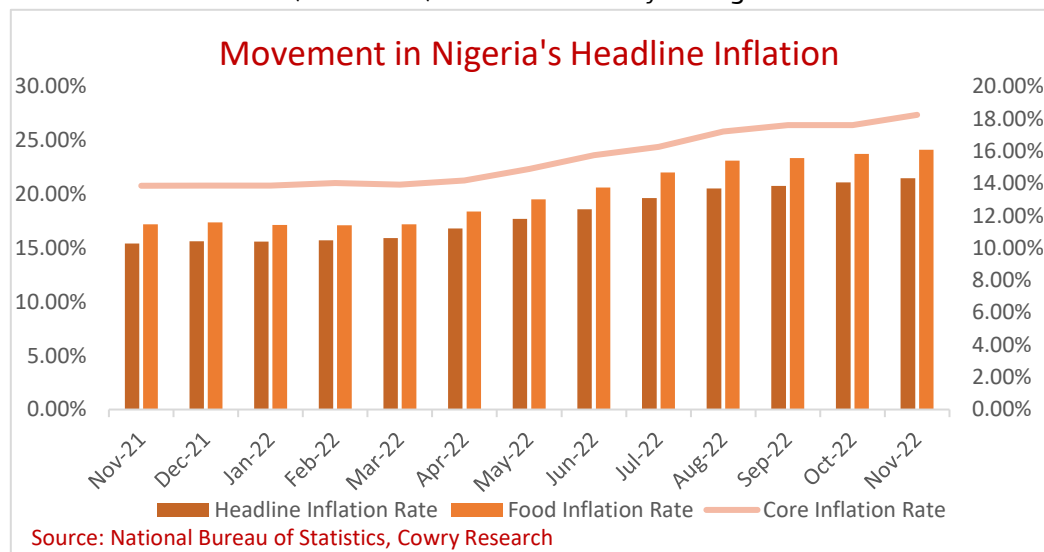


Inflation Pangs Nigeria's Economy with a Slow Rise to 21.47% in November on Rising Costs

The National Bureau of Statistics (NBS) on Wednesday, published the November edition of its monthly inflation report, which showed that Nigeria's annual inflation rose for the tenth consecutive month to 21.47% year on year in November from 21.09% in the previous month on the back of rising import costs as a result of Naira depreciation, disruptions in the food supply chain, and the continued rise in the cost of production for companies. This is in line with our expectation for a slower acceleration in headline inflation in November 2022, at 21.5%, and marks a 17-year high since December 2005.

In November, the acceleration was a 6.07% increase from the 15.40% recorded in November 2021 and indicates that the general price levels were relatively higher by 6.07% this period compared to the same period last year. Major drivers of the headline number come from the food index, which printed at 24.13% year on year and was caused by increases in the prices of bread and cereals, oil and fat, potatoes, yams, and other tubers, and food products such as fish.



On the other hand, October 2022 saw inflation printed at 21.09%, which indicates a sustained increase from the prior year and was largely driven by increases in the major components of food and core inflation. Thus, food inflation rose 39 basis points to 23.7%, which resulted in a surge in food prices and comes from the already known challenges emanating from post-harvest losses and rising insecurity coupled with flooding from other parts of the country. But month on month, food inflation rose 17 bps higher to 1.40% in November, resulting from increases in the prices of some food items like oil and fat, fruits, fish, and tubers.

Although, our inflation outlook still remains elevated when we take into account the recent flooding that affected many food-producing states; the rise in energy costs, which is reflective of the increases in fuel prices (diesel and kerosene), coupled with the depreciating Naira and rising airfare prices; it is expected that the inflation numbers will gradually moderate within the first six months of 2023 following efforts by the apex bank through several monetary policy tools to quell inflation. However, the battle with inflation in Nigeria has posed a downside to its growth prospects as of late.

So far, prices have trended upward in 2022 across all categories captured in the CPI basket, especially since the start of the Russian-Ukrainian war. When we consider the weight of the basket, the movement of prices in the food and non-alcoholic beverage sectors has also played an important role. Overall, food inflation has continued to be the principal driver of inflation, including in November.

Further afield, the core inflation rate, which excludes the prices of volatile agricultural produce, stood at 18.24% in November 2022 on a year-on-year basis, up by 4.39% when compared to the 13.85% recorded in November 2021. The majority of the increases were seen in the prices of gas, liquid fuel, passenger transport by air, solid fuel, and spare parts for vehicles. The month-on-month analysis pointed out that the inflation rate was up 0.74% to 1.67% in November from 0.93% in October. This brings the annual core inflation rate to 15.69% for a 12-month period, higher by 2.73% from 12.96% in November last year.

Meanwhile, states with the fastest rise in headline inflation were Ebonyi (26.11%), Kogi (25.84%), and Rivers (24.45%), while Kaduna (18.87%), Sokoto (19.02%), and Cross River (19.17%) recorded the slowest rise in headline year-on-year inflation. For food inflation, Kwara (29.74%), Kogi (29.51%), and Ebonyi (28.25%) led the charts, while Kaduna (19.30%), Sokoto (19.48%), and Jigawa (20.55%) recorded the slowest rise in year-on-year food inflation

Cowry Research expects prices to remain elevated in 2023 as the lag effects of the current fuel scarcity, the impact of the flooding experienced so far in 2022, low productivity from both oil and the agricultural sector, and the foreign exchange scarcity in the face of Naira depreciation begin to rear their heads in the scheme of things and further drive moderate acceleration in the headline index. For December, the expectations for a price surge ahead of the festive celebrations in the face of an awaited seasonal boost to food supplies from the post-harvest season coupled with the anticipation of higher spending as the election campaign season enters 2023 are expected to push up prices across the board. That said, we project headline inflation at 21.98% for December, while the average annual inflation prints 18.82% for 2022.