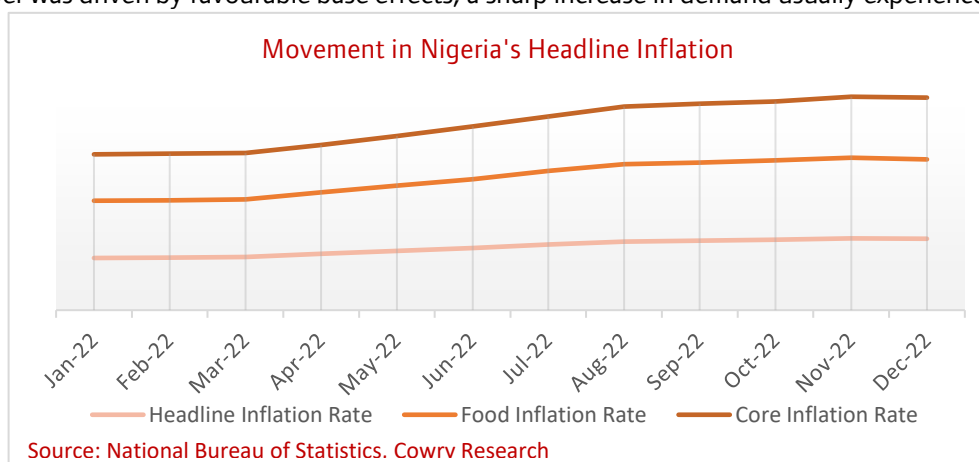


Multi-Year High Inflation Halts to 21.34% in December 2022 Despite Sharp Rise in Holiday Demands

According to the latest National Bureau of Statistics consumer price inflation report, after ten months of a continuous upward trend in headline inflation, Nigeria's headline inflation unexpectedly eased by 0.13% month on month to 21.34% in December 2022 from 21.47% in November 2022. However, this points to 5.72% points higher on a year-on-year basis from 15.63% and brings the annual inflation rate to 18.77% as against the overall average of 16.98% in 2021.

The disinflation trend reported in December was driven by favourable base effects, a sharp increase in demand usually experienced during the festive season, and an increase in the cost of production, e.g., an increase in energy costs, transportation costs, and exchange rate depreciation, etc.

Away from expectations for a rapid acceleration in the headline index, this indicates that the All Item Consumer Prices Index rose at a faster pace in December (1.71%), owing to the festivities, where prices rose without looking back, as well as the currency



market's ongoing FX pressure on the naira and the country's insecurity situation. The increases were recorded especially in food and non-alcoholic beverages, transportation, and miscellaneous goods and services.

Our analysis of the report showed that the other two measures of inflation, food and core inflation, also picked up year on year. Thus, the food inflation rate is printed at 23.75% year on year, rising 6.38% from 17.37% in December 2021. The rise in food inflation was caused by increases in the prices of bread and cereals, oil and fat, potatoes, yams and other tubers, fish, and other food products. On a month on month analysis, food inflation was 0.49% higher than the November rate of 1.40% and was driven by increases in the prices of some food items like oil and fat, fish, potatoes and tubers, bread and cereals, and fruits, etc.

On the other hand, the core inflation rate, which excludes the prices of volatile agricultural produce, stood at 18.49% in December 2022 on a year-on-year basis, up by 4.62% when compared to the 13.87% recorded in December 2021. On a month-on-month basis, the core inflation rate was 1.33% in December 2022. It stood at 1.67% in November 2022, down by 0.34%. Consequently, the highest increases were recorded in the prices of gas, liquid fuel, passenger transport by air, vehicle spare parts, fuels and lubricants for personal transport equipment, solid fuel, etc.

In December 2022, inflation rose highest year on year in Bauchi state (23.79%) and rose slowly in Taraba (18.98%), while on a month-on-month analysis, Oyo (3.48%) saw the highest increase and the slowest rise was reported in Ebonyi (0.11%). For food inflation, Kwara (27.9%) reported the highest increase and then Cross River (21.71%) reported the slowest rise, and the month-on-month analysis saw Sokoto (3.38%) and Nasarawa (0.06%) states report the highest and slowest rates, respectively, despite the flooding and insecurity situation in the country.

Cowry Research notes that the slight deceleration comes in line with the trend globally as inflation has hit multi-year highs in many advanced and developing countries; but more concerning is the fact that month on month reading continues to rise, as pockets of consumers are being squeezed.

As the MPC meets to decide on various economic variable, the policy committee may be tempted to pedal softly on its tightening stance by a token hike of 25 basis points. We believe that a moderate reversal in the headline numbers will skew the voting pattern of the committee members in favour of maintaining a tightening stance. Regardless, the lag-effect from the policy tightening may take longer in reality as Nigeria has a weak policy transmission system.