



Inflation Update: January 2023

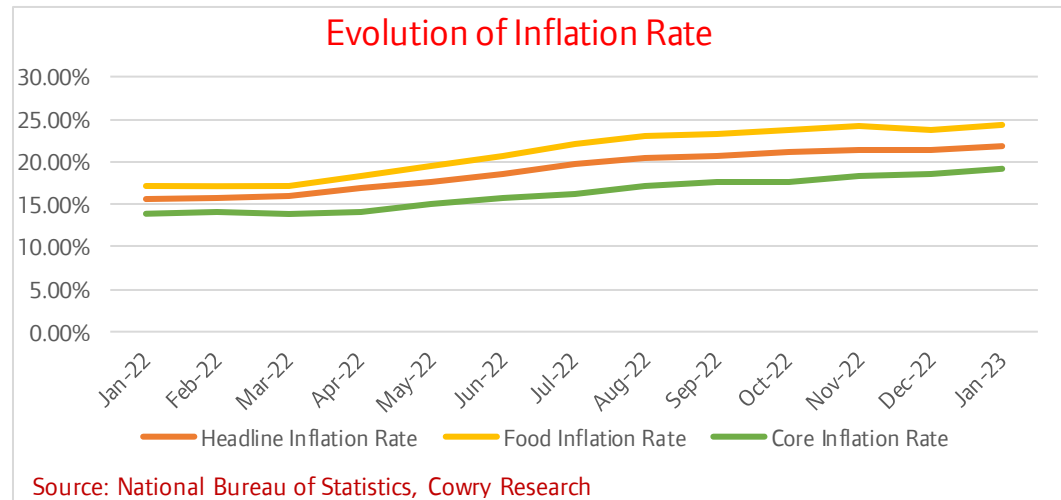
MPR: 17.50% Jan'23 Inflation: 21.82%

Q3'22 Real GDP Growth: 2.25%

Headline Inflation Volte-faced to 21.82% in January Due to Post-Christmas Spending, Weedier Naira

The latest headline inflation report from the National Bureau of Statistics (NBS) for January 2023 showed that there was an upward reversal in headline numbers to 21.82% year on year after the calm of 21.34% seen in December 2022. This increase poses the highest rise since September 2005, against market expectations for a further easing below 21%. Also, the January inflation trend signals an increase of 0.47% points from the December 2022 rate and 6.22% points higher than the 15.60% reported in January 2022.

According to the NBS, the general price level increase and post-Christmas experiences in January, which were offshoots of price increases in bread and cereal, which rose 21.67%, actual and imputed rent (7.74%), potatoes, yams, and tubers (6.06%), vegetables, and meat, which rose by 4.78%, were major drivers of the sudden increase in inflation. These components happen to be from the food inflation sub-index.



Though the market expected a continuation of the downward trend that began in December, rising food prices and a weaker currency have remained the driving forces behind the acceleration in the headline numbers. To simply put it in context, the prices of food, which happens to be the most relevant indicator in the CPI basket, recorded an upturn to 24.32% in January 2023 from 23.75% reported in the previous month. This was due to an upsurge in the prices of bread and cereals, oil and fat, potatoes, yams, and other tubers, fish, vegetables, fruits, meat, and food products.

For the core inflation, which excludes the prices of volatile agricultural produce, it printed at 19.16% in January 2023 on a year-on-year basis; and was spurred by increases recorded in the prices of gas, liquid fuel, passenger transport by air, vehicles' spare parts, fuels, and lubricants for personal transport equipment, solid fuel, etc.

Worthy of note is the fact that the wake of January 2023 was graced by an increase in PMS prices that came alongside fuel scarcity and a currency crunch resulting from the currency redesign of the CBN coupled with the FX shortage in the currency market, which has led to the Naira trading moderately above N700 for the greenback in the parallel market. Thus, in spite of the disinflation in the economy reported in December, pockets of Nigerians still get squeezed by reality.

Taking into consideration the several comparisons to food and non-food items that may have yielded the headline index across states, we saw inflation rise highest in Bauchi (24.79%), Ondo (24.54%), and Anambra (24.51%) states while states such as Jigawa (19.09%), Borno (19.62%), and Sokoto (19.90%) recorded the slowest rise in headline year-on-year inflation. In another development, food inflation surged the most in Kwara (29.03%), Lagos (27.67%), and Ondo (27.38%) states, respectively, while Jigawa (19.22%), Sokoto (20.80%), and Yobe (21.32%) states recorded the slowest rise in year-on-year food inflation during the same period.

We note that at the moment, there is a case of fuel scarcity in some major states, which has created market inefficiencies and an opportunity for some petroleum marketers to profit from, especially now that we see the sharp rise in the price of diesel and PMS at above N800 and N189 respectively. However, the planting season and currency pressures from the Naira crunch due to the CBN's currency redesign policy on the transition to a cashless policy, coupled with other forms of election spending, are all likely to propel another cycle of price increases in February. In light of the above, we project a further uptrend in inflation to 22.15% in February 2023.