



## Inflation Update: March 2023

MPR: 18.00% Mar'23 Inflation: 22.04%

FY'22 Real GDP Growth: 3.11%

### Another Acceleration in Inflation to 22.04% Amid Food Shortage, Cash Crisis

The National Bureau of Statistics (NBS) published the March 2023 inflation report, which showed that headline inflation accelerated by 13 basis points for the third straight month to settle at 22.04% year on year, up from 21.91% in February. This was 6bps below our expectation (22.10%) for March, amid the worsening cash crisis.

The report showed that the acceleration was primarily driven by the increases recorded in the prices of food and non-alcoholic beverages, which contributed 11.4% to the y/y increase of the CPI. Additionally, the increased cost of living, education and medical fees, recreation & culture, and communication costs recorded increases in cost, which further

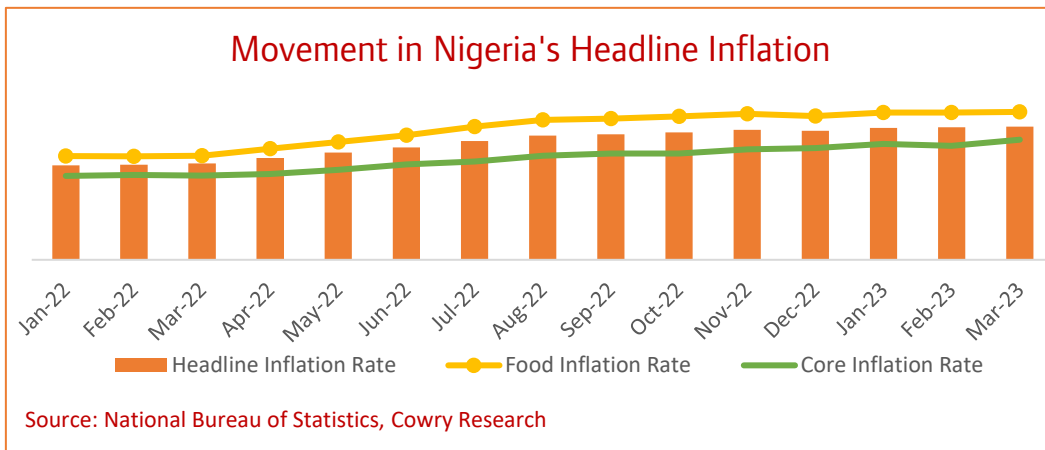
contributed to the acceleration in inflation numbers during the month. However, the rise in headline inflation rate was 6.13% points higher compared to the rate recorded in March 2022, which was 15.92%, showing that the headline inflation rate (year-on-year basis) increased in March 2023 compared to the same month in the preceding year (March 2022).

Furthermore, underpinning the accelerating trend in headline inflation is the food index, which rose to 24.45% year on year from 24.35% in February amid food shortages. This increase was caused by increases in the prices of oil and fat, bread and cereals, potatoes, yam, and other tubers, fish, fruits, meat, vegetables, and spirits. Elsewhere, on the month-on-month trend, the food index rose to 2.07% in March from 1.90% in the prior month due to upward cost pressure emanating from the prices of transportation (22.25%) and housing & utilities (18.19%) due to the unabating climbs in electricity tariffs and energy-diesel and petrol prices, as well as miscellaneous goods & services (20.01%).

Meanwhile, core inflation, which excludes the prices of volatile agricultural produce, rose to 19.86% in March 2023, up by 1.02 percentage points from 18.84% in February. During the review period, the highest increases were recorded in the prices of gas, passenger transport by air, liquid fuel, fuels, and lubricants for personal transport equipment, vehicle spare parts, and solid fuel, among others. On a month-on-month basis, the core inflation rate was 1.84% in March 2023, up from 1.06% in February.

A look at the state profile showed that food inflation rose highest in Kwara (28.84%), Ondo (28.22%), and Lagos (27.92%) states, while Sokoto (18.99%), Zamfara (20.57%), and Plateau (21.38%) states all recorded the slowest rise in food inflation on a year-on-year basis. Also, core inflation rose fastest in Ondo (25.38%), Bayelsa (24.80%), and Lagos (24.66%), while Borno (19.18%), Cross River/Sokoto (19.24%), and Benue (20.01%) recorded the slowest rise in headline inflation on a year-on-year basis.

We opine that the trend in headline inflation will continue to be on an upward trajectory on the back of season-induced cost pressure from household commodities during the Easter and Ramadan celebrations witnessed in April to 22.6%. Looking ahead, we anticipate that higher inflation expectation over the near term should cause investors to reprice fixed income yields, specifically on the long-dated-tenor instruments, and also fuel the demand for higher rates at primary market auctions.



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