



Inflation Update: May 2023

MPR: 18.50% May'23 Inflation: 22.41%

Q1'23 Real GDP Growth: 2.31%

Consumer Pockets Squeeze Further as Headline Inflation Hits 22.41% in May

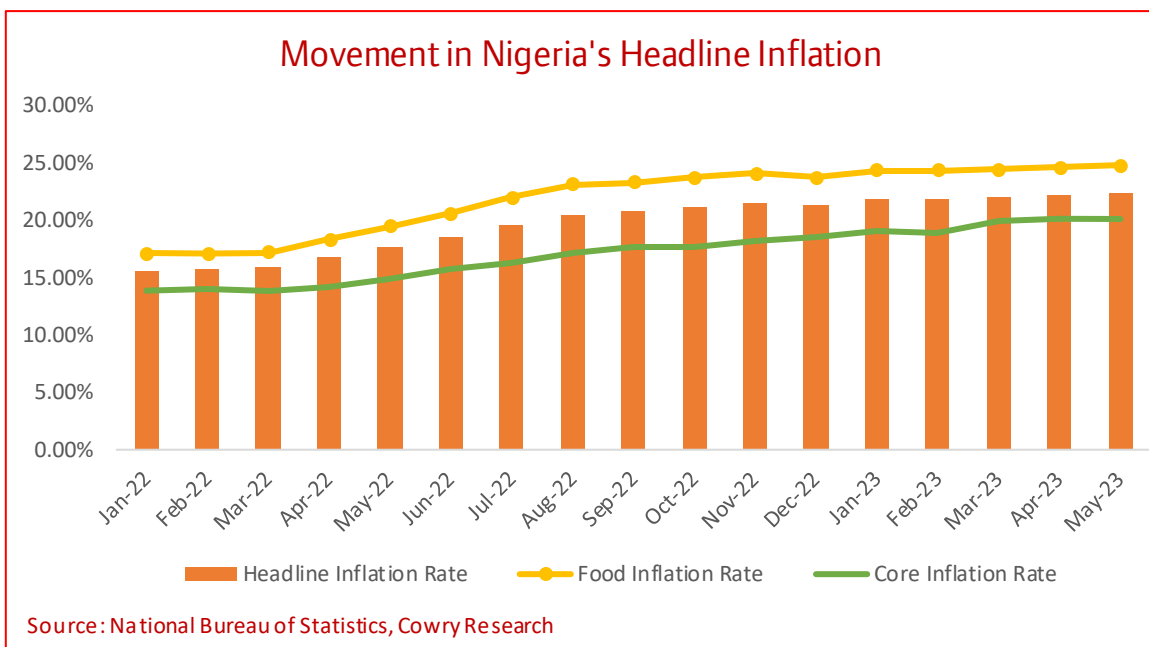
Nigeria's headline inflation rate rose for the fifth straight month to 22.41% in May 2023 from 22.22% in the previous month, according to data released by the National Bureau of Statistics (NBS). This is the highest inflation rate in Nigeria since September 2005 and the third straight month of staying within the 22% band. Meanwhile, the current print of 22.41% showed an increase of 0.19% points when compared to April 2023 and 4.70% points higher compared to the rate recorded in May 2022, at 17.71%.

According to the report, the rise in inflation was driven by increases in the prices of food and non-alcoholic beverages (11.61% y/y), housing water, electricity, gas, and other fuel (3.75%), clothing and footwear (1.71%), and transport (1.46%). However, the index stayed below our expectation (22.5%) for

the month when we consider the effects of the subsidy removal towards the close of the month, which led to a spike in the PMS price across the country, the continued rate of insecurity, and communal clashes across some of the food-producing areas, among others.

Elsewhere, the food index rose to 24.82% in May to reach a new high since October 2005 (24.60%) from 24.61% in April 2023. The rise in food prices was due to increases in the prices of staple foods such as oil and fat, yam and other tubers, bread and cereals, fish, potatoes, fruits, meat, vegetables, and spirits. The prices of these foods have been rising due to several factors, including the high cost of food importation, the ongoing conflict in Ukraine that is causing supply chain disruption, and the government's decision to remove fuel subsidies during the month.

while core inflation stood at 20.06% y/y in May 2023 decelerating from 20.14% in April 2023 but rose to 1.81% m/m during the review period. Drivers of this index were principally due to increases in prices of gas, passenger transport by



air, liquid fuel, vehicle spare parts, fuels and lubricants for personal transport equipment, medical services, and passenger transport by road, among other drivers. The rise in transport prices was due to the high cost of crude oil and diesel. To buttress the point, the rise in housing prices can be attributed to increases in the prices of building materials and rent, which resulted from the high cost of imported cement and steel as well as the high demand for housing.

During the month, the inflation rate was highest in Ondo (25.84%), Kogi (25.70%), and Rivers (25.02%), while Taraba (19.55%), Sokoto (19.56%), and Plateau (19.89%) recorded the slowest rise on a year-on-year basis. Also, food inflation rose fastest in Ondo (30.26%), Kogi (29.83%), and Kwara (29.52%), while Sokoto (18.89%), Taraba (21.30%), and Kano (21.33%) reported the slowest rise on a year-on-year basis.

Over time, the Nigerian government, through the monetary authority, has taken several measures to tame inflation, including raising interest rates, devaluing the naira, and subsidizing the prices of some essential goods. However, these measures have proved abortive and unsuccessful in bringing inflation under control. Notwithstanding these efforts, the new administration has hinted at the need for interest rate moderation in a bid to increase investment and consumer purchasing power. We note that this move will bring about a further spike in the rate of inflation.

Also, the recent CBN's decision to float the naira will bring about further depreciation of the naira, while we expect to see the effect of the current subsidy removal by the new administration on price pressure and economic activities. The resultant effect of this decision will be more expensive imports and upward inflation pressure. Meanwhile, we expect a further surge in the headline inflation index to 23.6% in June.