

Analyst’s Note on: Nigeria’s Inflation Report – June 2023

Headline Inflation Accelerates for six Straight Months to 22.79% in June....

.... Numbers Deviate from the Reality in Nigeria

Nigeria's Bureau of Statistics (NBS), in its latest inflation report, revealed that the headline inflation rate rose by 0.38 percentage points to 22.79% in June 2023, relative to 22.41% in May 2023, and 4.19 percentage points higher on a year-on-year basis when compared to the 18.60% reported in June 2022. This indicates the sixth straight month in 2023 of the continued buildup of inflationary momentum in Nigeria, while the current rate of 22.79% indicates the highest since March 2004.

The rise can be attributed to the price increases in some of the divisional level items on the index, such as food and non-alcoholic beverages (11.81%), housing, water, electricity, gas, and other fuel (3.81%), clothing, and footwear (1.74%), transport (1.48%), furnishings, household equipment, and maintenance (1.15%), amongst other items, which contributed a total of 2.80% to the increase in headline inflation.

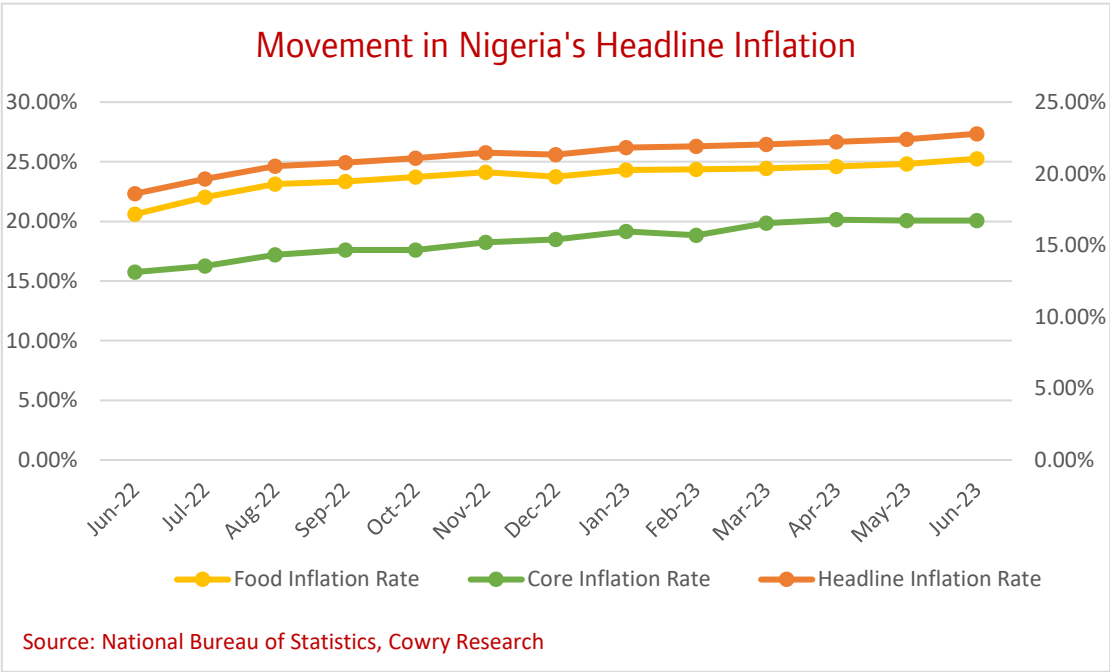
In the month of June, the FG announced the official removal of subsidy on PMS or petrol, which was met with mixed reactions, while the government noted that its removal was necessary to reduce the government's fiscal deficit. An upshot from the move brought about the unexpected increase in transportation costs as a result of the increase in the pump price of fuel. Also, prices of food items in the markets skyrocketed by more than 70% as traders began factoring in the attendant cost from the subsidy removal.

One of the major drivers of the increase in headline inflation was the food inflation, which printed at 25.25%. This level marks the highest since 2005 as the recent increase results from food staples such as increases in prices of oil and fat, bread and cereals, fish, potatoes, yam, and other tubers, fruits, meat, vegetables, milk, cheese, and eggs. This reported increase can be attributed to the recent development about farmers in northern Nigeria paying taxes to armed bandits in order to avoid being attacked or kidnapped. The payments are being made in cash or in kind, such as livestock or grain, and are made in three tranches: before the planting season, during the growing season, and at harvest time.

In June, core inflation, which excludes food and energy prices, stood at 20.27% year-on-year in June 2023, the highest level since 2003, and suggests that inflationary pressures are broad-based. Meanwhile, the highest increases were recorded in prices of passenger transport by air, gas, vehicle spare parts, liquid fuel, fuels, and lubricants for personal transport equipment, medical services, passenger transport by road, etc.

Across Nigerian states, the inflation rate was highest in Lagos (25.75%), Ondo (25.40%), and Kogi (25.23%), while the likes of Borno (20.44%), Zamfara (20.93%), and Ekiti (21.06%) recorded the slowest rise in headline inflation on a year-on-year basis. And then, on a month-on-month basis, Ogun (3.21%), Plateau (3.05%), and Jigawa (3.00%) reported the fastest increases but were slow in Zamfara (1.40%), Delta (1.42%), and Rivers (1.54%).

For food inflation that drives the headline index, which continues to be the front burner across economies, Kwara (30.80%), Lagos (30.37%), and Kogi (29.71%) reported the fastest increases during the month of June 2023, while the slowest rise was reported in Zamfara (21.38%), Sokoto (21.60%), and Borno (21.75%) on a year-on-year basis. The monthly movement was seen highest in Kwara (3.82%), Abuja (3.64%), and Ogun (3.56%), while Rivers (0.75%), Zamfara (1.33%), and Adamawa (1.47%) were the top 3 states with the slowest increases.





The rising inflation rate is a sign that inflationary pressures are building in Nigeria and will have a negative impact on businesses and consumers. Businesses will face higher costs, which could lead to lower profits and job losses while it becomes riskier for investors to invest in Nigeria. However, the current inflation rate of 22.79% may not reflect the actual reality as consumers' pockets continue to get eroded resulting from the decline in disposable income.

Overall, the 2023 outlook for inflation stays elevated and uncertain at this time, and our prognosis has it that factors such as the large budget deficit of the government, and the proposed or planned hike in electricity tariffs, planned increase in flour prices by flour millers, continued naira depreciation, among many other factors, could further put upward pressure on inflation.

Elsewhere, the CBN, at its next MPC meeting, is likely to raise interest rates in an effort to contain inflation, but this could have a negative impact on businesses and consumers as against the expectations of the markets in line with the recent policy reforms by the new administration for interest rates moderation. Thus, we project the July inflation rate at 23.05%, while the monetary policy committee may leave rates slightly upward by 25bps to 18.75%.

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