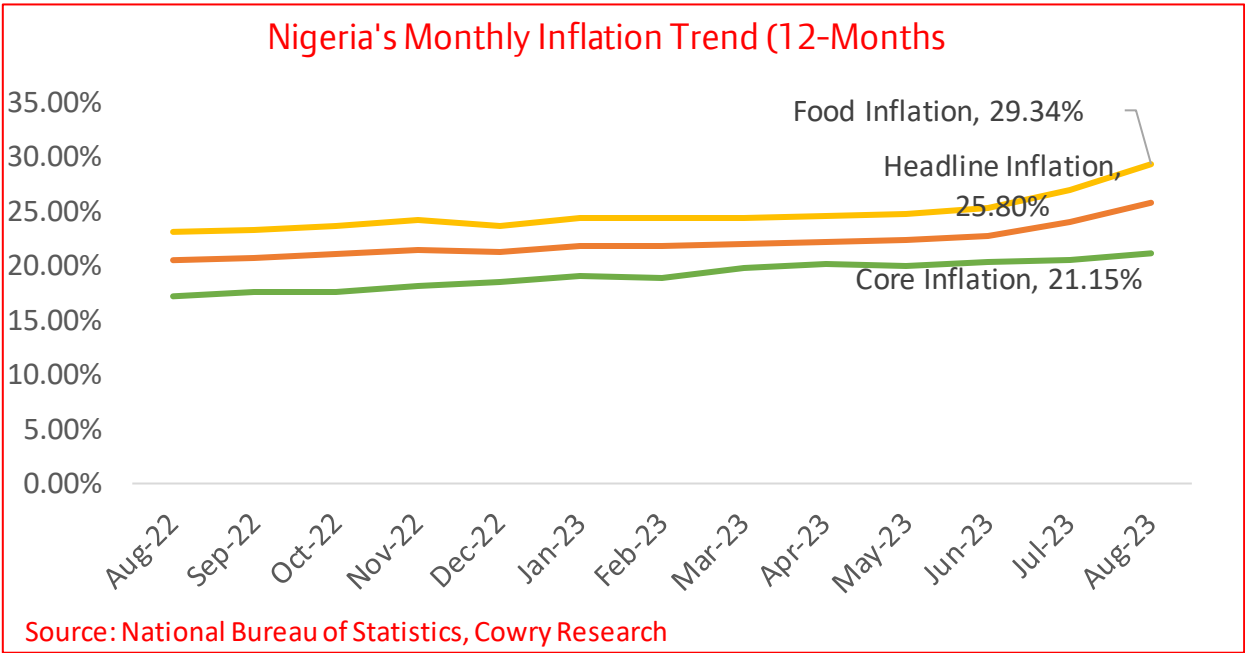


Analyst's Note on: Nigeria's Inflation Report – August 2023

Unabating Uptrend in Headline Inflation Reading to 25.08% in August

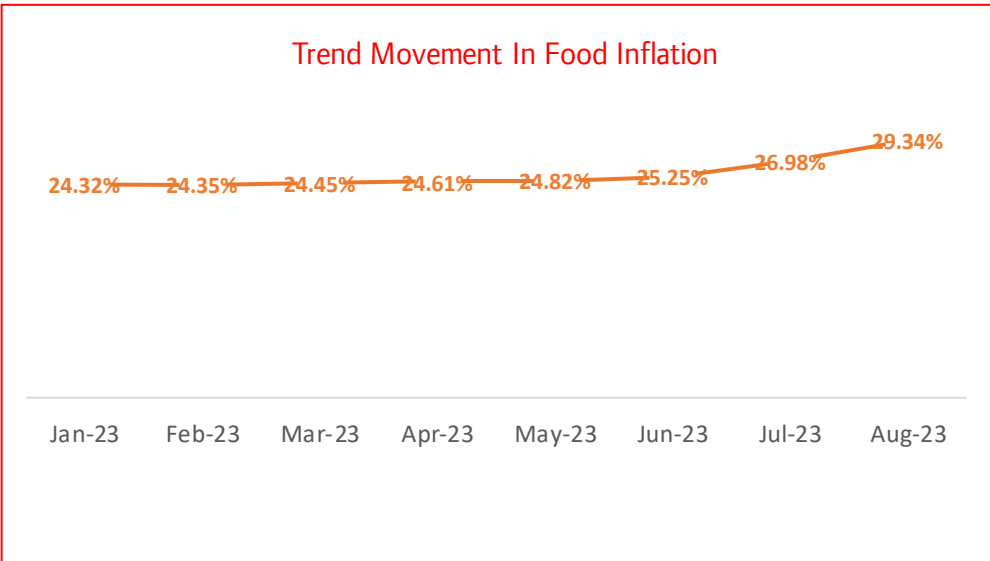
According to data from the National Bureau of Statistics (NBS), Nigeria's headline inflation continues to exhibit an upward trajectory in the monthly readings, reaching 25.80% year-on-year in August 2023. This marks a notable increase from the 24.08% reported in the previous month of July and a significant jump from the 20.52% recorded in August 2022. Importantly, this development aligns with our earlier expectations of a surge in inflation for August, projected at 25.50%, making it the highest inflation rate observed in Nigeria since August 2005. Furthermore, it extends the streak of consecutive monthly increases in 2023 to eight months.

The accelerated growth in the headline inflation rate can be attributed to several key factors. Firstly, the downward adjustment of the naira exchange rate is contributing to the inflationary pressure. Secondly, the surge in the price of premium motor spirit (petrol) has been a persistent factor affecting the economy and consumers' pockets, persisting for two months following adjustments made by the current administration.



Additional factors likely driving elevated annual inflation levels include disruptions in the supply of food products, increased import costs due to currency depreciation, rising production costs, and the relatively higher cost of transportation resulting from fuel price adjustments following subsidy removal and the upward trajectory of oil prices. Notably, Kogi (31.50%), Lagos (29.17%), and Rivers (29.06%) reported the highest inflation rates, while Sokoto (20.91%), Borno (21.77%), and Nasarawa (22.25%) recorded relatively slower increases.

Delving into the components contributing to the elevated headline inflation, the cost of food and non-alcoholic beverages stands out as a significant driver, accounting for 13.36% of the divisional-level contributions. Following closely is the cost of transportation, which experienced a 1.68% rise, and the cost of housing, water, electricity, gas, and other fuels, with a 4.32% increase. Other notable contributors include clothing and footwear (1.97%) and household maintenance and furnishings (1.30%) for the month of August 2023.



Furthermore, the food index maintained its upward trajectory, reaching 29.35% year-on-year and marking the highest level observed since September 2005. Food inflation has been on a steady rise since February 2022, with a brief moderation in December 2022. This trend can be attributed to the significant weight of food items in the inflation index. Key drivers of food inflation include increases in the prices of oil and fat, bread and cereals, fish, fruits, meat, vegetables, potatoes,

yams, and other tubers, as well as milk, cheese, and eggs. The average annual rate of food inflation for the twelve months ending August 2023 was 25.01%, reflecting a 5.99% point increase from the average rate recorded in August 2022 (19.02%). Kogi (38.84%), Lagos (36.04%), and Kwara (35.33%) reported the highest food inflation rates, while Sokoto (20.09%), Nasarawa (24.35%), and Jigawa (24.53%) recorded relatively slower increases.

A noteworthy change introduced in July's report was the exclusion of energy products from the components of core inflation due to the depreciation of the Naira, resulting in higher petroleum product prices. With the deregulation of the oil sector and the removal of subsidies, all items constituting energy are now determined by market forces, leading to price volatility.

Consequently, the core inflation segment, now defined as all items excluding farm produce and energy, reached 21.15% in August 2023 on a year-on-year basis. This represents a significant increase of 4.03% points compared to the 17.12% recorded in August 2022. Notably, the highest price increases were observed in passenger transport by air, passenger transport by road, medical services, vehicle spare parts, and maintenance and repair of personal transport equipment.

For urban inflation, the rate surged to 27.69% year-on-year in August 2023 from 20.95% in the corresponding period of 2022. On a monthly basis, the urban inflation rate stood at 3.29%, a 0.24 percentage point increase from the 3.05% reported in July. Rural inflation, on the other hand, reached 24.10% year-on-year, marking a notable 398 basis points increase from the 20.12% observed in the same month of the previous year. The rate for rural inflation also increased by 0.34 percentage points, reaching 3.08% in August from 2.74% in July 2023.

The high inflation rate is posing significant challenges to Nigerians, particularly the vulnerable and the poor, making it increasingly difficult for people to afford basic necessities such as food, housing, and healthcare. Cowry Research maintains the view that inflationary pressures will persist in the coming months due to adverse weather conditions and the lingering effects of crop diseases, which are likely to dampen the potential benefits of the green harvest. As such, we project inflation to reach 27.10% in September 2023.

Given the persistent upward trend in headline inflation, both in Nigeria and globally, the issue of inflation remains a top concern for central banks. In Nigeria, the Monetary Policy Committee (MPC) is scheduled to convene next week. In their last meeting in July, they raised interest rates by 25 basis points to 18.75% and adjusted the asymmetric corridor by +100/-300 basis points around the MPR from the initial +100/-700 basis points. We anticipate the committee to adopt a more hawkish stance at the upcoming meeting in an effort to combat rising inflationary pressures.

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