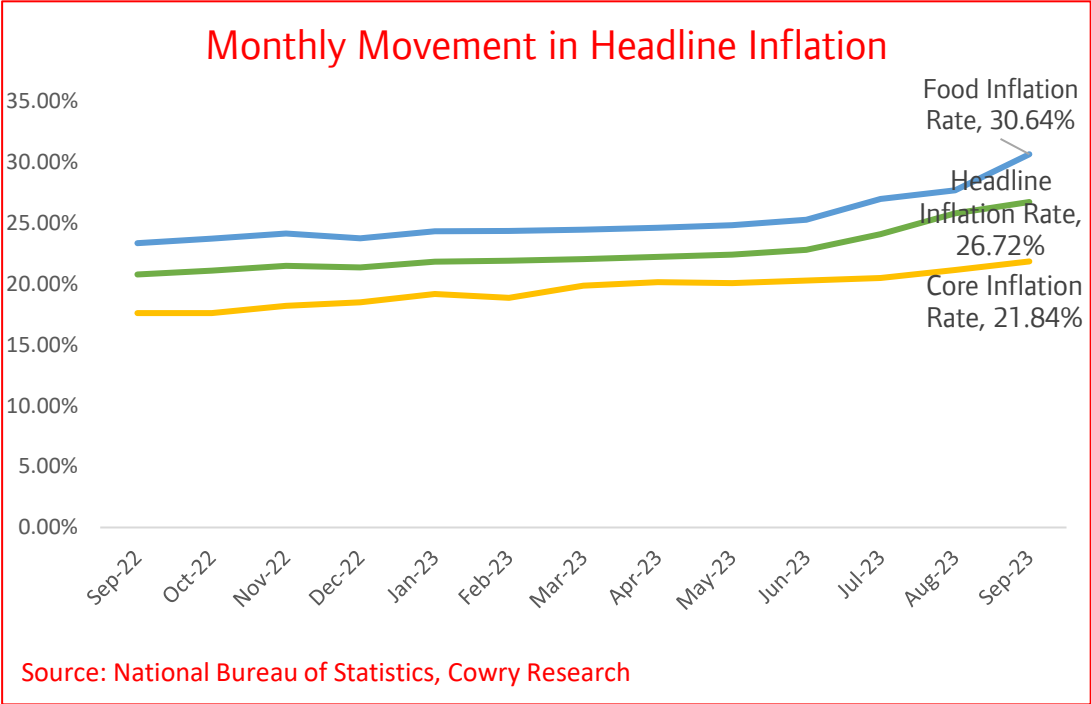


# Analyst’s Note on: Nigeria’s Inflation Report – September 2023

## Another Uptick in Inflation Reading for September at 26.72%

On Monday, the National Bureau of Statistics published the monthly inflation report which showed that Nigeria's annual inflation rate has continued to surge, reaching an over 18-year high of 26.72% in September 2023, up from August's 25.8%. This marks the ninth consecutive month of inflationary increases and indicates that headline inflation has risen by 5.94% points on a year-on-year basis compared to the 20.77% recorded in September of the previous year. This suggests a gradual increase in the inflation rate over the past twelve months.

This protracted inflationary period is largely attributed to policy decisions, notably the removal of subsidies by the current administration, which has reverberated throughout the economy, most acutely impacting the most vulnerable segments of the Nigerian population. The soaring inflation is rendering the affordability of essential commodities, such as food, housing, and healthcare, an increasingly challenging prospect.



The National Bureau of Statistics (NBS) report, released details of how various factors contributed to the headline inflation's acceleration at the divisional level. Key drivers include food and non-alcoholic beverages, which experienced an uptick from 13.36% in August to 13.84%. Housing and utilities also saw a slight increase from 4.32% to 4.47% in August 2023. Health inched up by 2 basis points to 0.8% from the previous month's 0.78%, while transport and restaurants and hotels exhibited similar patterns of acceleration, standing at 1.74% and 0.32% respectively. Additionally, clothing and footwear experienced a minor increase from 1.97% to 2.04%, and miscellaneous goods and services rose from 0.43% in August to 0.44% in September 2023.

Of particular note is the substantial influence of the food index, which has been the primary driver of the mounting pressure on headline inflation. It recorded a slower increase, with a 130-basis point rise to 30.64% year-on-year in September, compared to a 2.35%-point increase to 29.34% year-on-year the preceding month. Imported food inflation, another significant contributor, surged by 1.55% points to 21.72% year-on-year, surpassing the prior month's rise of 23 basis points to 20.17% year-on-year. This spike is attributed to elevated prices for items like oil and fat, bread and cereals, potatoes, yam, fish, fruit, meat, vegetables, milk, cheese, and eggs.

The annual core inflation rate, which excludes farm produce, further intensified to 22.1% in September, quickening from 21.2% in August. This acceleration underscores the continued build-up of underlying inflationary pressures in the Nigerian economy. The surge can be linked to the swifter pace of inflation in clothing and footwear, as well as price increases in passenger transport by road, passenger transport by air, medical services, and the repair and maintenance of personal transport equipment.

Analyzing the state profiles, the report revealed that Kogi, Rivers, and Lagos registered the highest year-on-year inflation rates across all items. Conversely, Borno, Jigawa, and Benue experienced the slowest rise in headline inflation on a year-on-year basis. The same pattern extended to food inflation, with Kogi, Rivers, and Lagos recording the highest rates, and Jigawa, Borno, and Sokoto reporting the slowest rise in food inflation on a year-on-year basis.

Cowry Research anticipates that inflation will continue to rise in the coming months, albeit at a slower rate, driven by the pass-through effects of the foreign exchange liberalization efforts introduced by the central bank in mid-June 2023 and the impact of subsidy removal, which has resulted to a spike in petrol and transport prices, leaving the average Nigerian to grapple with inflationary pressures and erosion of the purchasing power of the naira. Accordingly, we forecast that inflation may accelerate to 27.25% in October 2023.



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