

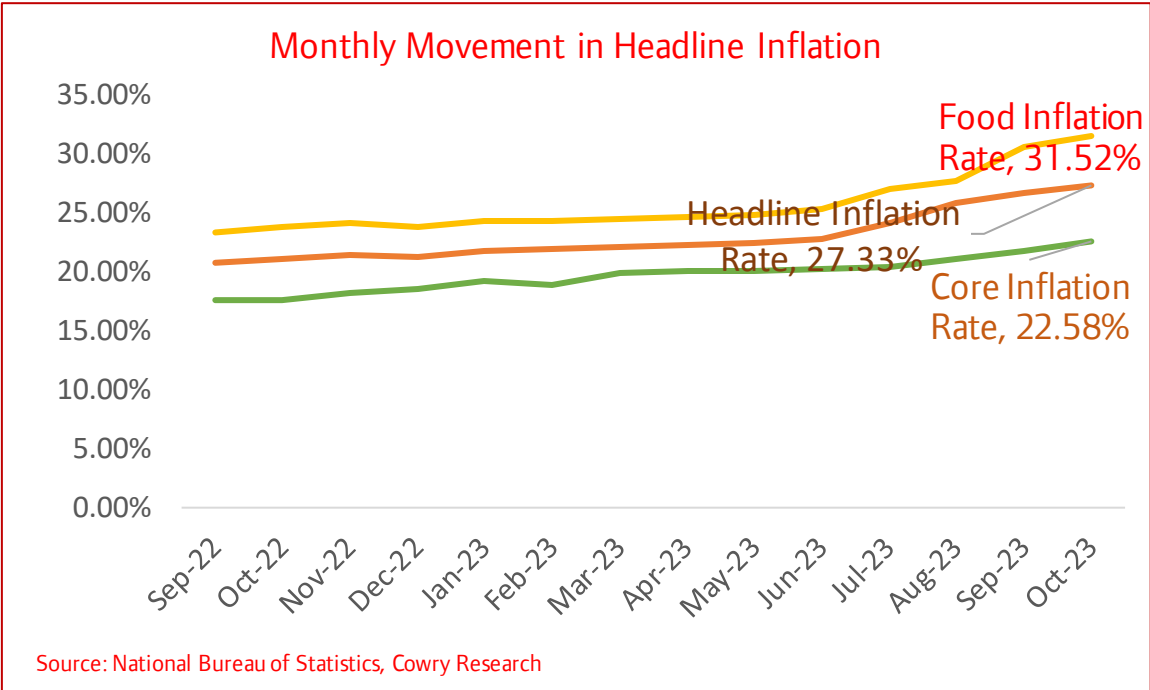
Analyst’s Note on: Nigeria’s Inflation Report – October 2023

Nigeria’s Inflation Uptrend Peaks 27.33% in October.....

..... Serves CBN Another Thicket for Tightening Measures...

The latest report published by the National Bureau of Statistics showed that in October 2023, Nigeria’s annual inflation rate increased to 27.33% from 26.72% reported in September 2023 marking the tenth consecutive monthly increase, and was driven by increased import costs, the vulnerability of the Naira, and the removal of the fuel subsidy regime by the federal government. This rate is the highest since August 2005. Contributing factors include the escalating transportation costs due to the rise in PMS prices since May 2023, the impact of climate change on food production, and security issues in the country.

The analysis of the statistics bureau's report highlights that the major driver of inflation in Nigeria comes from the food basket, a crucial component of the Consumer Price Inflation (CPI) basket. This index rose to 31.52% in October, peaking since August 2005, from 30.64% in September, primarily due to persistent security challenges in food-producing regions. Year-on-year, food inflation increased, driven by higher prices in categories such as bread and cereals, oil and fat, potatoes, yams, fish, fruit, meat, vegetables, and dairy products.



The depreciation of the Nigerian Naira and floods damaging crops in food-producing areas have also contributed to higher food prices. On a positive note, food inflation reversed its monthly uptrend in October to 1.91%, a 0.54% decrease compared to September 2023. This decline was attributed to reduced rates of increase in the average prices of fruits, oil and fat, coffee, tea, cocoa, bread, and cereals.

Another contributor to the headline index is the core inflation index, which excludes volatile agricultural produce and energy. It stood at 22.58% in October 2023 on a year-on-year basis, reflecting a 5.12% increase compared to October 2022. The highest increases were recorded in prices of passenger transport by road, medical services, passenger transport by air, actual and imputed rentals for housing, pharmaceutical products, etc. However, the month-on-month reading showed a core inflation rate of 1.39% in October, a decline of 0.83% from September 2023.

Items Contribution to the Headline index		
Divisional Level	(%) Y/Y Contribution	(%) M/M Contribution
Food & Non-Alcoholic beverages	14.16	0.9
Housing and Utility	4.57	0.29
Clothing & Footwear	2.09	0.13
Transportation	1.78	0.11
Household Equipment & Furnishing	1.37	0.09
Education	1.08	0.07
Health	0.82	0.05
Miscellaneous Goods & services	0.45	0.03
Restaurants & Hotels	0.33	0.02
Alcoholic Beverage, Tobacco & Kola	0.3	0.02
Recreation & Culture	0.19	0.01
Communication	0.19	0.01
Total	27.33	1.73

Transportation costs, which rose by 18.33% in October, further impacted overall price increases. This increase was attributed to factors such as the surge in fuel prices, increased spare parts costs, and higher transportation costs due to the poor state of roads. Housing costs also rose by 14.21% in October 2023, driven by increased building material costs and rising demand for rental accommodation due to population growth.



In analyzing state profiles, the NBS report indicated that annual inflation was highest in Kogi (34.20%), Rivers (31.44%), Lagos (31.23%), while Borno (20.06%), Jigawa (23.52%), and Sokoto (24.47%) recorded the slowest rise in year-on-year headline inflation. On a month-on-month basis, October 2023 recorded the highest increases in Yobe (3.72%), Jigawa (2.85%), Sokoto (2.84%), while Kogi (1.01%), Edo (1.05%), and Kwara (1.18%) recorded the slowest rises.

Food inflation rose fastest in Kogi (41.74%), Kwara (38.48%), and Lagos (37.37%), while Borno (24.41%), Kebbi (24.90%), and Jigawa (25.10%) recorded the slowest rise on a year-on-year basis. On a month-on-month basis, October 2023 food inflation was highest in Yobe (5.35%), Sokoto (3.68%), and Jigawa (3.45%), while Edo (0.95%), Katsina (1.03%), and Rivers (1.10%) recorded the slowest rise in inflation.

Cowry Research anticipates a moderate acceleration in the inflation rate to 27.95% in November 2023, considering the approaching festive season and a modest boost to food supply from the ongoing green harvest. However, rising transportation costs pose significant risks to food inflation, and the core inflation basket may face pressure due to the material depreciation of the Naira across various FX markets and the high prices of PMS and Diesel amid the surge in crude oil prices.

Addressing the expanding rate of inflation requires both demand and supply-side strategies from fiscal and monetary authorities. The new CBN management team is expected to deploy a robust liquidity management strategy, while the fiscal authority should focus on value-creating projects and capital spending rather than recurrent expenses.

Looking ahead to the next MPC meeting, the committee faces another challenge for further tightening measures to curb spiraling inflation. In its last meeting in July, the monetary policy committee (MPC) raised interest rates by 25bps to 18.75% and lowered the asymmetric corridor to +100/-300bps (vs. +100/-700bps) to curb sustained headline inflation. To sustain efforts in curbing persistent inflation, Cowry Research expects the MPC to raise the policy rate by 75bps.

Disclaimer

This report is produced by the **Research Desk** of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.