

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

Inflation Pangs Hit Nigeria's Economy Harder with 28.92% in December 2023; Nears 3-Decades High....

The latest monthly inflation data published by the National Bureau of Statistics indicates that Nigeria's inflation has been steadily increasing for twelve consecutive months, reaching 28.92% in December 2023. This marks a continuation of the upward trend from 28.20% in November and brings the annual average to 24.52%, aligning with expectations for a gradual acceleration.

The current inflation rate in December 2023 represents a nearly 28-year high, approaching the 29.51% recorded in July 1996.

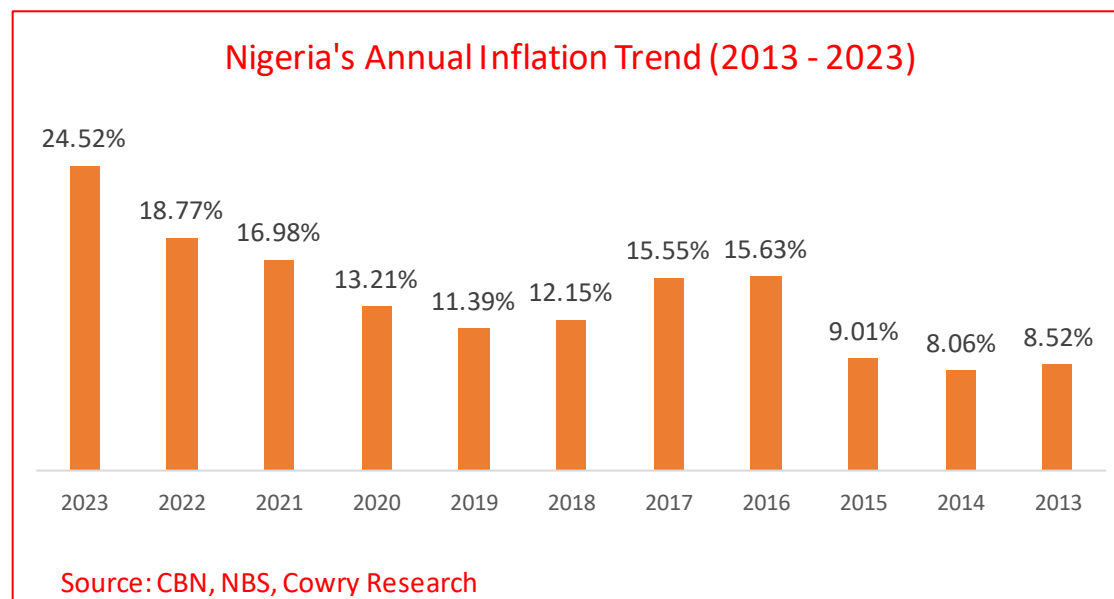
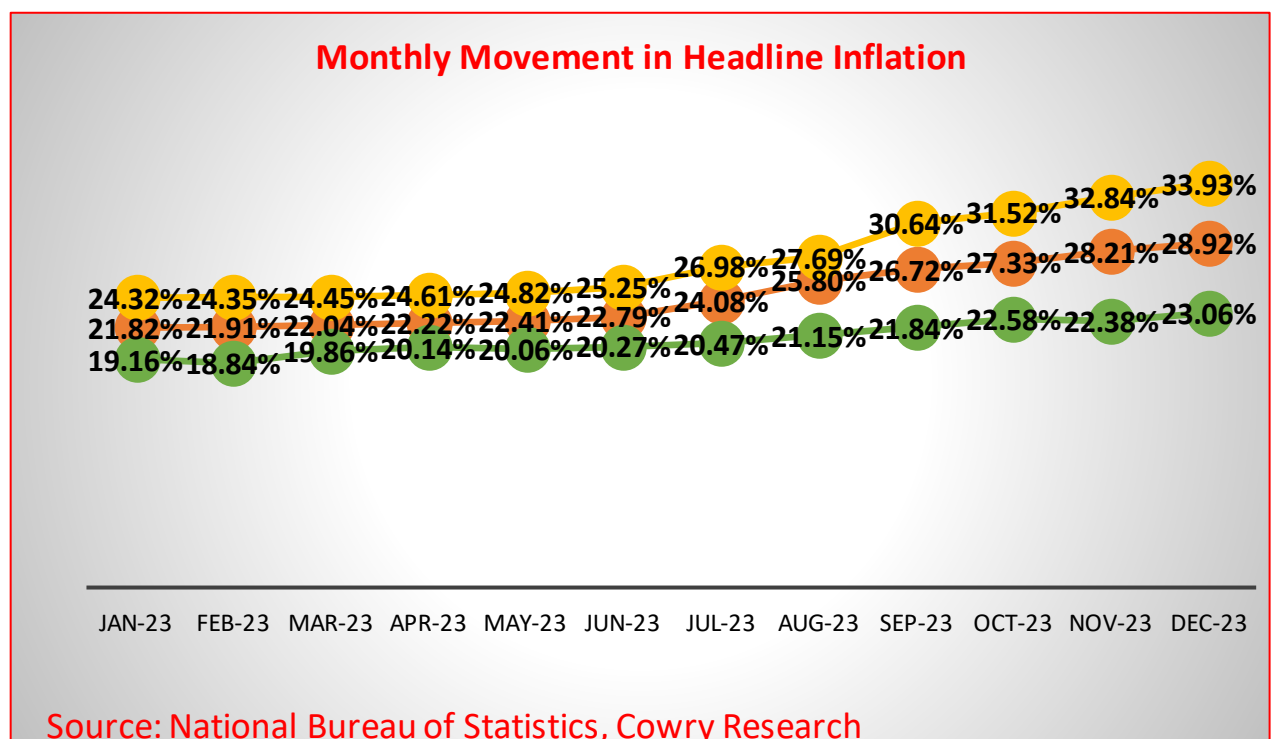
This persistent surge remains above the Central Bank of Nigeria's target range of 6% to 9%, driven by anticipated price hikes following the removal of premium motor spirit (PMS) subsidies. The inflationary pressures stem from various sources, including

escalated transportation costs, adverse impacts of climate change on food production, domestic security challenges, and the prolonged depreciation of the Nigerian Naira against the US dollar in the foreign exchange market.

Major contributors to the acceleration in the headline index include food and non-alcoholic beverages, constituting 51.7% of the total 28.92%. Other contributing factors include housing and utility items, clothing and footwear, transportation costs, educational and health amenities costs, accounting for 17%, 7.6%, 6.50%, 3.94%, and 3.0% respectively.

For context, the National Bureau of Statistics reported in November 2023 that all 43 surveyed food items experienced price increases on a year-on-year and month-on-month basis. The unweighted simple average, not accounting for consumption trends, showed a 57.4% year-on-year increase and a 19.5% month-on-month increase in the average price of food items. On a month-on-month basis, the headline inflation rate in December 2023 was 2.29%, slightly higher than the 2.09% recorded in November 2023, indicating an increased rate of price level growth.

Food inflation continued to play a significant role, reaching 33.93% year-on-year in December 2023 compared to December 2022 (23.75%). Factors driving food inflation included increases in the prices of bread and cereals, oil and fat, potatoes, yam and other tubers, fish, meat, fruit, milk, cheese, and eggs. Other contributing factors encompassed flooding, insecurity in agricultural areas, and disruptions in global food supply chains due to the ongoing war in Ukraine.



Core inflation, excluding volatile agricultural produces and energy, stood at 23.06% in December 2023 on a year-on-year basis, up by 4.85% from the 18.21% recorded in December 2022. This increase was driven by higher prices in housing, water, electricity, gas, clothing and footwear, household goods and services, and transport. The monthly core index was 1.82% in December 2023, up from 1.53% in November 2023.

The NBS price watch series highlighted significant increases in prices of deregulated fuels such as Automotive Gas Oil (diesel) and Household Kerosine, rising by 31% and 19% year-on-year to N1,055.6/litre and N1,083.6/litre, respectively. Liquefied Petroleum Gas (LPG) prices also showed an increase, with the average cost of refilling a 12.5kg cylinder rising by 6% month-on-month and 10% year-on-year to N11,155. The report noted that the Premium Motor Spirit (PMS) price accelerated by 221% year-on-year to N648.9/litre, primarily due to the rise in pump prices following the elimination of fuel subsidies.

In December 2023, the Year-on-Year All Items inflation rate exhibited regional variations, with Kogi (35.58%), Lagos (32.33%), and Rivers (32.16%) experiencing the highest rates, while Borno (23.27%), Taraba (24.92%), and Katsina (26.52%) recorded the slowest rise in Headline inflation. On a Month-on-Month basis for the same period, Bayelsa (3.66%), Bauchi (3.51%), and Oyo (3.45%) saw the highest increases, contrasting with Nasarawa (1.36%), Delta (1.49%), and Sokoto (1.58%), which recorded the slowest rise in Month-on-Month inflation.

Regarding Food Inflation in December 2023, the Year-on-Year basis displayed disparities across regions. Kogi (44.73%), Kwara (41.33%), and Imo (39.54%) reported the highest Food inflation rates, while Bauchi (27.49%), Jigawa (27.98%), and Sokoto (28.72%) recorded the slowest rise. On a Month-on-Month basis for Food Inflation, the highest increases were observed in Bayelsa (4.42%), Ogun (4.11%), and Enugu (4.03%), whereas Nasarawa (1.48%), Delta (1.65%), and Niger (1.67%) experienced the slowest rise in inflation.

Across the globe, inflation movement posed a serious threat to growth expectations as central banks continue to hike rates as a means to combat rising inflation as a result of the emergence of unplanned external shocks such as the disruption caused by the war in Ukraine that has worsened structural bottlenecks.

Nigeria is not left out of this fiasco as its inflation has risen sharply in recent months as we have seen surge in domestic food prices due to structural supply-side factors, which have continued to cause disruptions to food supplies across the country. The high inflation rate has had a significant negative impact on the Nigerian economy and the lives of ordinary Nigerians; eroded purchasing power, led to increased poverty, and dampened economic growth.

Cowry Research presents a wide spectrum of predictions, with a best-case scenario forecasting 22% year-on-year inflation in 2024, a moderate case projecting 27%, and a worst-case scenario envisioning 34%. The broad range reflects the uncertainty surrounding Nigeria's economic outlook, emphasizing the pivotal role of government policies in addressing underlying structural issues to shape the inflation trajectory. Regardless, we foresee a gradual moderation in headline inflation in the month of January 2024 to 28.82%.

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