Inflation Update: July 2022

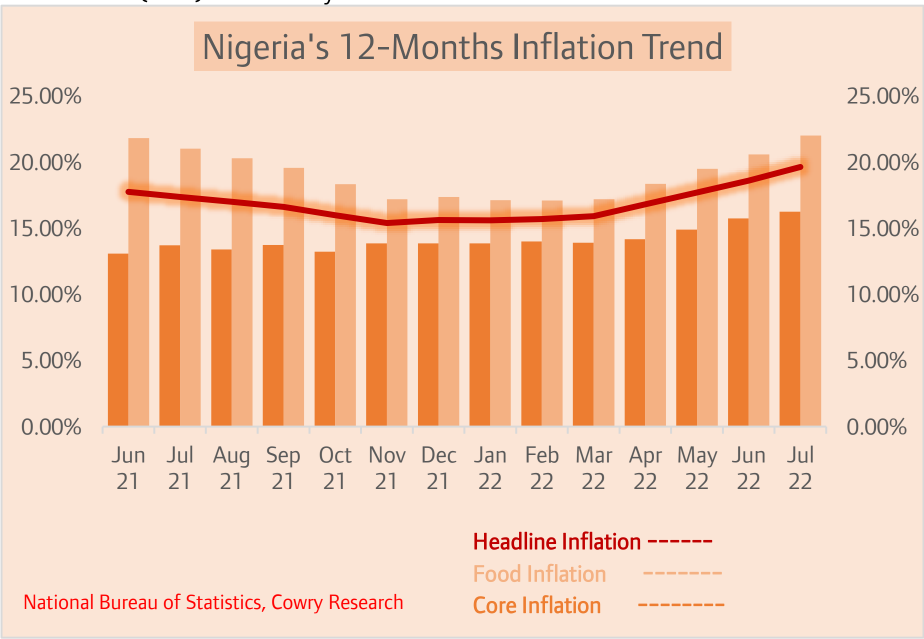
MPR: 14.00% July Inflation: 19.64%

Q1'22 Real GDP Growth: 3.11%

Underlying economic vulnerabilities stoking Nigeria's inflation; now at 19.64% in 9 straight months

For the ninth consecutive months, Nigeria's headline inflation rose 104 basis points m-o-m to 19.64% in July (surpassing our expectations for a slower expansion at 18.90%) from 18.60% in June and 2.27 percentage points y-o-y from 17.38% in July 2021. This is according to the latest Consumer Price Inflation report for July 2022 published by the National Bureau of Statistics (NBS) on Monday.

Nigeria's inflation has been on acceleration and continues to make open the obvious and underlying vulnerabilities in the economy. Consequently, the continued expansion of the headline index has always resulted from the sustained price pressures from food and non-food items which have ensured the uptrend. This is as a result of the fact that insecurity in the country's food producing regions continues to cap production level, while challenges with logistics and FX availability remain major pain points.

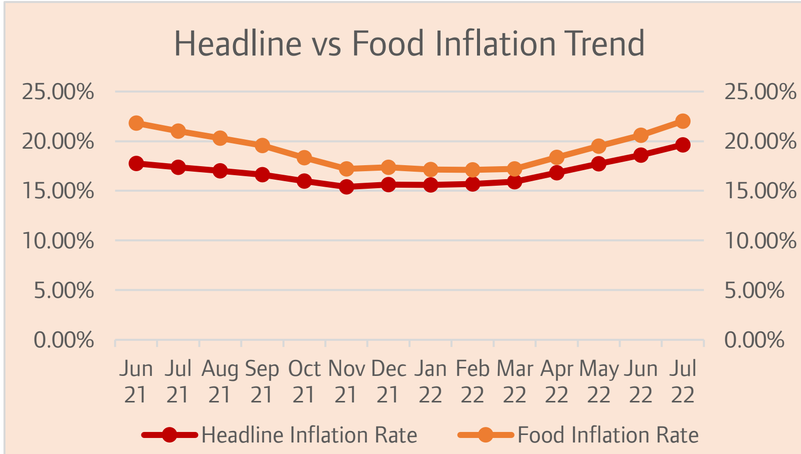


After hitting 18.87% as an annual average in 2001, Nigeria's inflation has found comfort over the economy and unrelentingly way above the apex bank's target of 6-9% band and above the policy rate which currently is at 14% after the July MPC meeting.

Notwithstanding, it is without a doubt to say that several crises across the country have continued to stoke inflation numbers in Nigeria. Some of which are: the on-set of the geopolitical unrest in eastern Europe, which has added another layer of inflationary pressure majorly through grains and energy prices; the pass-through effect from the increase in the international crude oil prices and the momentary scarcity of fuel across cities in Nigeria have seen a relatively upward adjustment in the prices of petrol in the past months and this has shown its inevitable effect on transportation prices.

The recent developments, are not far from our assertions in our June edition of the inflation report that the combined effect of exchange rate pressure where the Naira has depreciated the more due to dollar scarcity across the FX market and the saturation of money supply as some major culprits; plus, the rate of insecurity concerns in some major parts of the country has contributed to the acceleration of inflation as food supplies were hampered by effects of kidnapping and incessant clashes in some communities.

Looking at the food index, which has been a principal driver of the soar in inflation, it rose to 22.02% in July from 20.60% in the previous month and 0.99% higher than 21.03% in July 2021. The increases can be attributed to upsurges in prices of bread and cereals, food products such as, potatoes, yam and other tubers, meat, fish, oil, and fat. However, a month on month review of the food index saw a marginal but positive reversal to 2.04% in July from 2.05% in June as a result of a reduction in the prices of some food items like tubers, maize, garri, and vegetables.



National Bureau of Statistics, Cowry Research

Further afield, the core inflation index, which excludes the prices of volatile agricultural produce, stood at 16.26% in July 2022 on a year-on-year basis; up by 2.54% when compared to 13.72% recorded in July 2021. This was as a result of the increases which were recorded in prices of gas, liquid fuel, solid fuel, passenger transport by road, passenger transport by air, garments, cleaning, repair and hire of clothing.

Across some selected states in July, fast increases in food inflation was highest in Kwara (29.28%), Akwa Ibom (27.22%), and Kogi (26.08%) states, while Kaduna (17.16%), Jigawa (17.46%) and Anambra (19.25%) states recorded the slowest rise y-o-y. For the all items inflation which does not take into account volatile agricultural produce (Core), inflation was rose highest in Akwa Ibom (22.88%), Ebonyi (22.51%), and Kogi (22.08%) states, while Jigawa (16.62%), Kaduna (17.04%) and Borno (18.04%) states recorded the slowest rises year on year.

Upshot:

With the expectation that the pace of global inflation will begin to taper from September 2022 as a result of post-harvest supplies, we believe the that the monetary policy tightening effect by the Central Bank will permeate the economy and reflect on the inflation numbers which will bring about a slowing momentum in spiraling prices. Thus, we project inflation in August to stand at 20.47% year on year.