MPR: 14% Aug'22 Inflation: 19.64%

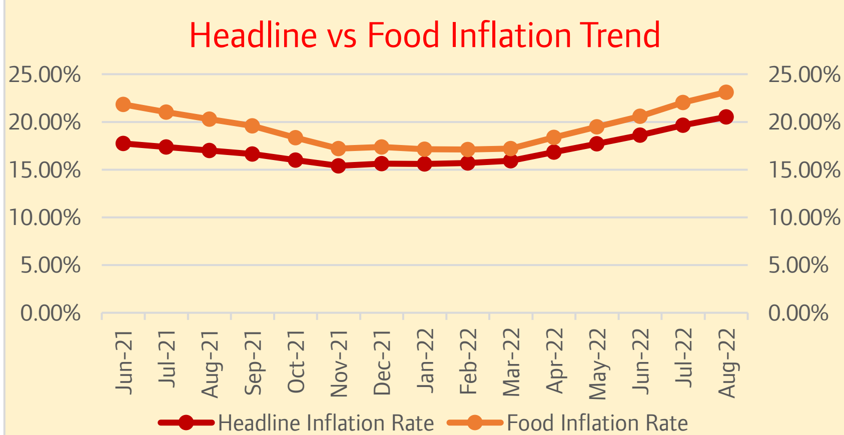
Q2'22 Real GDP Growth: 3.54%

Inflation Update: August 2022

Headline Inflation to Nearly 2-Decades High at 20.52%, stoked by Currency Pressures, Supply Disruptions

The latest CPI report from the NBS showed that Nigeria's headline inflation is now at nearly 2 decades high (since October 2005) as it accelerated to 20.52% y/y in August from 19.64% in July as currency depreciation continues to stoke the cost of imports, food supply disruption, and the broad-based increases in the cost of production continue to play critical roles as major drivers of the uptrend.

The current rate of the headline index (beating our estimates of 20.47%) was 3.52% points higher when compared to the rate recorded in August 2021, which was 17.01% and shows that the headline inflation rate increased in the month of August 2022 when compared to the same month in the preceding year. On the contrary, the month-on-month analysis of the report puts it that this month's rate printed 1.77%, moderating by 0.05% from 1.82% reported in July which signals a marginal but positive deceleration.



National Bureau of Statistics, Cowry Research

The continued expansion of the headline index has always given rise to sustained price pressures from food and non-food items, ensuring the uptrend. This resulted from the fact that insecurity in the country's food-producing regions continues to cap production level, while challenges with logistics and FX unavailability due to low or no earnings from crude oil price rallies remain major pain points.

Underpinning this spiralling inflation numbers is the food inflation index which printed 23.12% y/y from 22.02% in the prior month and 2.82% from August 2021. These increases come from price upticks in bread and cereals, food product, potatoes, yam and other tubers, fish, meat, oil and fat, etc which reflects the shocks to the food prices brought on by well-known structural supply-side factors. However, the m/m decline in food inflation to 1.98% from 2.04% was attributed to price moderation recorded in some food items like Tubers, garri, local rice and Vegetables.

A look at the core inflation which printed 17.20% in August 2022 from 13.41% last year, steadied at 1.59% m/m, down 17bps from 1.75% in July. The reading posted that the highest increases in the core index were recorded in prices of gas, liquid fuel, solid fuel, passenger transport by road, passenger transport by Air, fuel and lubricants for personal transport equipment, cleaning, repair and hire of clothing.

Ahead of the next MPC meeting later this month, we see a marginal rates hike by 75bps in a bid to rein inflation. Meanwhile, the CBN, at its last meeting in July, the monetary policy committee (MPC) raised the policy rate by 100bps to 14%, taking the total rate raised by the MPC this year to 250bps. This is in tandem with the committee's resolve to continue its tightening stance as inflation maintains an uptrend. Hence, we expect a slower momentum for headline inflation due to the seasonal boost to food supplies brought on by the post-harvest season, and as the MPC's monetary tightening starts to take effect. Thus, we project headline inflation to hit 20.9% in September 2022.