August 15, 2023

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

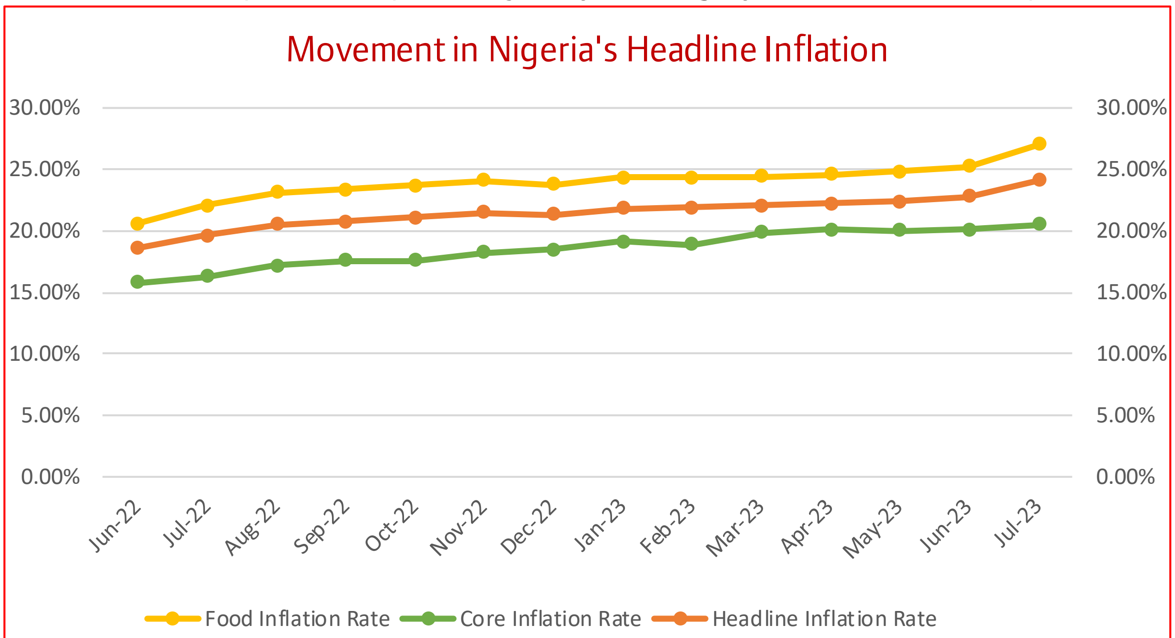
July Sees 2-Decades High of 24.08% Inflation Due to Naira Devaluation, Rising Costs….

- Monthly Inflation Readings Maintain Upward Trajectory Since February 2022

- Government Policies, Monetary Policy Measures Impacting Nigeria's Inflationary Landscape

In July 2023, Nigeria's inflation rate surged to 24.08%, marking a notable increase from the 22.79% recorded in June. This recent inflation figure, reported by the Nigeria Bureau of Statistics (NBS), stands as the highest inflation rate observed in Nigeria since September 2005, when it reached 24.30%. This movement reflects a 1.29%-point increment from June and a substantial year-on-year rise of 4.44%, surpassing the 19.64% figure recorded in July 2022. These statistics indicate a significant upward trajectory in the headline index on both a year-on-year basis and a month-on-month basis, which escalated to 2.89% in July from the previous month's 2.13%.

Although there was a temporary alleviation in inflationary pressure in December 2022, with a modest decline to 21.34%, inflation readings have since embarked on a persistent upward trajectory, climbing by a substantial 8.48%-points since February 2022. This continuous inflationary surge has been primarily driven by widespread expectations of price hikes, escalating import costs due to the depreciation of the naira against the dollar in the foreign exchange market, elevated energy expenses, and price adjustments related to Premium Motor Spirit (PMS) following subsidy removal and the upward movement of oil prices.



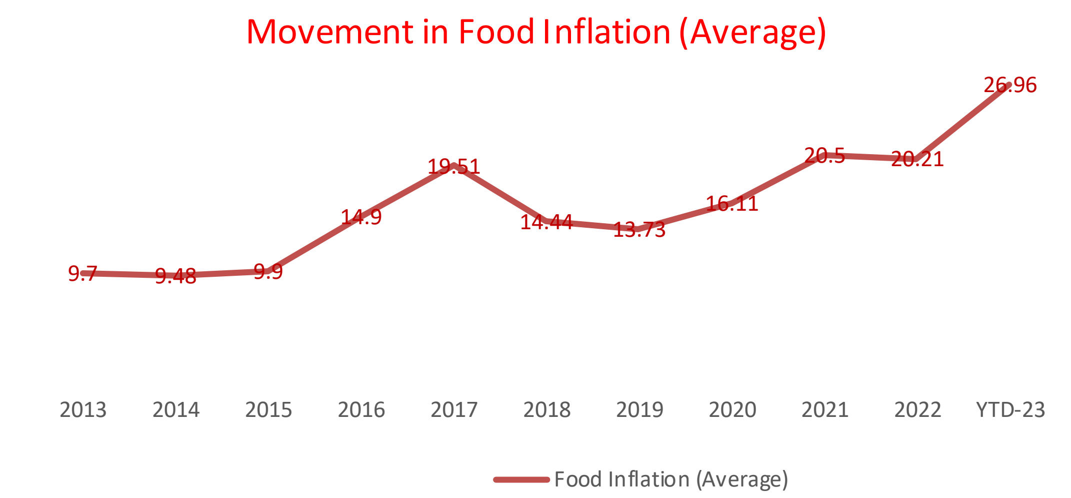
Source: National Bureau of Statistics, Cowry Research

A closer examination of regional inflation profiles for July reveals that, on a year-on-year basis, the highest inflation rates were observed in Kogi (28.45%), Lagos (27.30%), and Ondo (26.83%) states. Conversely, Borno (20.71%), Jigawa (20.85%), and Sokoto (20.92%) experienced the slowest annual increases. When analyzing month-on-month variations, the swiftest inflationary rises occurred in Kogi (4.99%), Abia (4.12%), and Akwa-Ibom (4.07%) states, while Jigawa (0.16%), Taraba (1.09%), and Yobe (1.10%) demonstrated the least notable increases.

Delving into the inflation drivers, a cursory assessment of the report underscores a notable surge in food prices, reaching a 74-month high with a 3.45% month-on-month increase and a record-breaking year-on-year spike of 26.98% since 2005. This surge can be attributed to a combination of factors including diminished domestic output and heightened manufacturing costs. Notably, price increments were observed across various food categories such as oil and fat, bread and cereals, fish, potatoes, yam and other tubers, fruits, meat, vegetables, milk, cheese, and eggs. The most prominent contributor to inflation, however, was the cost of food and non-alcoholic beverages, exhibiting a year-on-year escalation of 12.47% in July. This was largely influenced by price rises in bread and cereals, meat, fish, potatoes, yam, fruits, and vegetables.

In terms of specific states' inflation dynamics for July 2023, Kogi (34.53%), Lagos (32.52%), and Bayelsa (31.31%) encountered significant year-on-year increases, whereas Jigawa (20.90%), Sokoto (21.63%), and Kebbi (22.45%) displayed comparably slower annual rises. Notably, food inflation reached its peak in Kogi (6.73%), followed by Akwa Ibom (5.64%) and Bayelsa (4.59%) on a month-on-month basis. Conversely, Taraba (-0.21%), Jigawa (0.28%), and Yobe (0.90%) recorded the least notable month-on-month increases.

Furthermore, the core inflation index scaled new heights, reaching 20.47% year-on-year in July 2023, representing a 4.41% increase compared to the 16.06% registered in July 2022. This upsurge was prominently driven by elevated prices for services such as passenger transport by air and road, vehicle spare parts, medical services, and maintenance and repair of personal transport equipment. The amplification of core inflation was attributed to factors including PMS-induced inflation, marginal tax hikes on select items, and the repercussions of the recent apex bank's harmonization exercise that resulted in a weakened naira.



Source: NBS, Cowry Research

Contributors to inflation in July encompassed transportation (1.57%), clothing and footwear (1.84%), furnishing, housing, and utilities (4.03%), as well as miscellaneous goods and services (0.40%). Rising fuel prices, spurred by the surge in crude oil prices, played a pivotal role in elevating transportation costs. Simultaneously, housing and utility costs were impacted by the effects of foreign exchange harmonization and pump price adjustments. The upward trend in miscellaneous goods and services prices was multifaceted, resulting from escalated costs for clothing, footwear, and personal care items across the nation.

Considering the outlook for inflation in 2023, uncertainties persist with expectations of continued inflationary pressures coupled with the intricate interplay of both internal and external factors which has significantly impacted Nigeria's inflation landscape. The persisting drivers suggest that inflation is poised to remain at elevated levels, presenting a substantial challenge for Nigeria's fiscal and monetary authorities while the erosion of purchasing power for both households and businesses is a significant concern. Although the government and policymakers have undertaken measures to curb inflation, such as bolstering food and fuel supply and subsidizing essential commodities, the success of these efforts remains limited. The Central Bank of Nigeria (CBN) has also resorted to interest rate hikes in an attempt to mitigate rising inflation; however, these measures might carry negative implications for economic growth.

As we look ahead to August 2023, our anticipations project an inflation rate of 25.50%. Factors such as the planting season, adverse weather conditions, and lingering effects of crop diseases are likely to dampen the potential benefits of the green harvest. Additionally, the passthrough impact of foreign exchange pressures, the suspension of the Black Sea grain deal in Eastern Europe, and mounting domestic input costs are projected to sustain price pressure in the near term. Meanwhile, the continuous vigilance of these factors, combined with targeted policy interventions, will be essential in navigating the challenges posed by elevated inflation in the coming months.