August 2021 Inflation Flash

Sustained disinflation in August as headline inflation prints at 17.01%

United Capital
The Intelligent Choice

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Economics | Data Reaction

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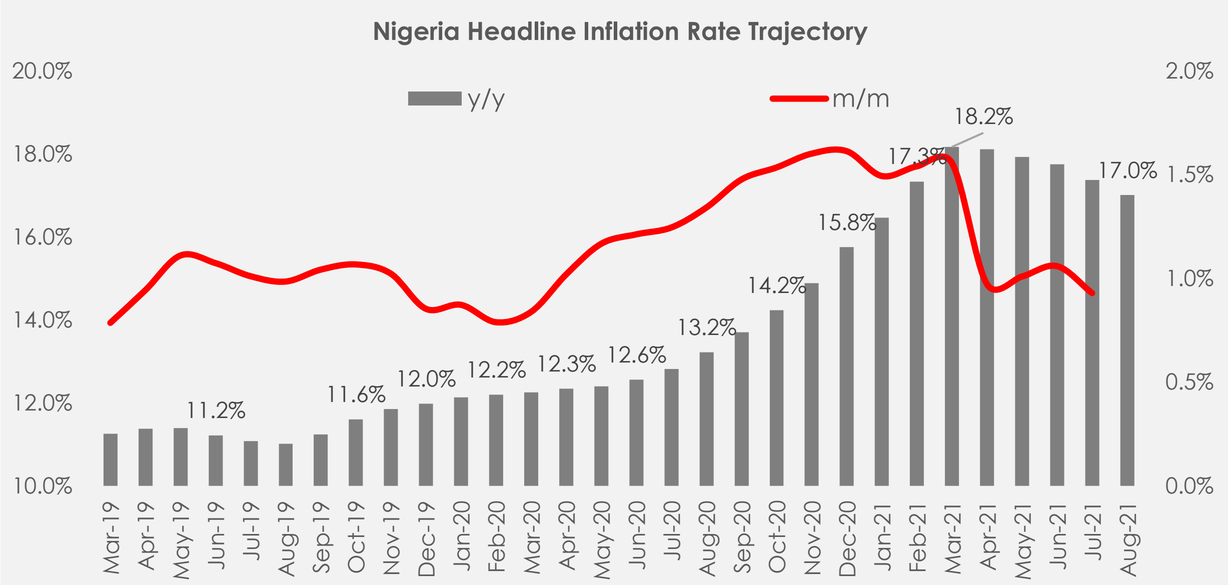
Food sub-index	Core sub-index	Headline Index
20.30%	**13.41%**	**17.01%**

Earlier today, the National Bureau of Statistics (NBS) released the Consumer Price Index (CPI) report for Aug-2021. According to the report, headline inflation rate rose to 17.01% y/y, printing lower than our forecast of 17.10%, and 37bps lower than Jul-2021 inflation (17.38%), implying that the rate of change in prices continued to subside in Aug-2021. On a m/m basis, the broad CPI increased by 1.02%, faster than the 0.93% m/m increase in Jul-2021. Also, the inflation report confirmed an observation of price increase across all components of the index with the highest increases expectedly recorded in food prices.



Sources: NBS, United Capital Research

On a segmented basis, food inflation printed at 20.30% y/y in Aug-2021 compared to 21.03% in Jul-2021, a 73bps decline. On a m/m basis, the Food sub-index increased by 1.06% in Aug-2021, up 20bps from 0.86% in Jul-2021. The moderation in food prices was driven by a high base for the Food sub-index as food prices remained elevated due to prevailing supply-side challenges, particularly insecurity. Overall, food prices continue to come under pressure from unabating security challenges in food-producing Northern states as well as the Middle-belt. In addition, inconsistency in climate conditions continues to pose more concerns for agriculture.

The core inflation sub-index drifted southwards by 31bps y/y to 13.41%, reflecting slightly reduced but elevated pressure on shoes & other footwear, textile products, transportation & vehicle spare parts and pharmaceutical products components of the inflation basket. Similarly, on a m/m basis, core inflation reduced by 54bps in Aug-2021 to 0.77% compared to 1.31% in Jul-2021. Notably, core sub-index faced some pressures from clothing and footwear, which saw an increase of 14.38% y/y and 1.12% m/m, possibly impacted by the halting of sales of FX to BDCs, which are a major source of FX for clothing imports (Textile & Clothing items are on CBN's FX restriction list).

Inflation Outlook: Disinflation to persist despite upside risks

Looking ahead, we expect inflationary pressures to maintain a downward trend despite persistent price pressures. First, while the harvest season is expected to start in September with the early harvests, we expect recent climate concerns coupled with insecurity challenges keeping farmers from their farms to inhibit food supply. Furthermore, recent FX pressure in the parallel market (with the US dollar exchanging for a record N562/$) is expected to begin to reflect in the price environment in subsequent months as several widely consumed items are on CBN's FX restriction list while several consumer goods companies continue to highlight inability to source all their FX needs via official channels.

On the positive side, the Nigerian National Petroleum Corporation (NNPC) confirmed that the FG will sustain Petroleum Motor Spirit (PMS) subsidies, at least until 2022. While this is delaying the inevitable, Nigerians will have some reprieve in the medium term. In addition, pushback from labour unions is likely to forestall any increment in electricity tariffs at least through 2021. Overall, we expect further deceleration in inflation, albeit at a slower pace. While we note there are key price pressure points in the economy, the base effect from H2-2020 is expected to remain, reducing the impact of any renewed price pressures. Our prediction of a slower disinflation is hinged on permeation of current FX pressures which we expect to gradually weigh on the base effect. We forecast annual headline inflation to drift lower by 32bps to 16.69% and forecast an 18bps increase in m/m inflation from 1.02% to 1.20%.

That said, the persistent disinflation is likely to provide some succour to the Monetary Policy Committee (MPC) members. This is likely to sustain the perception that a rate hike would not be needed to rein in on inflation. Consequently, we reiterate our position that the threat of a hawkish monetary policy stance to interest rate is unlikely to materialize in 2021.

Disclaimer

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