June 2021 Inflation Flash

Headline inflation moderates for the 3rd consecutive month

United Capital
The Intelligent Choice

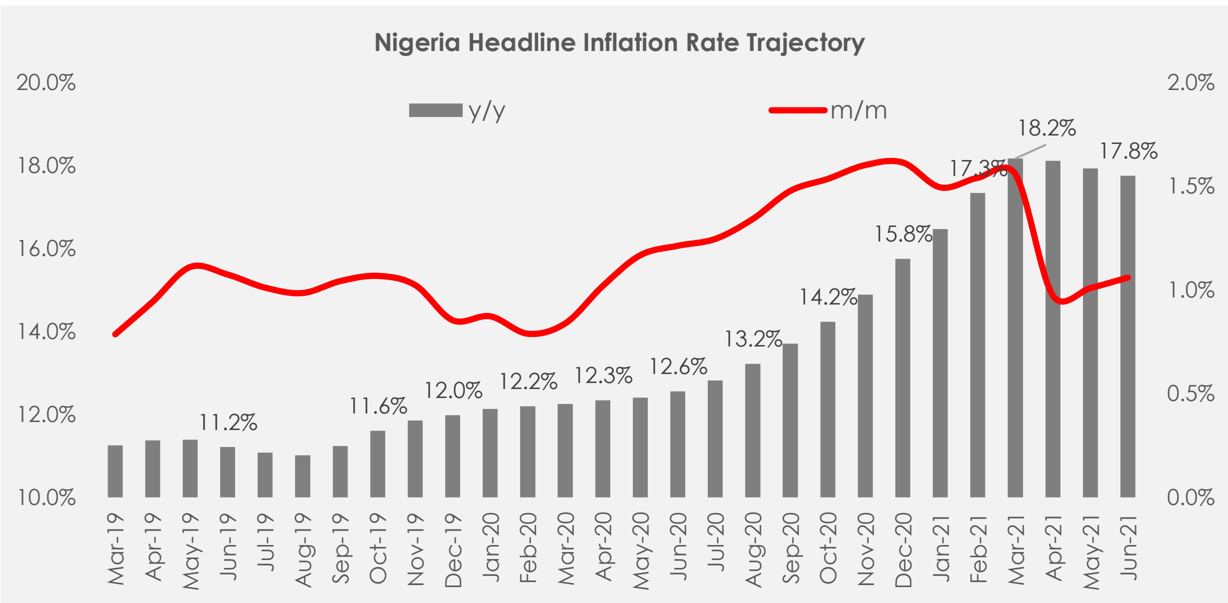
16th July, 2021

Economics | Data Reaction

Analyst:
Team coverage
research@unitedcapitalplcgroup.com

Food sub-index	Core sub-index	Headline Index
21.83%	**13.09%**	**17.75%**

Earlier today, the National Bureau of Statistics (NBS) released the inflation figures for Jun-2021. Notably, the headline rate rose by 17.75% y/y, lower than our forecast of 17.86% and consensus forecast of 17.85%. This is 18bps lower than the rate recorded for the month of May (17.93%), implying that prices continued to rise in June but at a slightly slower pace. On a m/m basis, the headline inflation rate ticked upwards by 1.06% m/m (vs. 1.01% in May-2021). Also, we observed price increase across all components of the index. Specifically, the highest increases were recorded in food prices.



Sources: NBS, United Capital Research

On a segmented basis, food inflation printed at 21.83% y/y for June-2021 compared to 22.29% in May-2021, a 44ps decline. On a m/m basis, the Food sub-index increased by 1.11% in June-2021 from 1.05% in May-2021, up by 6bps. The moderation in food prices was driven by a low base for the Food sub-index as food prices remain elevated due to prevailing supply-side challenges.

The core inflation sub-index drifted downward to 13.09%, reflecting a 7bps decrease from May-2021's 13.15%. Similarly, on a m/m basis, core inflation weakened by 43bps in June-2021 to 0.81% compared to 1.24% in May-2021. Notably, the NBS report showed the key drivers of core inflation were increasing costs of clothing and footwear (Garment, Shoes, Clothing materials, etc.), healthcare (Pharmaceutical product, Medical services, etc.) and transport costs (Air transport, Road transport, Motor and Vehicle spare parts). Clearly, core inflation continues to face lingering pressures from transport cost (a pass-through impact of higher crude prices) and imported consumption (due to naira devaluation).

Inflation Outlook

Looking ahead, we reiterate that the high base impact of H2-2020 will drive sustained moderation in headline inflation in H2-2021, outweighing current price pressures (insecurity in food producing states, logistics bottlenecks in supply chain, elevated energy prices and impact of naira devaluation). For Jul-2021, we project m/m inflation will print at 1.10% and consequently forecast headline inflation to drift lower by 17bps, settling at 17.58%. In the medium term, downside risks include the resumption of removal of fuel subsidy after the six-month truce period as well as the expected review in electricity tariffs to reflect current economic realities.

On the policy impact of today's release, we note that the probability of a rate hike at next week's Monetary Policy Committee (MPC) meeting is muted as the persistent disinflation supports a wait-and-see stance, especially given the fragile state of economic recovery. In the financial markets, we expect the sustained downtrend to support the narrative of a short-term downward shift in yields.

Disclaimer

Contacts

United Capital

Securities Trading
securities@unitedcapitalplcgroup.com

Asset Management
Assetmanagement@unitedcapitalplcgroup.com

Trustees
Trustees@unitedcapitalplcgroup.com

Investment Banking
InvestmentBanking@unitedcapitalplcgroup.com

Research
research@unitedcapitalplcgroup.com