November 2021 Inflation Flash

Sustained disinflation in November as headline inflation prints at 15.40%

United Capital
The Intelligent Choice

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Economics | Data Reaction

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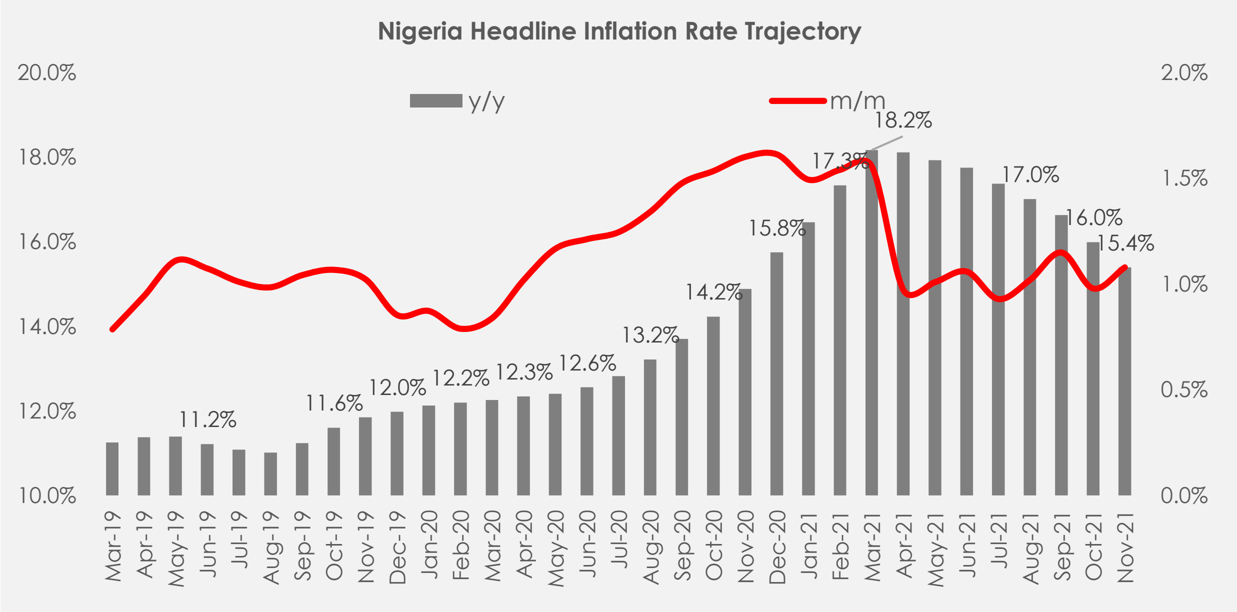
Food sub-index	Core sub-index	Headline Index
17.21%	**13.85%**	**15.40%**

Earlier, the National Bureau of Statistics (NBS) released the Consumer Price Index (CPI) report for Nov-2021. According to the bureau, the headline inflation rate moderated further to 15.40% y/y, printing higher than our forecast of 15.25% and 59bps lower than Oct-2021 inflation (15.99%). This implies that the annual rate of change in prices subsided in Nov-2021, for the eighth consecutive month. On a m/m basis, the broad CPI increased by 1.08%, faster than the 0.98% m/m increase in Oct-2021. Also, the inflation report confirmed the 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 17.21% y/y in Nov-2021, a 113bps decline compared to 18.34% y/y in Oct-2021. On a m/m basis, the Food sub-index increased by 1.07% in Nov-2021, up 16bps from 0.91% in Oct-2021. The high base effect from late 2020 drove the y/y moderation in the food sub index. The increase in the m/m change indicates that food prices remained elevated due to prevailing supply-side challenges including unabating security issues in food-producing states, which brought about lower harvest volumes. In addition, food prices with FX-linked pressures remain on the rise as FX concerns linger.

The core inflation sub-index rose to 13.85% y/y, a 2.8ppts increase from 11.05% in Nov-2020 and a 61bps increase from Oct-2021's 13.24% y/y. On a m/m basis, the sub-index increased by

46bps to 1.26% in Nov-2021 (previously 0.80% in Oct-2021). The highest increases were recorded in garments, vehicle spare parts, passenger transport by road, non-durable household goods, jewelry clocks and watches, passenger transport by air, pharmaceutical products, appliances, articles, and products for personal care, cleaning, repair, and hire of clothing and fuels and lubricants for personal transport equipment. Core inflation continues to reflect persistent exchange rate pressures, higher energy costs, and supply chain bottlenecks, factors that have driven importation and freight costs higher.

Inflation Outlook: Downward trend in headline CPI to persist in subsequent months

Looking forward, we note that the Dec-2021 holiday season and attendant end-of-year festivities are upside risks to inflation due to more robust consumer demand as is typical of the period. We also highlight that the higher m/m increase in both the food and core segments of the CPI reflects the impact of low harvest volumes, chronic supply chain bottlenecks, and limited access to FX through official channels. As consumer demand increases in Dec-2021, these demand-supply imbalances will feed inflationary pressures. However, we maintain our outlook of further moderation in the annual inflation rate, mainly because of the high base period effect. Thus, we forecast the headline rate to moderate to 14.58% y/y in Dec-2021.

As we approach 2022, we expect the high base impact to begin to wear off as underlying price pressures continue to drive prices higher. We note that the activities of kidnappers, bandits, and Boko Haram continue to displace farming communities, disrupting supply. Also, the harvest season, which was subdued by insecurity, should phase out by Feb-2022, as planting season begins. Thus, our expectation for food prices remains upwardly biased. We also expect the impact of global inflation caused by higher energy costs and supply chain disruptions to begin to reflect in the imported inflation numbers in 2022 when the high base wears off. Furthermore, we believe higher costs of importation caused by FX shortages in the official and parallel markets and increases in freight costs will keep on being passed to consumers. Additionally, the removal of petrol subsidy in Jul-2021 is another critical upside risk to inflation, as Nigerian businesses continue to rely on combustion engine vehicles and self-power generation for day-to-day individual and business activities. In addition, the ripple effect of higher petrol prices on general price level is a critical concern, with a cue taken from Jan-2012.

Ahead of the next Monetary Policy Committee (MPC) meeting scheduled for 24-Jan-2022, we expect the sustained disinflation to favor the perception that a rate hike would not be needed to rein inflation in the near term. This could also be supported by the reality of increased borrowing and high debt-servicing costs. However, we expect the Monetary Policy Committee to be forward-looking and anticipate higher inflation from Q2-2022 due to the wearing-off of the high base impact and the inflationary pressures cited above. Also, external factors such as the tapering of quantitative easing by the US Federal Reserve and monetary tightening in SSA

peer economies could see monetary policy normalization materialize in the near term with the Mar-2022 meeting likely to kick start it.

Disclaimer

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