

## Coronation Economic Note

29 April '22

### Inflationary pressure, weaker purchasing power

Nigeria's headline inflation has been at double-digit since February '16. In Q1 '22, there were upticks recorded in the headline inflation in February (10bps) and March (22bps). The average headline inflation rate in Q1 is 15.74%; 7bps higher than the average 15.67% recorded in the previous quarter, Q4 '21. Food inflation remains the major driver behind the steady acceleration.

Food price inflation rose to 17.2% in March (an increase of 9bps), caused by wide-ranging price increases across items such as cereals, yam, meat, fish and fruits. Supply-chain disruptions triggered by the COVID pandemic have led to rising food prices which have increased food insecurity in most developing economies. Furthermore, given the reliance on food imports from Ukraine and Russia, the ongoing Russia-Ukraine crisis has placed additional pressure on selected commodities, notably wheat.

Rising inflation has adversely affected the profitability of farmers and producers. The price of a basket of tomatoes has more tripled. One basket now costs about N25,000 compared with the initial cost of N5,000. Additionally, a crate of eggs is N2,000 vs N900 obtainable in 2020.

Although the fx rate at the NAFEX window has been relatively stable over the past three months, based on our channel checks the gap between the NAFEX and parallel market rate is as high as 41%. The transmission effect can be seen in imported food items. The imported food price rate recorded increases within each month of Q1 '22. It stood at 17.6% y/y in March '22.

The latest NBS report tells us that the transport segment, which accounts for 6.5% of the basket, posted price increases of 1.5% m/m in March (compared with 1.3% in the previous month) and 15.4% y/y, compared with 15.1% in February.

A separate report from the NBS reveals that the average fare paid by commuters for bus journeys within cities increased by 4.4% m/m and 42.2% y/y in March compared with 5.0% m/m and 38.4% y/y the previous month. Zamfara and Taraba states recorded the highest increases.

The same report shows that the average fare paid by commuters for motorcycle journeys increased by 4.2% m/m and 45.6% y/y in March '22.

In March, increases of 1.3% m/m and 14.5% y/y were recorded for the recreation and culture segment within the inflation basket. There has been increased appetite for outdoor activities. In March, the FGN lifted the nationwide midnight curfew earlier imposed to contain the coronavirus pandemic. Restrictions on parties, concerts, and other crowded activities were also lifted. This was largely due to reduced risk of importation of new coronavirus variants and availability of vaccines.

Indicators	NG
Inflation rate (March '22, %)	15.92
GDP (Q4 '21, %)	3.40
Gross Official Reserves (28 April '22, USD bn)	39.6
UK Brent (29 April '22, USD)	108.5

Source: Bloomberg, CBN, NBS, Coronation MB Research

FGN bond yields (29 April '22, %)			
14.20%	13.98%	12.15%	12.40%
Mar-24	Feb-28	Jul-34	Mar-36
7.85	11.00	12.26	12.42

T-bill yields (29 April '22, %)			
14-	13-Oct	09-	30-
Jul-22	-22	Mar-23	Mar-23
3.25	3.51	4.66	4.48

Source: FMDQ, Coronation MB Research

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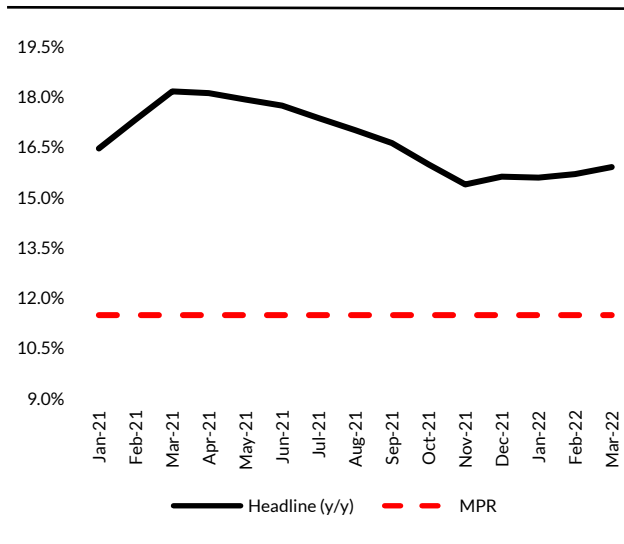
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## Inflationary pressure, weaker purchasing power

Nigeria's hospitality industry (similar to some other sectors) experienced economic scarring due to the effects of the COVID pandemic. We note that hotels listed on the Nigeria Stock Exchange recorded profits in Q1 '22. Furthermore, specific segments of the industry are now performing relatively better. Looking at the inflation basket, there were steady upticks seen in the restaurants and hotels segment between January – March this year. However, In March alone, price increases of 1.3% m/m and 14.1% y/y were recorded.

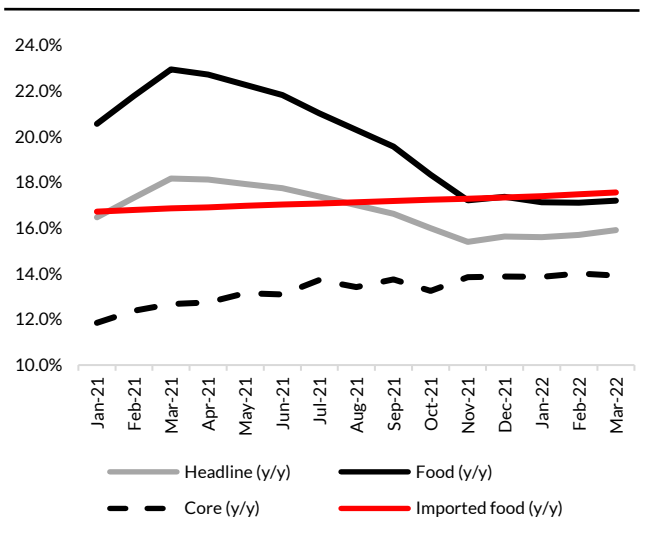
The MPC's view is that a rebound in economic activity will close the negative output gap and ease inflationary pressures in the short to medium term. Price stability is the CBN's primary mandate. We see the headline rate y/y at end-Q2 at around 16.7%.

Headline inflation vs CBN upper target y/y (%)



Sources: National Bureau of Statistics, Coronation Merchant Bank Research

Headline, Food, Core & imported food inflation y/y (%)



Sources: National Bureau of Statistics, Coronation Merchant Bank Research

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