

Inflation Skewed to the Upside as Food Prices Remain the Pressure Point.

Inflation – March 2021

Earlier this morning, the National Bureau of Statistics (NBS) released inflation data for March 2021, which showed that the headline inflation rose for the 19th consecutive month, rising by 84bps to 18.17%. The print is 7bps lower than Cordros' estimate (18.24% y/y) and 27bps higher than Bloomberg median consensus estimate (17.90% y/y). Beyond the increase from both the food (+116bps) and core (+29bps) baskets, the unfavourable base from last year's corresponding period added another layer of pressure to the headline number amid the existing structural constraints. On a month-on-month basis, headline CPI rose by 2bps to 1.56%.

Food inflation rose marginally by 1bp to 1.89% m/m (Cordros' estimate: 1.92% m/m). Apart from the country's persistent security challenges and the lingering impact of supply chain disruptions, we believe higher PMS prices also contributed to the pressures in the food index through the increase in transport costs. Accordingly, farm produce prices (+14bps) neutered the positive surprise from processed food (-2bps). Given the low base effect from the prior year, food inflation rose sharply by 116bps to 22.95% y/y (February: 21.79% y/y), driven by broad-based expansion across farm produce (+131bps to 23.00% y/y), processed foods (+112bps to 22.93% y/y) and imported foods (+8bps to 16.86% y/y).

Figure 1: Trend in Food Inflation Basket

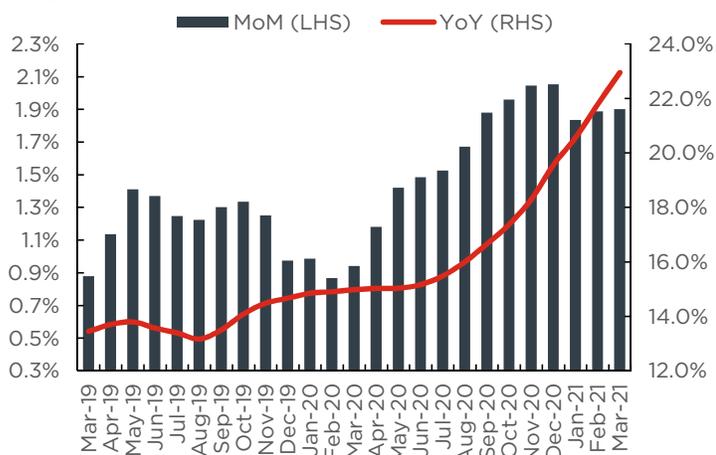
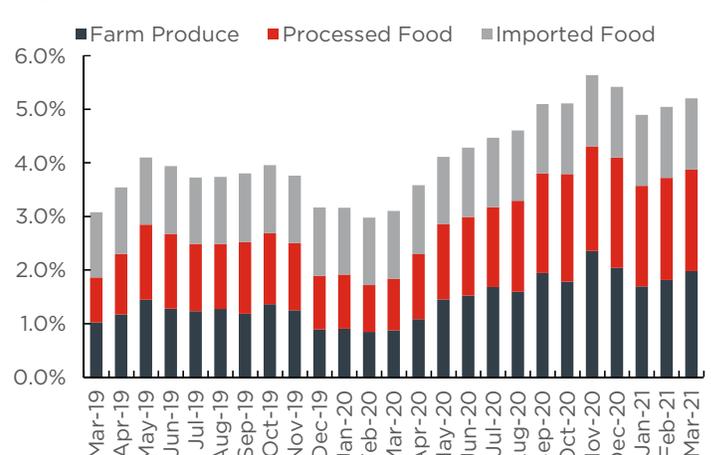


Figure 2: Trend in Food Inflation Sub-Components (MoM)



Source: NBS, Cordros Research

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As expected, the core inflation increased by 29bps to 12.67% y/y – the highest since May 2017 (13.02% y/y). We believe the increase was primarily due to the rise in transport and energy costs associated with the increase in PMS prices amid FX liquidity challenges. The NBS PMS Price watch lends credence to this, as the

national average price of PMS rose by 18.8% y/y to NGN172.68/litre in March (March 2020: NGN145.40/litre). Also, diesel prices increased to NGN235.41/litre from NGN226.78/litre in March 2020. Consequently, prices rose across all the components of the core inflation. Notably, the health component (+61bps to 15.77% y/y) of the core index is now at the highest level since the NBS started keeping current data series while transport prices (+60bps to 14.73% y/y) rose to a 48-month high and HWEGF (+35bps to 10.13% y/y) - the highest since June 2017 (10.93% y/y). On a month-on-month basis, core inflation surprised positively as it moderated by 14bps to 1.06% m/m - the lowest reading in five months.

Figure 3: Trend in the Core Inflation Basket

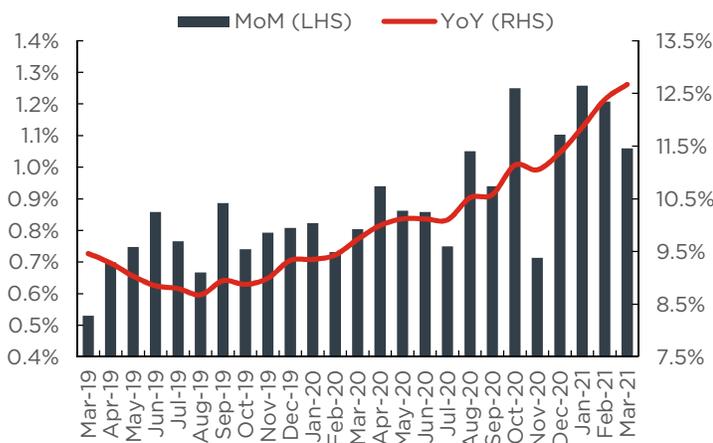
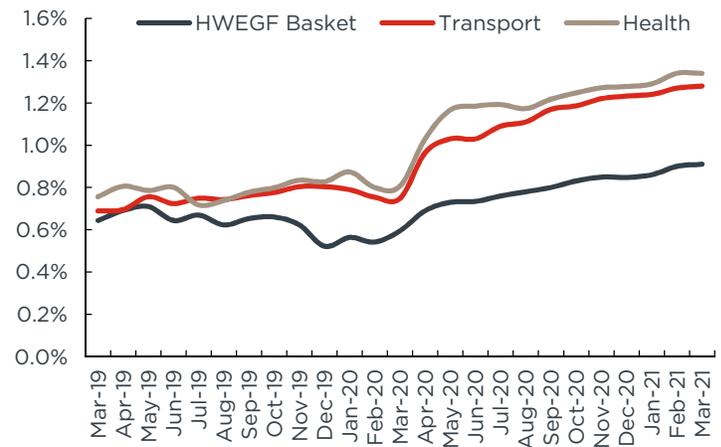


Figure 4: Core Inflation Sub-Components (MoM)



Source: NBS, Cordros Research

Outlook

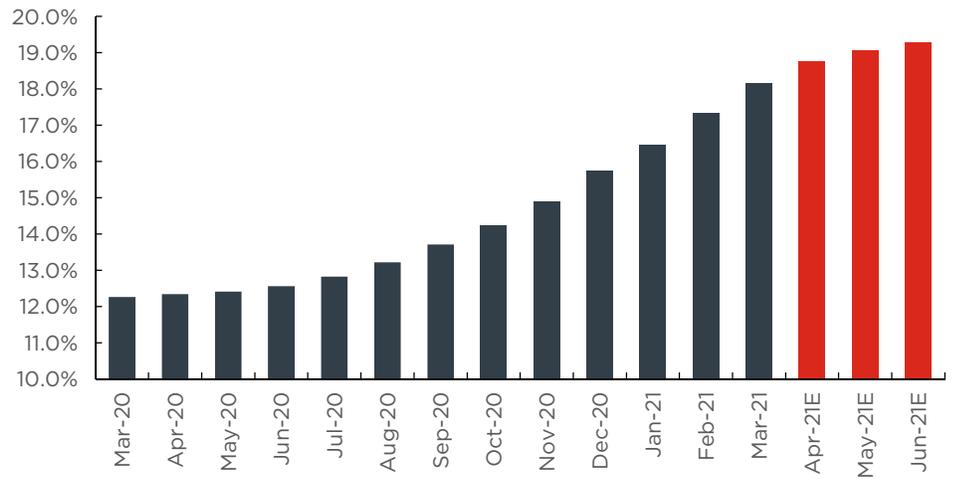
As major farmlands across the country remain under cultivation due to the ongoing planting season, we expect the supply of food items to continue to fall short of demand in April. Besides, we think farmers would find it difficult to go to their farms for off-season harvests due to the incessant security challenges, particularly in the Northern region. We expect the demand/supply imbalance to be further exacerbated by the ongoing Ramadan season due to increased demand for food items. That said, we think the slight increase in the m/m reading for food inflation in March despite the short-lived blockage of food supplies suggests food prices are now getting defensive. The most probable explanation for this is that stuttering consumer demand owing to declining real income may have tempered price increases by suppliers. **All in, we expect food inflation to print 1.85% m/m in April, with the low base effect from the corresponding period of last year translating to a y/y reading of 23.76%.**

We understand that the Federal Government deferred the subsidy removal for six months to give ample time for broad consultations before reaching a final decision. The preceding bodes well for inflation expectations as fuel prices are likely to remain stable at current levels. Similarly, we believe the pass-through impact of Naira devaluation is already waning, and we do not see further devaluation in the IEW in the near term, given the stability in oil prices at current levels amid the innovative strategies employed by the CBN in increasing dollar

inflows. On balance, we expect the core inflation to print 1.12% m/m, cascading to a y/y print of 12.87%.

On a balance of factors, we look for m/m headline inflation reading of 1.51% in April, which translates to a y/y reading of 18.75%.

Figure 5: Headline Inflation - Historical and Forecast (y/y)



Source: NBS, Cordros Research Estimates

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