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Economics | Data Reaction

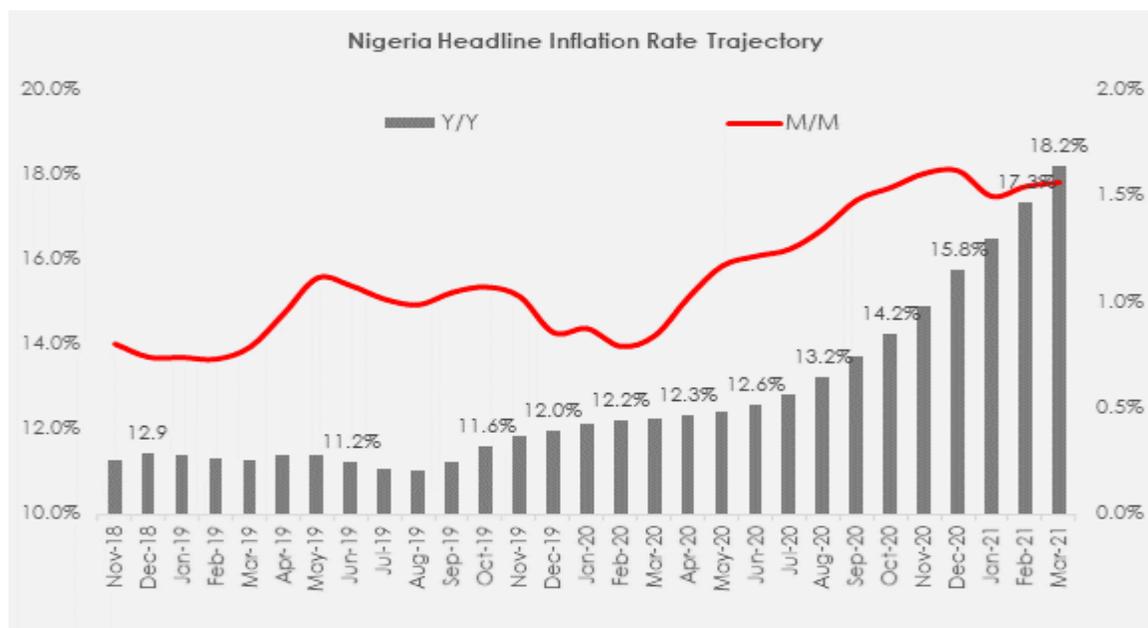
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Food sub-index	core sub-index	Headline Index
<b>22.95%</b>	<b>12.67%</b>	<b>18.17%</b>

Earlier today, the National Bureau of Statistics (NBS) released the inflation figures for March-2021. Notably, the headline rate rose for the 19th consecutive month, from 17.33% y/y in Feb-2021 to 18.17% y/y, exceeding our forecast of 18.1%. In addition, headline inflation rate ticked upwards by 1.56% m/m (vs. 1.54% in Feb-2021). Also, we observed price increase across all components of the index. Specifically, the highest increases were recorded in the cost of food.



Sources: NBS, United Capital Research

On a segmented basis, food inflation continued to accelerate printing at 22.95% y/y for Mar-2021 compared to 21.79% in Feb-2021, a 116bps spike. On a m/m basis, the Food sub-index increased by 1.90% in Mar-2021 from 1.89% in Feb-2021 up 1bps from Feb-2021. The increase in Food inflation continues to reflect the sustained supply-side pressures caused by insecurity concerns in the middle-belt and northern region of the country. In addition, pressures from food harvest exhaustion during the planting season is beginning to feed in.

On core inflation, the sub-index inched upwards to 12.67%, reflecting a 29bps increase from Feb-2021's 12.38%. However, on a m/m basis, the core inflation moderated marginally by 15bps in Mar-2021. Notably, the inflation report showed the key drivers of core inflation were

higher cost of healthcare (Medical services, Pharmaceutical products, Dental services etc.) and transport cost (Air transport, Motor cars, Vehicle spare parts and Road transport) likely resulting from the impact of FX devaluation on importation of equipment and energy cost

### **Inflation Outlook**

Looking ahead, our outlook for inflation remains grim. Our stance is informed by unabating pressures on food prices resulting from several supply-side constraints. Clearly, food insecurity problems in the country have not subsided, and this continues to be exacerbated by FX scarcity and high costs of importation. Also, we note that as we enter the planting season, supply shortages are expected to garner pace, which could consequently place further pressure on prices. Furthermore, an increase in energy prices is likely in H2-2021. Surely, a rise in gasoline prices will contribute to the index's inflationary pressures, as it will feed into the transportation and logistical costs on the food index.

Given these factors, we forecast a 1.58% m/m increase in aggregate price level, translating into a y/y inflation rate estimate of 18.83% in Apr-2021. Looking ahead to the second half of the year, we believe that the high base impact from H2-2020 would only moderate inflation uptick slightly in H2-2021, and that, barring another policy reversal, the National Electricity Regulatory Commission's Multi-Year Tariff Order will come into effect by June 2021, exacerbating inflationary pressures.

With sustained pressure on general prices, we expect the CBN to double-down on liquidity mop-ups to curb inflationary pressures. Surging inflation also increases the probability of a rate hike. However, inflationary pressures remain largely driven by structural and cost push factors, hence, the effectiveness of monetary policy measures remain limited. In our opinion, the CBN's most effective tool will be managing exchange rate to reduce importation cost. In the financial markets, galloping inflation rate implies that dealers would press for higher rates on debt securities in subsequent auctions, further accelerating the reversal in the yield environment while amplifying bearish sentiment for equities.

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