

A Transitory Moderation in Food Prices but Upside Risks Remain Elevated.

Inflation – April 2021

The April 2021 inflation report released by the National Bureau of Statistics (NBS) showed that the headline CPI snapped 20 consecutive month of increase, moderating by 5bps to 18.12% y/y (March: 18.17% y/y). The preceding was due to a positive surprise from the food basket amidst the persistently high conflict levels and disruption to trade flows. The outturn was 63bps lower than Cordros' estimate (18.75% y/y) and 68bps less than Bloomberg's median consensus estimate (18.80% y/y). On a month-on-month basis, the headline inflation printed 0.97% (March: 1.56% m/m) – the lowest since March 2020 (0.84% m/m).

Ordinarily, the Ramadan period should have led to increased food prices, driven by the rise in food demand. However, we think consumers had anticipated this in March, thereby frontloading food items to meet their April needs. Consequently, demand for food items slowed down in April, leading to a moderation in food inflation by 91bps to 0.99% m/m – the lowest since March 2020 (0.94% m/m). Besides, we think the slowdown must have been due to food prices now becoming defensive given the stuttering consumer demand, which may have tempered price increases by suppliers. Breakdown provided showed that the moderation in the food inflation was driven by all the sub-categories with the farm produce basket (-100bps) leading the pack, followed closely by processed food (-89bps) and imported food (-2bps) baskets. On a year-on-year basis, food inflation slowed by 23bps to 22.72% y/y, driven by the processed foods (-25bps) and farm produces (-16bps) baskets, both of which masked an increase in the prices of imported foods (+3bps).

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Figure 1: Trend in Food Inflation Basket (MoM)

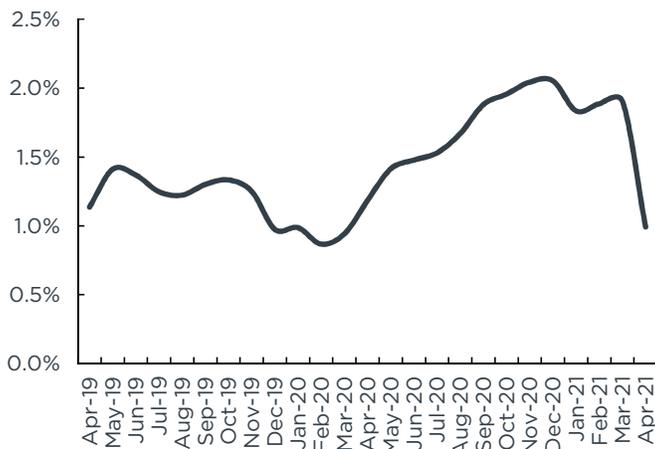
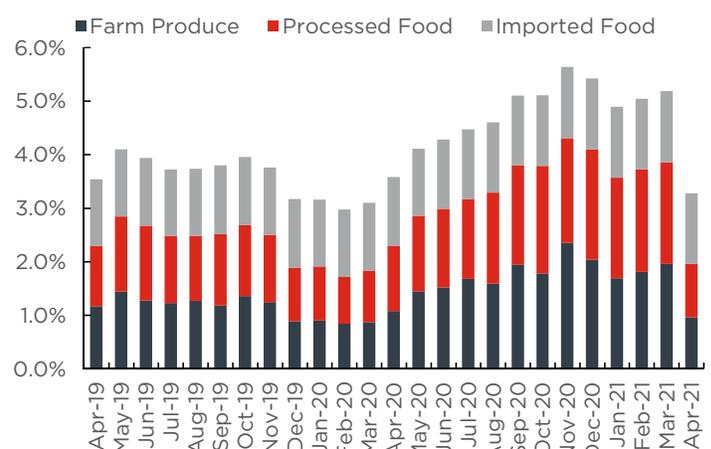


Figure 2: Trend in Food Inflation Sub-Components (MoM)



Source: NBS, Cordros Research

Elsewhere, the core inflation moderated by 8bps to 0.99% m/m – the third consecutive month of decline. We believe the preceding reflects (1) fuel price stability at the current level of NGN162.00/litre in line with the Federal Governments deferral of subsidy removal and (2) the waning effect of currency depreciation on prices amidst naira stability at the IEW. Accordingly, we note price moderation across the core baskets save for Communication (+2bps) and Restaurants & hotels (+2bps). Compared to a year ago, the core inflation increased by 5bps to 12.73% y/y, primarily driven by the prices of clothing and footwear (+33bps), Furnishings and household equipment maintenance (+33bps), alcoholic beverage, tobacco and Kola (+20bps) and Recreation & culture (+37bps).

Figure 3: Trend in the Core Inflation Basket (MoM)

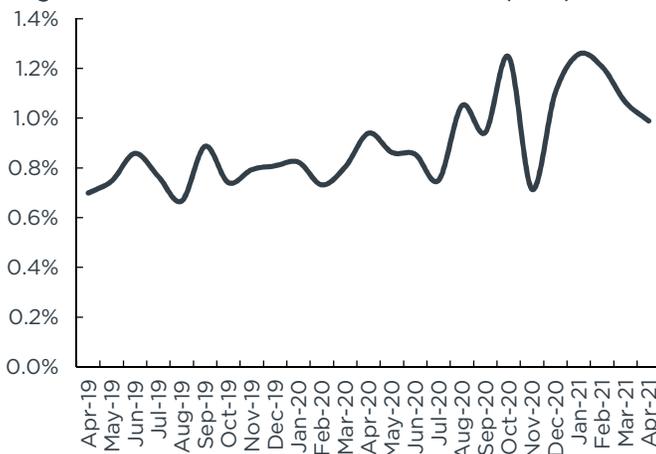
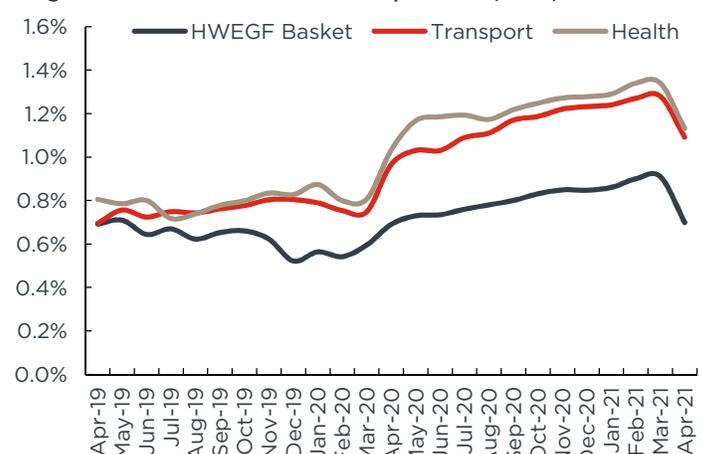


Figure 4: Core Inflation Sub-Components (MoM)



Source: NBS, Cordros Research

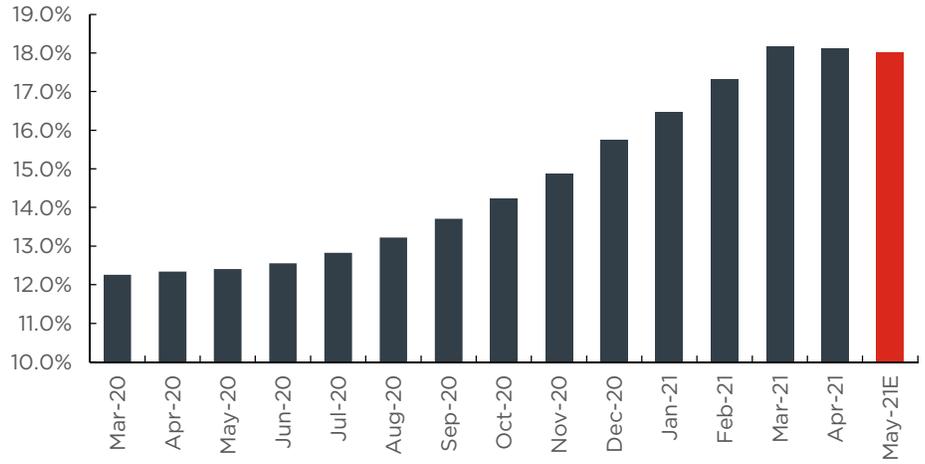
Outlook

As the people deplete their food reserve, we expect the demand for food items to trend upwards in May amidst a limited level of supply given the ongoing planting season. Besides, the country is still reeling from the impact of persistent structural and security challenges, adding another layer to inflationary pressures. However, we expect the stuttering consumer demand owing to declining real income to moderate the price growth. **Accordingly, we forecast a 16bps increase in food inflation to 1.08% m/m.**

Barring any negative surprises from fuel prices, we expect the core inflation to remain relatively range-bound in May, amidst the naira's stability at the IEW. **Consequently, we look for a 0.96% m/m increase in core inflation.**

Tying all together, we now look for a 1.08% m/m headline inflation rate, cascading to a y/y print of 18.01%.

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



Source: NBS, Cordros Research Estimates

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