

# Domestic Prices to Maintain Uptrend on Higher Energy Prices.

Inflation - February 2022

According to the recently released data by the National Bureau of Statistics (NBS), headline inflation rose by 10bps to 15.70% y/y - its highest level in five months. The increase was primarily driven by the core basket (+14bps to 14.01% y/y) in line with the increased utility prices amidst the global surge in energy prices. Although food prices increased on a month-on-month basis, the favourable base from the prior year ensured prices eased marginally year-on-year. The headline inflation print is 25bps higher than Cordros' estimate (15.45% y/y) and in line with Bloomberg's median consensus estimate (15.70% y/y). On a month-on-month basis, headline inflation rose by 16bps to 1.63% (January: 1.47% m/m).

Food prices rose in line with farmers' land preparation for the 2022 planting season. Specifically, food inflation increased by 25bps to 1.87% m/m in February (January: 1.62% m/m). Besides from the impact of land preparation for the 2022 planting season, we attribute the increase to the (1) pass-through impact of increased transportation cost and (2) pre-existing structural constraints. Besides, Famine Early Warning Systems Network (FEWSNET) reported that maize and other food prices remain above last year's and the five-year average price. Accordingly, prices increased across the Farm produce (+22bps to 1.87% m/m), and Processed food (+26bps to 1.87% m/m) sub-baskets.

Figure 1: Trend in Food Inflation Basket

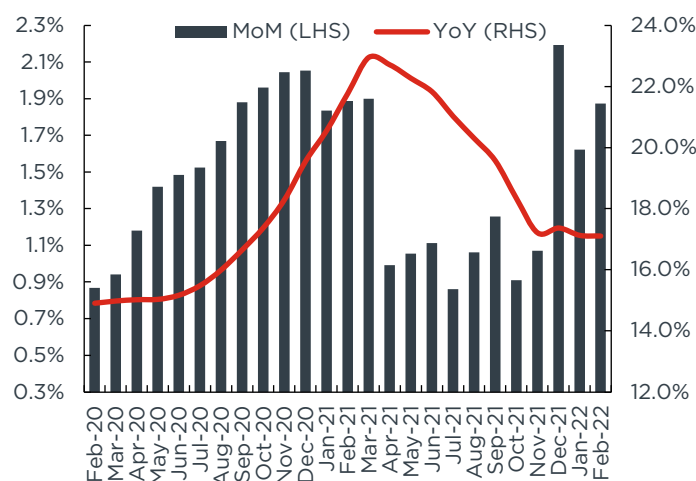
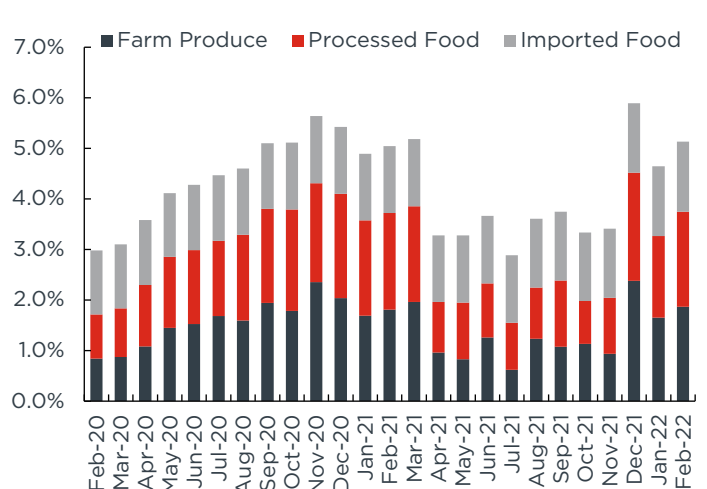


Figure 2: Trend in Food Inflation Sub-Components (m/m)



Source: NBS, Cordros Research

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On a year-on-year basis, food inflation pared by 2bps to 17.11% y/y (January: 17.13% y/y), supported by the favourable base from the prior year. Decomposing the year-on-year breakdown, we highlight that the moderation in the Processed

Food (-4bps to 17.12% y/y) sub-basket was enough to outweigh the increase in the Farm produce (+6bps to 17.08% y/y) sub-basket.

The core inflation maintained its uptrend, rising by 8bps to 1.33% m/m in February – the highest since June 2016 (1.83% m/m). We attribute the increase to the lingering impact of (1) higher energy prices, (2) tax increase in line with the 2021 Finance Act, and (3) FX liquidity challenges. Notably, Premium Motor Spirit (PMS) scarcity persisted in February while the Russia-Ukraine conflict induced a significant increase in crude oil prices, which pushed diesel prices higher. To put things in proper perspective, we highlight that effective PMS prices ranged between NGN250.00/litre and NGN350.00/litre during the review period. Accordingly, prices increased across the sub-baskets that make up the core inflation. Notably, Transport (+4bps to 1.31% m/m) prices rose to their highest level since June 2016 (1.33% m/m) while the utilities (+3bps to 1.23% m/m) sub-basket reversed the previous month’s downtrend. On a year-on-year basis, core inflation increased by 14bps to 14.01% – the highest level since April 2017 (14.75%).

Figure 3: Trend in the Core Inflation Basket

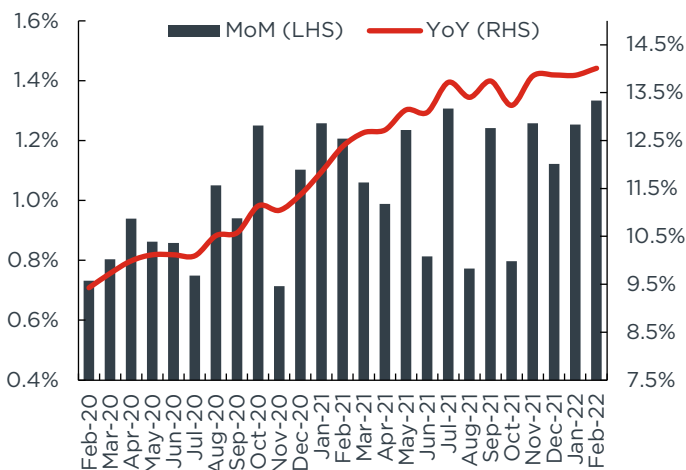
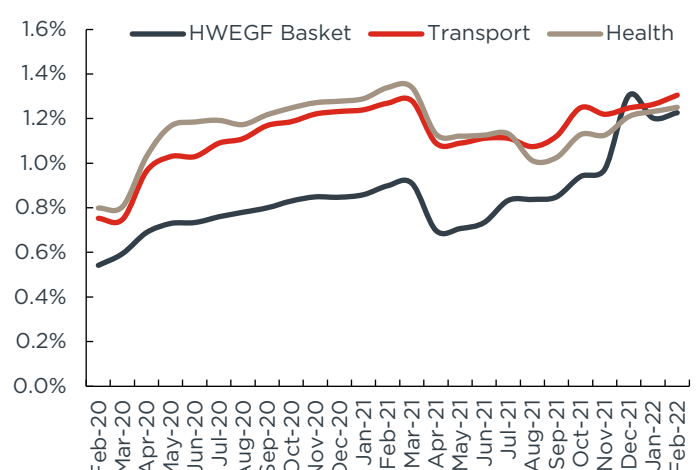


Figure 4: Selected Core Inflation Sub-Components (m/m)



Source: NBS, Cordros Research

**Outlook**

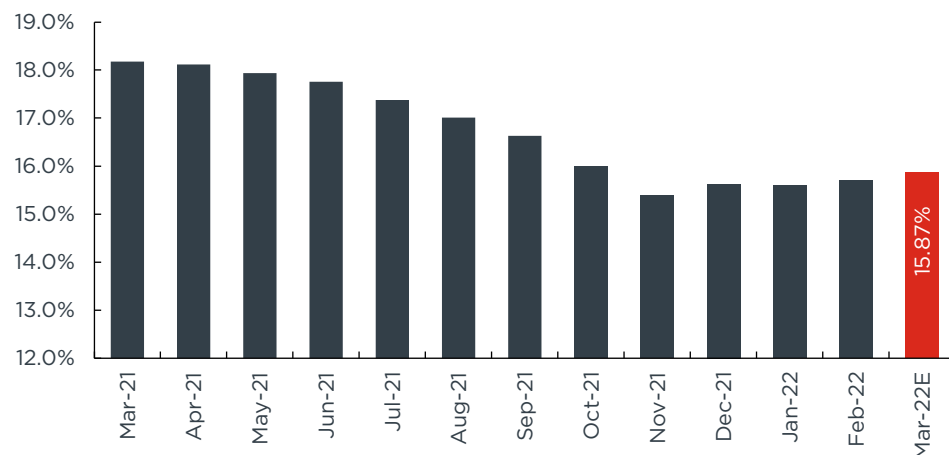
According to FEWSNET, security challenges remain high in the food-producing regions even though they have stabilised in some areas. Besides, land preparations for the 2022 planting season continue in March. Thus, we expect the food demand and supply gap to remain wide over the period. In addition, we expect a continuous pass-through impact of higher transport costs on food prices. **Sequentially, we forecast a 9bps increase in food inflation to 1.96% m/m.**

Given the lingering tension arising from the Russia-Ukraine conflict, pressure on global gas and other energy prices seems unabating. Specifically, we highlight that diesel prices currently hover around NGN650.00/litre – a whopping 125.6% increase compared to the national average price in January (NGN288.09/litre).

Given that diesel generators power the operations of most companies, we expect a pass-through impact on the core basket. In addition, we expect the lingering effects of increased taxes in the 2021 Finance Act to pressure the core basket further. **Overall, we expect the core inflation to rise by 5bps to 1.38% m/m.**

**On a balance of factors, we expect the pressure on consumer prices to remain skewed to the upside and forecast headline inflation to print 1.71% m/m in March, translating to a 17bps increase in y/y inflation rate to 15.87%.**

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



Source: NBS, Cordros Research estimates

# Disclosures.

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