

# HEADLINE INFLATION RISES FUTHER TO 15.92%

... Energy Prices Continue to Rise Amid Escalating Geopolitical Conflict

April 19, 2022

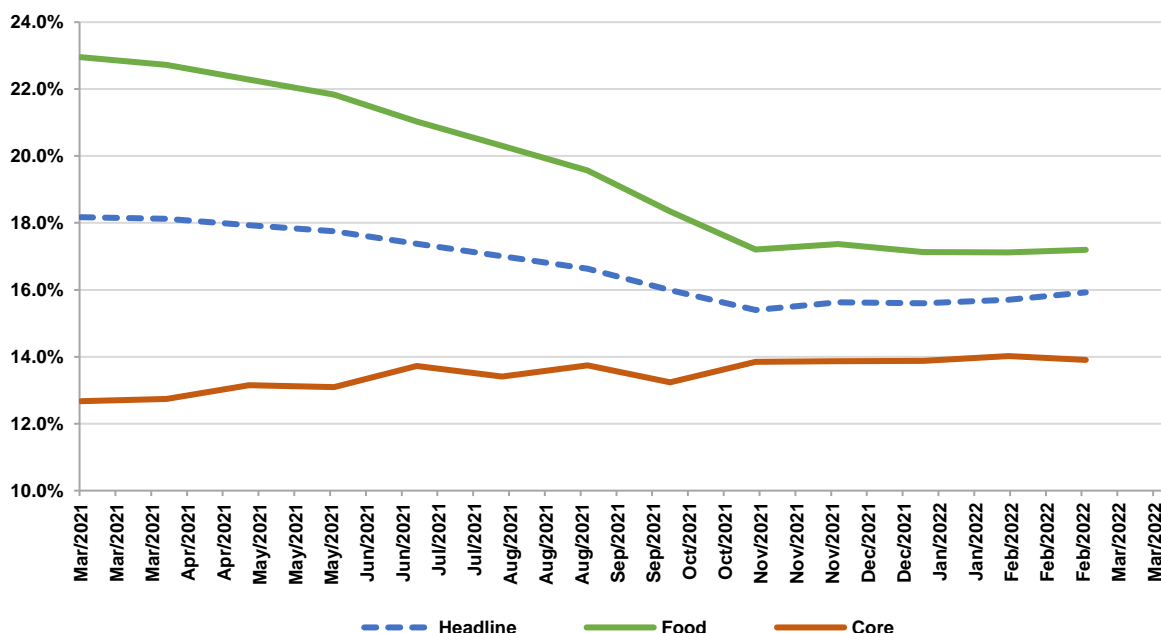
*Economic Report*

In the recently released data from the National Bureau of Statistics, headline inflation climbed to 15.92% YoY in March 2022 from 15.70% in February 2022. On a month-on-month basis, the headline inflation printed at 1.74% in March 2022 from 1.63% in February 2022.

Core inflation declined marginally to 13.91% YoY in March 2022 from 14.01% in February 2022. Meanwhile, on a month-on-month basis, the core inflation recorded a sharp decline to 0.98% in March 2022 from 1.33% in February 2022.

Food inflation inched up to 17.20% YoY in March 2022 from 17.12% in February 2022. On a month-on-month basis, food inflation stood at 1.99% in March 2022 from 1.87% from 1.87% in February 2022.

## One-Year Inflation Trend



**Source:** National Bureau of Statistics, WSTC Research

## Analysis

Inflationary pressures worsened in March 2022, reflecting the full impact of higher energy prices in the domestic market. The ongoing conflict in Eastern Europe, which cascaded into the global crude oil market in the form of higher prices of crude oil and refined petroleum products, translated to astronomical high levels of energy prices in the Nigerian market. Notably, the housing, water, and electricity, gas & other fuel component recorded a 12.32% YoY inflation rate in March 2022 from 11.82% YoY in February 2022. On a month-on-month basis, it recorded 1.37% - the highest month-on-month rise since November 2019. In addition, adjustment in electricity tariffs impacted on energy prices in March 2022.



The transportation component also recorded a marked year-on-year price increase in March 2022. The average prices of transportation rose by 15.37% YoY and 1.49% on a month-on-month basis. Beyond the pass-through effect of higher petrol and diesel prices on local transportation, we also think that higher aviation fuel resulted to higher air fares, and we believe that this added to the inflationary pressure in March 2022.

### Outlook

The inflation figure of 15.92% in March 2022 was 15 basis points above our 15.77% projection, reflecting a higher-than-anticipated increase in the general price level. The current macroeconomic developments across the global and domestic economy suggest that the inflationary trend would persist in the near term. Sustained rise of global crude oil prices amid uncertainties in the Eastern-Europe will be the major catalyst to the direction of inflation in the coming months.

### Policy Direction

Due to the strong policy focus to drive economic growth despite obvious challenges, we do not expect the rising inflationary trend to be the factor that would drive interest rate upwards. The CBN had expressed in previous discussions that its preferred approach to managing inflationary pressures was to double-down its developmental finance activities, aimed at boosting food supply and production in the economy.

We believe that the market fundamentals could force the direction of interest rates upwards in the near term. The situation of higher crude oil prices has resulted in more challenges for the Federal Government due to widening subsidy payments. The FG recently sent a supplementary budget to the National Assembly, with the subsidy budget raised to N4trn from the previous N3.55trn in the approved 2022 fiscal act, and the total fiscal deficit is estimated to increase by over N1trn – to be funded by domestic debt. Further increases of crude oil prices would mean even higher government borrowings. Therefore, we expect these significant debt raises to induce higher yields. However, it remains unclear if the additional borrowings will pass through the capital markets or through CBN financing.

### Other Highlights

| Indexes               | Year-on-Year Change |        |      | Month-on-Month Change |        |      |
|-----------------------|---------------------|--------|------|-----------------------|--------|------|
|                       | Mar-22              | Feb-22 | bps  | Mar-22                | Feb-22 | bps  |
|                       | %                   | %      |      | %                     | %      |      |
| All-items Price Index | 15.92               | 15.70  | 22   | 1.74                  | 1.63   | 11   |
| Food Index            | 17.20               | 17.12  | 8    | 1.99                  | 1.87   | 12   |
| Core Index            | 13.91               | 14.01  | (10) | 0.98                  | 1.33   | (35) |
| Urban All-items Index | 16.44               | 16.25  | 19   | 1.76                  | 1.65   | 11   |
| Rural All-items Index | 15.42               | 15.18  | 24   | 1.73                  | 1.61   | 12   |

**Source:** National Bureau of Statistics, WSTC Research



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