

# HEADLINE INFLATION ADVANCES TO 21.91%

... Month-on-Month Decline Suggests Easing Price Pressures

March 15, 2023

*Economic Report*

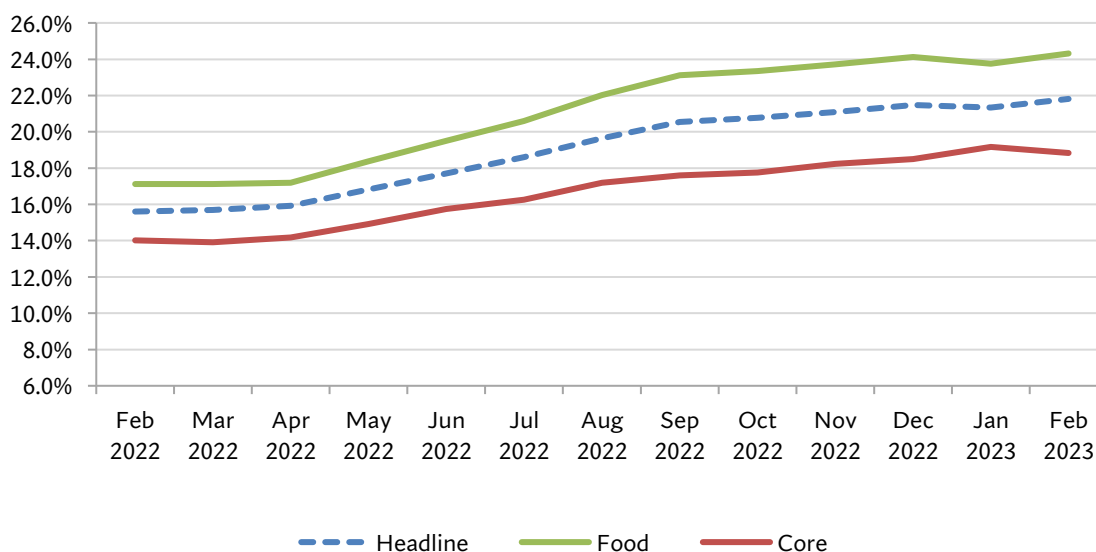
## Highlights

The National Bureau of Statistics (NBS) released February 2023 inflation report few hours ago. According to the Bureau, the Headline Inflation advanced by 9 basis points on a year-on-year basis to 21.91% (January 2023: 21.82%). However, on a month-on-month basis, the Headline Inflation declined to 1.71% (January 2023: 1.87%).

Core Inflation (which measures All Items less Farm Produce) declined by 32 basis points to 18.84% on a year-on-year basis in February 2023 (January 2023: 19.16%). It declined on a month-on-month basis as well to 1.06% (January 2023: 1.82%). The Core Inflation is often a more precise reflection of average prices in the economy because it eliminates the impact of food price volatility.

Food Inflation rose by 4 basis points to 24.35% year-on-year in February 2023 (January 2023: 24.32%). Conversely, it declined on a month-on-month basis to 1.90% (January 2023: 2.08%).

## One-Year Inflation Trend



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



## **Analysis**

The direction of the month-on-month Headline Inflation was in line with our expectations – it declined. From 1.87% in January 2023, we estimated a 1.58% MoM decline in February 2023, but the actual figure was 1.71% MoM. According to our findings when we analysed the inflation data, transportation costs pressures eased in February 2023, and we attribute it to improved supply of petrol during the period. Across major fuel stations across the economy, queues reduced. The activities of black market operators also moderated during the period. About the year-on-year rise in inflation, we attribute that to low base effects. Our overall assessment was that inflationary pressures indeed eased in February 2023.

We link the month-on-month decline in Food Inflation to the lower pressures in transportation prices. Other factors that played out in the eased Food Inflation were improved supply chain, and normalisation of prices in the global commodity market (e.g., fertilisers and other packaging materials).

Meanwhile, relative stability in the foreign exchange market – particularly in the parallel market supported the moderation of Core Inflation. Based on the data we track, the average exchange rate in the parallel market increased by 1% to N755.50/\$1 in February 2023 (January 2023: N745.00/\$1). Similarly, the average exchange rate in the I & E window increased by 1% to N460.97 in February 2023 (January 2023: N455.56).

## **Outlook**

We maintain our position that the Headline Inflation will remain at elevated levels for the most of 2023, but we see the figure moderating as most pressure sources are easing. We project month-on-month moderations between March 2023 to June 2023, as we expect price pressures to continue normalising. Meanwhile, we also factored in the possibility of fuel subsidy removal (to take effect in June 2023) and incorporated the possible impact on inflation. We expect inflationary pressures to be on an upward trend from July 2023.

Our March 2023 Headline Inflation forecast is 21.77% - a 13 basis points decline from the February 2023 figure.

## **Policy Expectations and Potential Impact**

Headline Inflation remains at record levels, and significantly above the Central Bank's (CBN) target. Therefore, we expect the current hawkish stance to be sustained. Higher interest rates are expected to stabilise in the financial markets, particularly in the foreign exchange market.



Other Highlights

Indexes	Year-on-Year Change			Month-on-Month Change		
	Feb 2023	Jan 2023		Feb 2023	Jan 2023	
	%	%		%	%	
All-items Price Index	21.91	21.82	9	1.71	1.87	-16
Food Index	24.35	24.32	4	1.90	2.08	-18
Core Index	18.84	19.16	-32	1.06	1.82	-76
Urban All-items Index	22.78	22.55	23	1.85	1.98	-13
Rural All-items Index	21.10	21.13	-3	1.77	1.77	-19



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- Hold Rating: estimated change in price is between  $-10\%$  and  $19\%$  of current market price.
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