

21 May 2020

Economic Research

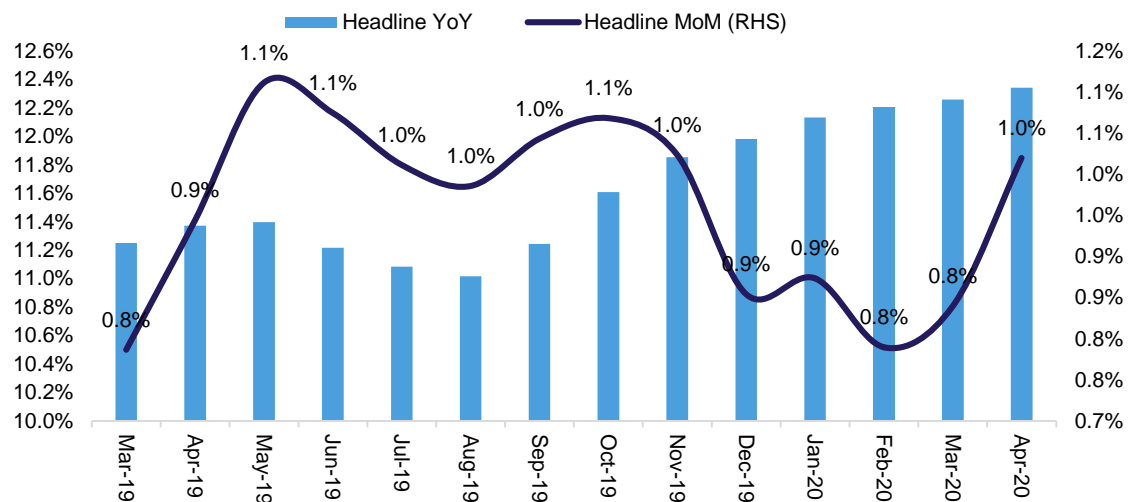
Economic Commentary

Supply Chains Disruption Becoming More Evident

- Headline inflation ticked up by 8bps to 12.34% year-over-year in April
- Core price index grew at a faster pace by 25bps to 9.98% YoY
- Food price index grew by 5bps to 15.03% YoY

Inflation data released by the National Bureau of Statistics this afternoon showed an increase in the month-on-month inflation for a second straight month. The consumer prices rose by 1.02% MoM in April, coming above 0.84% MoM in March. Compared to the prior month, a much faster increase in food prices (+24bps to 1.18% MoM) and increase in the core index (+12bps to 0.93% MoM) contributed to the elevated price level during the month. The food index largely reflected the impact of the breakdown of supply chains and higher transportation cost of essential items due to the restriction of movement. While prices of processed foods increased by 14bps to 1.74% MoM, prices of farm produce surged 25bps to 1.13% MoM. The expansion in the core index reflected increases in the Transport sub-index by 22bps to 0.97% MoM, Health (+23bp to 1.04% MoM), Clothing & Footwear (+9bps to 0.87% MoM) and HWEGF (+9bp to 0.69% MoM).

Figure 1: Inflation Trend: YoY and MoM

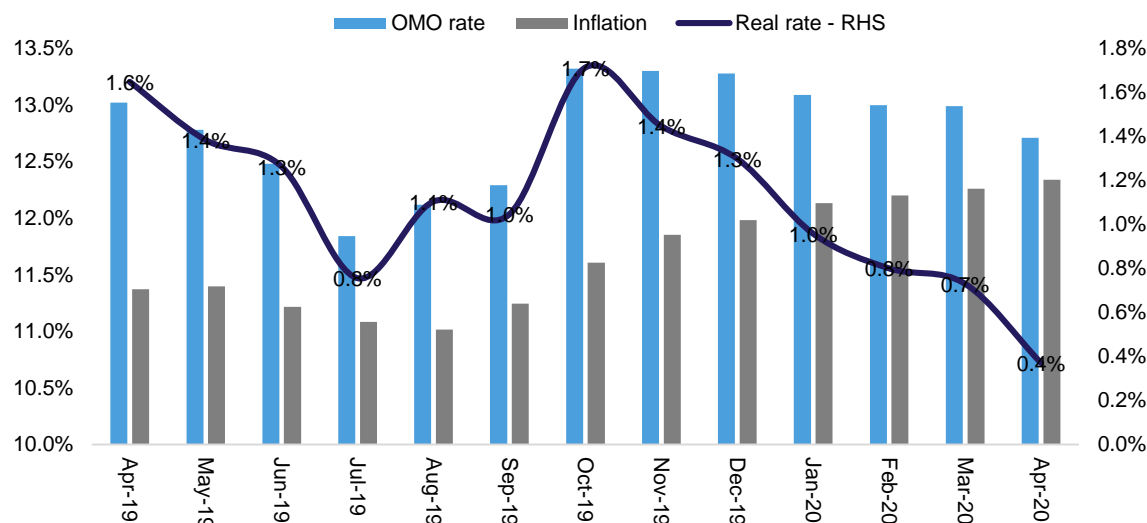


Source: NBS, NOVA Research

Perusing the numbers relative to same period in the prior year, headline inflation expanded by 12.34%, coming ahead of March level of 12.26%. The expansion emanated from a much faster increase in the core index, which combined with a modest increase in the food index. Solidifying the pace for the third consecutive month, the core index surged 25bps to 9.98% YoY, following increases in Furnishing (+14bps to 9.64%), Transport (+28bps to 9.78% YoY), Health (+27bps to 10.27% YoY) amongst others. The food index (+5bps to 15.03% YoY) reflected a better picture of the disruptions to manufacturing activities, with processed foods expanding 171bps to 14.7% YoY to offset the decline in farm produce by 10bps to 15.07% YoY. Most of the increases in processed

foods were attributed to higher prices of bread and cereal, and oil and fats. Relative to same period in the prior year, the food index is 132bps higher than the April 2019 level of 13.70% YoY while the core index increased by 70bps from 9.28% YoY in April 2019. Overlaying the twelve-month average inflation rate on average fixed income yield of 6.18% and the closing rate of the 364-Day NTB at last week's auction of 3.84% translates to a negative real return of 616bps and 850bps respectively.

Figure 2: Trend in Real Rate of Return



Source: NBS, FMDQ, NOVA Research

We believe the disruptive impact of a breakup in the supply chains (with transmission to scarce imported commodities and higher demand for local substitutes), the abrupt adjustment to the exchange rate and jump in prices of essential items (due to the lockdown) will continue to reflect in the consumer price index over the rest of the year. While we still allow our model to reflect the likely implementation of the higher electricity tariff in July, we acknowledge recent communication between Nigeria and IMF suggesting a likely implementation starting 2021 due to the economic cost of the Covid-19 outbreak on consumers. We maintain our expectation of persistent Naira weakness, elevated transportation cost due to social distancing policy and higher prices of essential items due to the partial lockdown.

HWEGF - Housing, Water, Gas, Electricity, and other Fuel