

17 August 2020

Economic Research

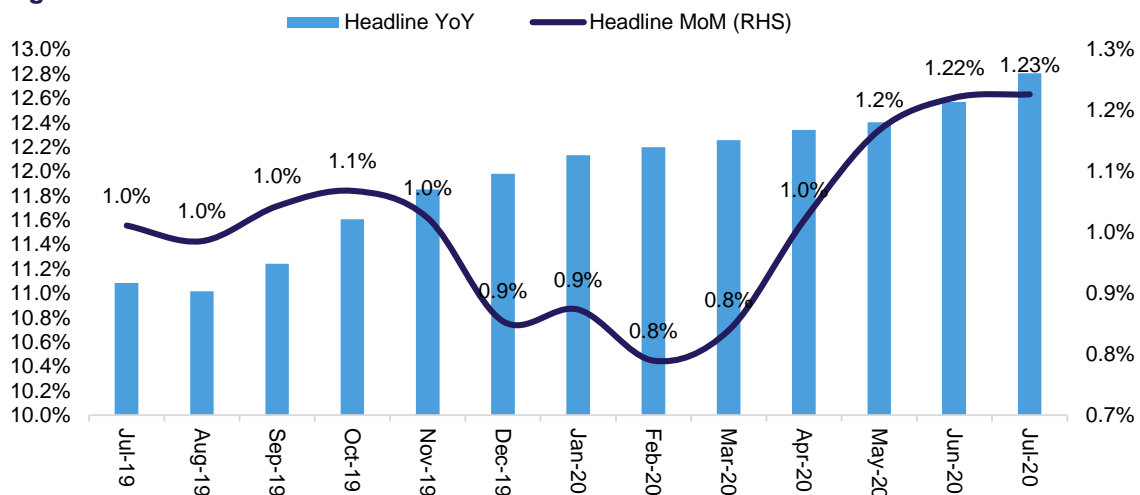
## Economic Commentary

### Increase in Food Prices Delivered Another Jump in Headline Index

- Headline CPI ticked up by 24bps to 12.81% YoY, highest since April 2018
- Core inflation moderated by 3bps to 10.09% YoY
- Food index jumped 32bps to 15.49% YoY, dominated by increases in prices of farm produce and staple food prices.

As mentioned in our Monthly Economic Insights published last week, we stated the trend in inflation in the month of July will mirror similar pattern in June. Similar to the month of June, decline in market supplies of staple foods and farm produce resulted in a jump in the inflation rate in the month of July. Data released this afternoon by the National Bureau of Statistics showed food inflation expanded month-on-month by 1.54% - the highest MoM increase since June 2018. Largely, most of the increase in the food index emanated from higher prices of farm produce. For context, while the headline index expanded 1bps to 1.23% MoM in July, the headline index excluding farm produce contracted 11bps to 0.75% MoM and when further adjusted for energy related cost, the headline index fell 12bps in July. Surprisingly, while imported food increased by 2bps to 1.29% MoM, processed food prices contracted during the month. The decline in the core index by 11bps to 0.75% MoM, negates increases in its constituents – HWEGF (+2bps to 0.75% MoM), Transportation (+5bps to 1.09% MoM) and Communication (+3bps to 0.82% MoM).

**Figure 1: Inflation Trend: YoY and MoM**

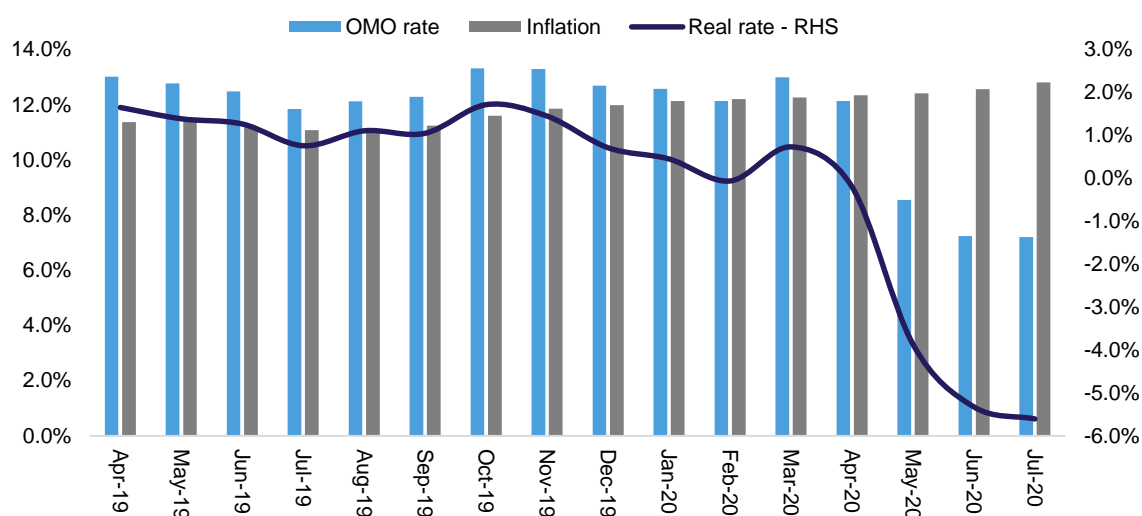


Source: NBS, NOVA Research

Perusing the numbers relative to the same period in the prior year, headline inflation expanded by 12.81%, coming ahead of May level of 12.57% YoY and our estimate of 12.75%. The expansion emanated from a much faster increase in the food index, which largely outweighed moderation in the core index. The food index surged 32bps to 15.49% YoY, dominated by increases in prices of farm produce and staple food prices. Similar to the MoM movements, excluding farm produce, the headline index would have moderated 3bps to 10.09% YoY. The moderation in the core index to

10.09% YoY is however surprising given increases across constituents of the core basket – HWEFG (+10bps to 7.95% YoY), Transport (+39bps to 10.8% YoY), Health (+50bps to 11.61% YoY), Communication (+22bps to 8.82% YoY), clothing (+13bps to 10.62% YoY), amongst others. Relative to the same period in the prior year, the food index is 210bps higher than the July 2019 level of 13.39% YoY while the core index increased by 130bps from 8.80% YoY in July 2019. Overlaying the twelve-month average inflation rate on average fixed income yield of 4.48% and the closing rate of the 364-Day NTB at last week's auction of 3.20% translates to a negative real return of 755bps and 883bps respectively.

**Figure 2: Trend in Real Rate of Return**



Source: NBS, FMDQ, NOVA Research

While the impact of the border closure is expected to largely fade off in August, the combined effect of the breakup in supply chains, social distancing measures in transportation, Naira depreciation, supply shortages and expected volatility occasioned by the market reflective PMS price will further add to the pressure on the core index over the rest of the year. According to FEWSNET, livestock prices have increased by between 20% to 30% during the lockdown relative to the pre-COVID-19 period across most markets. Also, prices of staple foods (including maize, rice, millet, sorghum, and yams) are above the level in 2019 and the five-year average, as prices increased 65% to 120% between January and May. Also, despite the decline in diesel and PMS prices YoY by 0.14% and 11.3% respectively in June, average fare paid by commuters for bus journeys within the city and intercity increased by 25.6% YoY and 13.5% respectively. With the gradual upward movement in crude oil prices, and a translation to higher diesel and PMS prices, we see increasing pressure on transportation prices with consequent impact on food prices especially farm produce over the rest of the year.