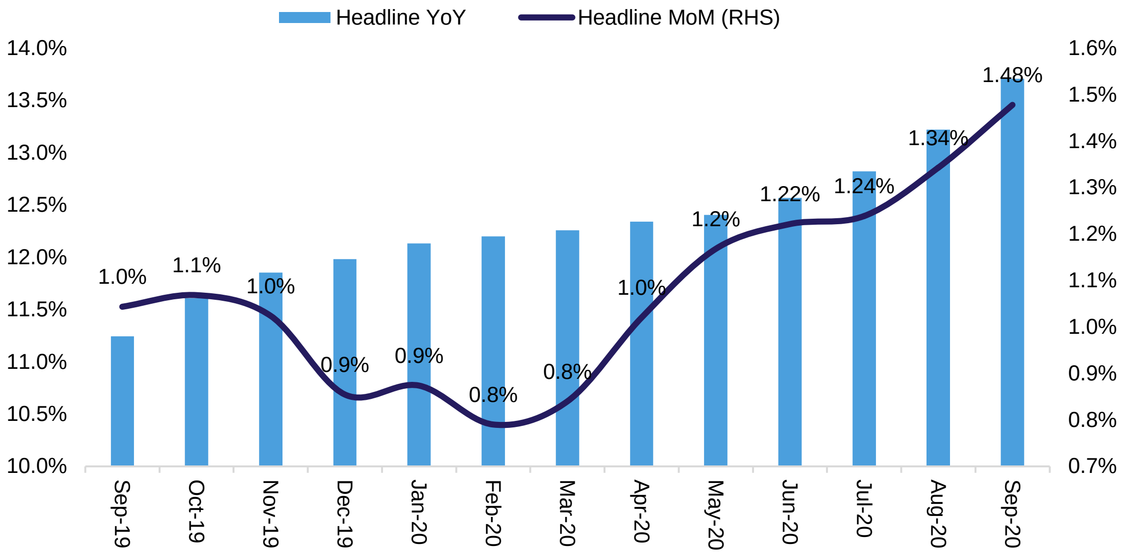
Economic Commentary

Persisting Food Pressure Pushes Headline Inflation to 13.71% YoY

- Headline CPI ticked up by 49bps to 13.71% YoY, highest since March 2018
- Core inflation expanded by 6bps to 10.58% YoY, highest since June 2018
- Food index jumped 66bps to 16.66% YoY, dominated by increases in prices of farm produce and staple food prices.

The headline inflation index expanded by 1.48% MoM in September, above 1.34% MoM in August and below our estimate of 1.60% MoM (our estimate modelled impact of the increase in electricity tariffs, before the eventual reversal). The increase still reflects the impact of food shortages, which more than outweighed the decline in core inflation during the month of September. The headline index excluding farm produce contracted 11bps to 0.94% MoM and when further adjusted for energy related cost, the headline index fell 15bps relative to the prior month. According to FEWSNET, the rising prices of food (emanating from farm produce) is largely a result of exacerbated flooding in localized areas of the Northeast and atypically high staple food prices during the extended lean season from April/May through the end of September.

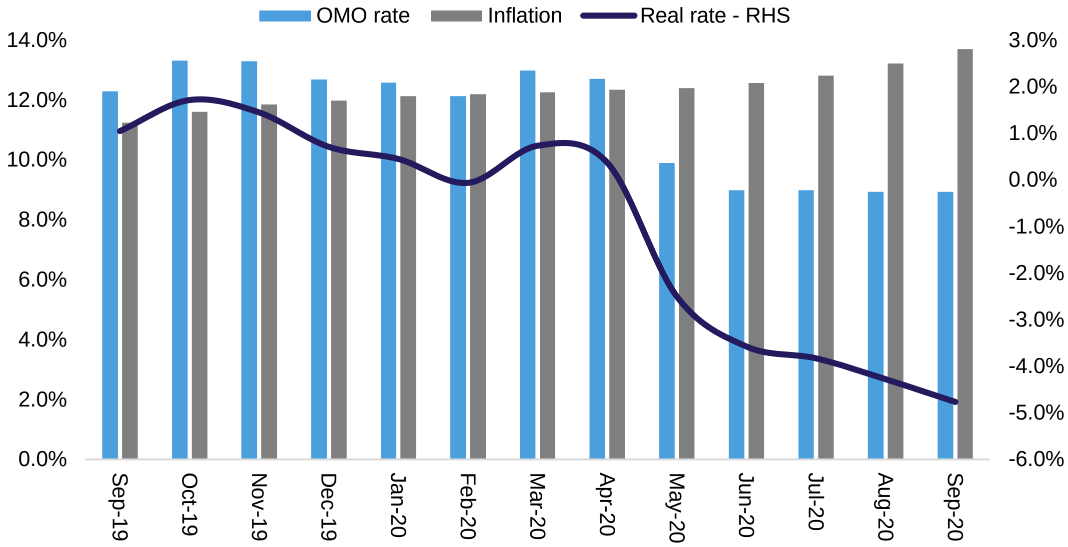
Figure 1: Inflation Trend: YoY and MoM



Source: NBS, NOVA Research

Reflecting the MoM jump, the headline inflation expanded by 13.71%, coming ahead of August level of 13.22% YoY and below our estimate of 13.82%. Both the food and core index expanded 66bps and 6bps to 16.7% YoY and 10.58% YoY. Most constituents of the core index contributed to the rise in the month of August – HWEGF (+16bps to 8.30% YoY), Transport (+45bps to 11.65% YoY), Health (+49bps to 12.58% YoY), Communication (+18bps to 9.19% YoY), clothing (+21bps to 11.02% YoY), amongst others. Relative to the same period in the prior year, the food index is 315bps higher than the September 2019 level of 13.51% YoY while the core index increased by 164bps from 8.94% YoY in September 2019. Overlaying the twelve-month average inflation rate on average, fixed income yield of 3.43% and the closing rate of the 364-Day NTB at yesterday's auction of 2.00% translates to a negative real return of 899bps and 1042bps respectively.

Figure 2: Trend in Real Rate of Return



Source: NBS, FMDQ, CBN, NOVA Research

The recent reversal of the planned increase in electricity tariff provided a soft landing for the inflation number in the month of September. With ongoing conversation and planned palliatives to limit the impact on the vulnerable, it is unclear when the higher electricity tariff will be fully implemented. Irrespective, the rising PMS/Diesel prices and still elevated prices of farm produce will continue to take a toll on consumer prices in the months ahead.