

16 November 2020

Economic Research

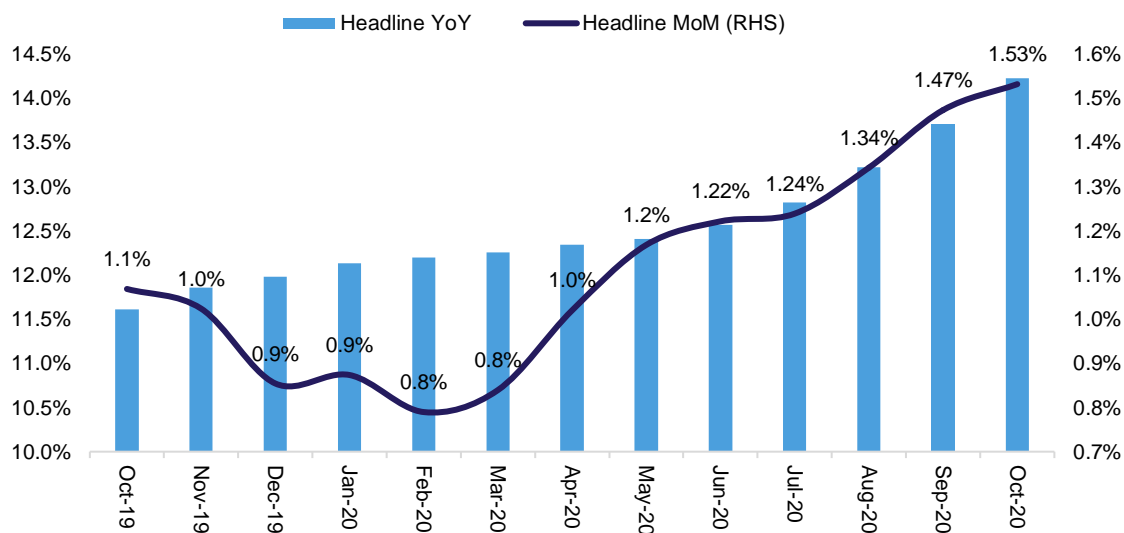
Economic Commentary

Higher Energy and Food Prices Pushed Headline CPI to 14.23% YoY

- Headline CPI ticked up by 52bps to 14.23% YoY, highest since March 2018
- Core inflation expanded by 56bps to 11.15% YoY, highest since April 2018
- Food index jumped 74bps to 17.39% YoY, dominated by increases in prices of farm produce and staple food prices.

The headline inflation index expanded by 1.54% MoM in October, above 1.47% MoM in September and in line with our estimate of 1.53% MoM. While the pressure from food prices continued to intensify, the core index delivered a jump in October MoM from the prior month. The 'All Items less Farm Produce' (core index) expanded 30bps to 1.25% MoM, dominated by increases in Communication, HWEGF, Transportation, Clothing & Footwear, and Health sub-index. Still reflecting the impact of shortages in farm produce, food index advanced 9bps to 1.96% MoM. The imported food sub-index advanced after a broadly flat movement by 5bps to 1.34% MoM. The headline index excluding farm produce and energy advanced 34bps to 1.32% MoM. 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

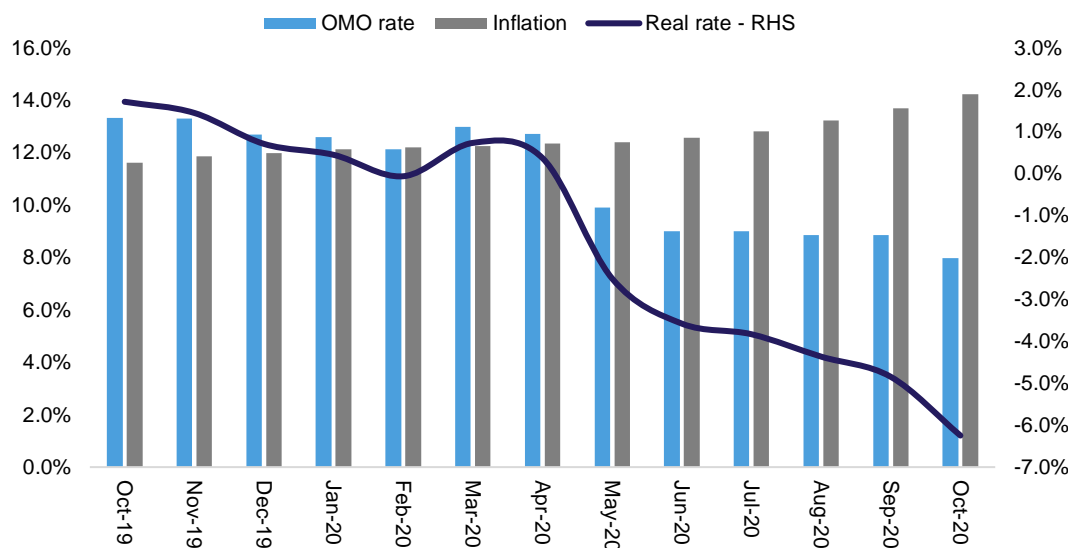


Source: NBS, NOVA Research

Reflecting the MoM jump, the headline inflation expanded by 14.23%, coming ahead of September level of 13.71% YoY and in line with our estimate of 14.22%. Both the food and core index expanded 74bps and 56bps to 17.4% YoY and 11.15% YoY respectively. Most constituents of the core index contributed to the rise in the month of August, with the imported food sub-index jumped 8bps to 16.515% YoY. Relative to the same period in the prior year, the food index is 331bps higher than the October 2019 level of 14.07% YoY while the core index increased by 227bps from

8.98% YoY in October 2019. Overlaying the twelve-month average inflation rate of 12.64% on average fixed income yield of 1.86% and the closing rate of the 364-Day NTB at yesterday's auction of 0.300% translates to a negative real return of 1078bps and 1234bps respectively.

Figure 2: Trend in Real Rate of Return



Source: NBS, FMDQ, CBN, NOVA Research

Beyond October, the now implemented upward adjustment in electricity prices effective November and rising PMS/diesel prices due to increasing global crude oil prices will add more pressure to the inflationary trend over the next two months. On electricity tariff, we expect the impact to reverberate across industrial and consumer prices, with the major shock area being the core index which incorporates Housing Water, Electricity, Gas and Other Fuel (HWEFG). The combined impact of increases in electricity tariff, rising diesel/PMS prices and lower than average harvest season will define new levels for inflation in the next two months. Adjusting our model for the above-mentioned pressures, we arrived at a base average inflation rate of 13.2% in 2020, compared to average of 11.4% in 2019.

HWEFG – Housing Water, Electricity, Gas and Other Fuel