

INFLATION NOTE

April 2020

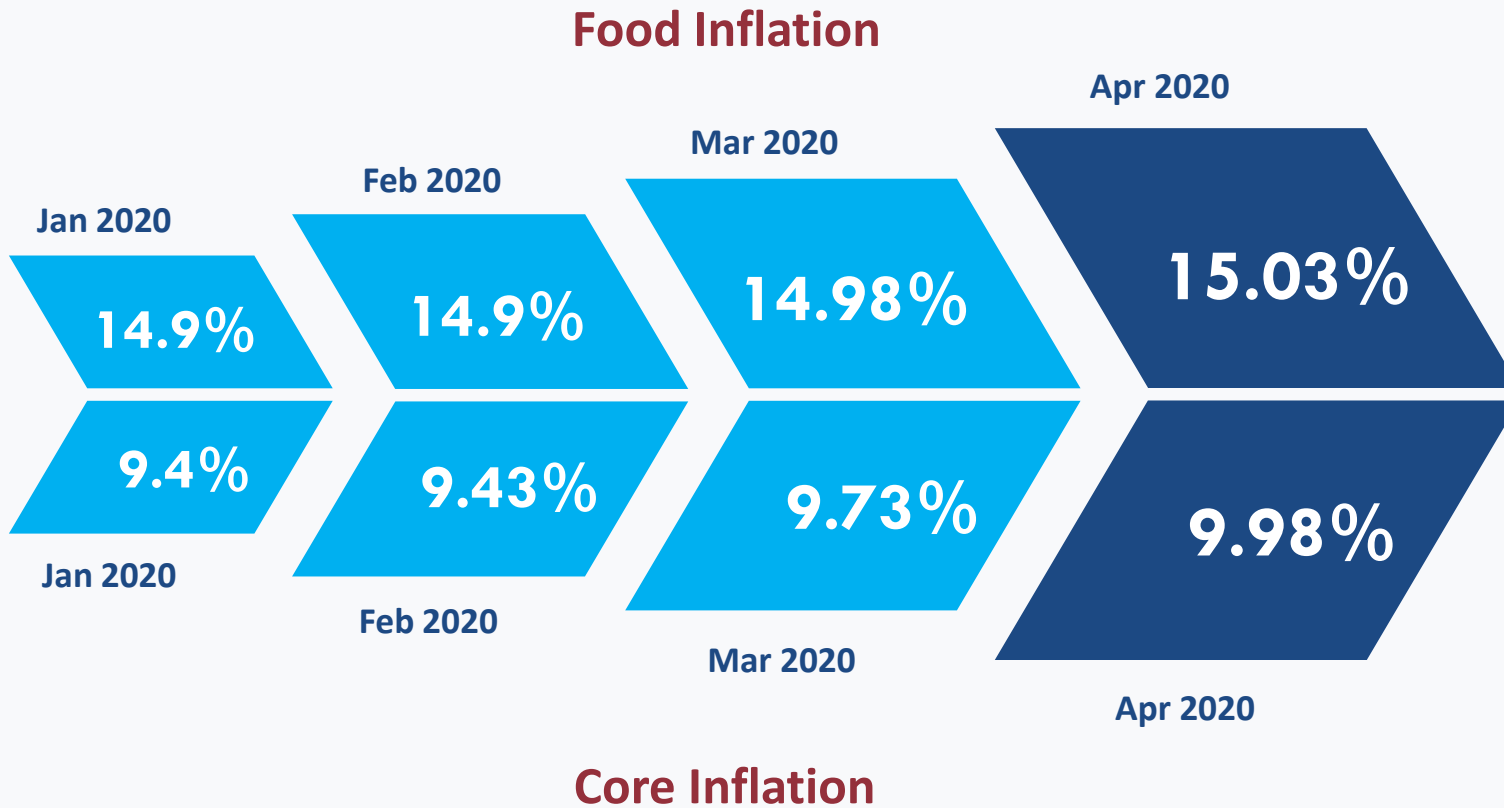
Inflation rate rises to 12.34% in April 2020 and expected to spike up

Nigeria's Inflation Rate



- The spread of COVID-19 continues to constrain economic activities, driving up average general prices in the country.
- Headline inflation rate for the month of April 2020 stood at 12.34% year-on-year, the highest in 24 months since April 2018. This represents a marginal increase from 12.26% recorded in March 2020.
- On a month-on-month basis, average prices increased by 1.02% in April from 0.84% recorded in March 2020.
- Some major factors responsible for the increase in average price level include:
 - Constrained economic activities as a result of lockdown policies across major states
 - Higher consumer demand vis-à-vis limited supply of essential items
 - High cost of transporting essential items due to roadblocks and stoppages occasioned by the lockdown.
- Inflation is expected to rise further in the year given the imminent exchange rate pressures and high cost of transport.
- The rising inflation will be a major consideration at the next MPC meeting.

Food prices were largely responsible for the rise in inflation rate



- Food inflation continues to be the major driver of the headline inflation in Nigeria.
- Year on year, food inflation rate expanded to 15.03% in April from 14.98% recorded in March 2020.
- Rising food inflation in April was motivated by increasing prices of food classes such as Potatoes, Yam and other tubers, Bread and cereals, Fish, Oils and fats, Meat, Fruits and Vegetables.
- Core Inflation rate increased to 9.98% in April from 9.73% in March 2020 (year-on-year).
- This represents a 0.25 percentage point increase, much higher than the 0.05 percentage point increase recorded for food inflation.
- Increase in core inflation rate was triggered by price of the transport services, medical services, pharmaceutical products and household appliances.

Five areas with the highest increase in inflation rate (year on year)



Food & Non Alcoholic Bev.

Inflation Rate: 14.9%

Inflation rate for Food & Non Alcoholic Bev. was 14.9% in April 2020. This is a 1.3 percentage point increase from 13.6% in April 2019. This was triggered by border closure, higher demand, etc.



Miscellaneous Goods & Services

Inflation Rate: 9.8%

Inflation rate for Miscellaneous Goods & Services has risen from 8.8% in April 2019 to 9.8% in April 2020.



Communication

Inflation Rate: 8.3%

Communication inflation is the third highest, recording an increase of 0.74 percentage point to 8.3% in April 2020. VAT increase and higher consumer demand are largely responsible.



Health

Inflation Rate: 10.3%

As a result of the COVID-19 pandemic and high demand for health care, Health inflation experienced a sharp increase to 10.3% in April 2020.



Imported Food

Inflation Rate: 16.2%

Imported food inflation is largely driven by Forex scarcity, global supply chain disruption and exchange rate depreciation.

Key drivers of Inflation in the last one year include closure of land borders, infrastructure deficit, exchange rate depreciation, lockdowns & movement restrictions and VAT increase.

Factors that will drive inflation in coming months

In February, we highlighted the following Inflation triggers in 2020



VAT increase from 5% to 7.5%.



High cost of doing business.



Continued closure of land borders.



Demand pressures from higher minimum wage.

Given the impact of COVID-19, the following are the additional inflation triggers to watch out for



Government fiscal stimulus for COVID-19 interventions will have inflationary impact.



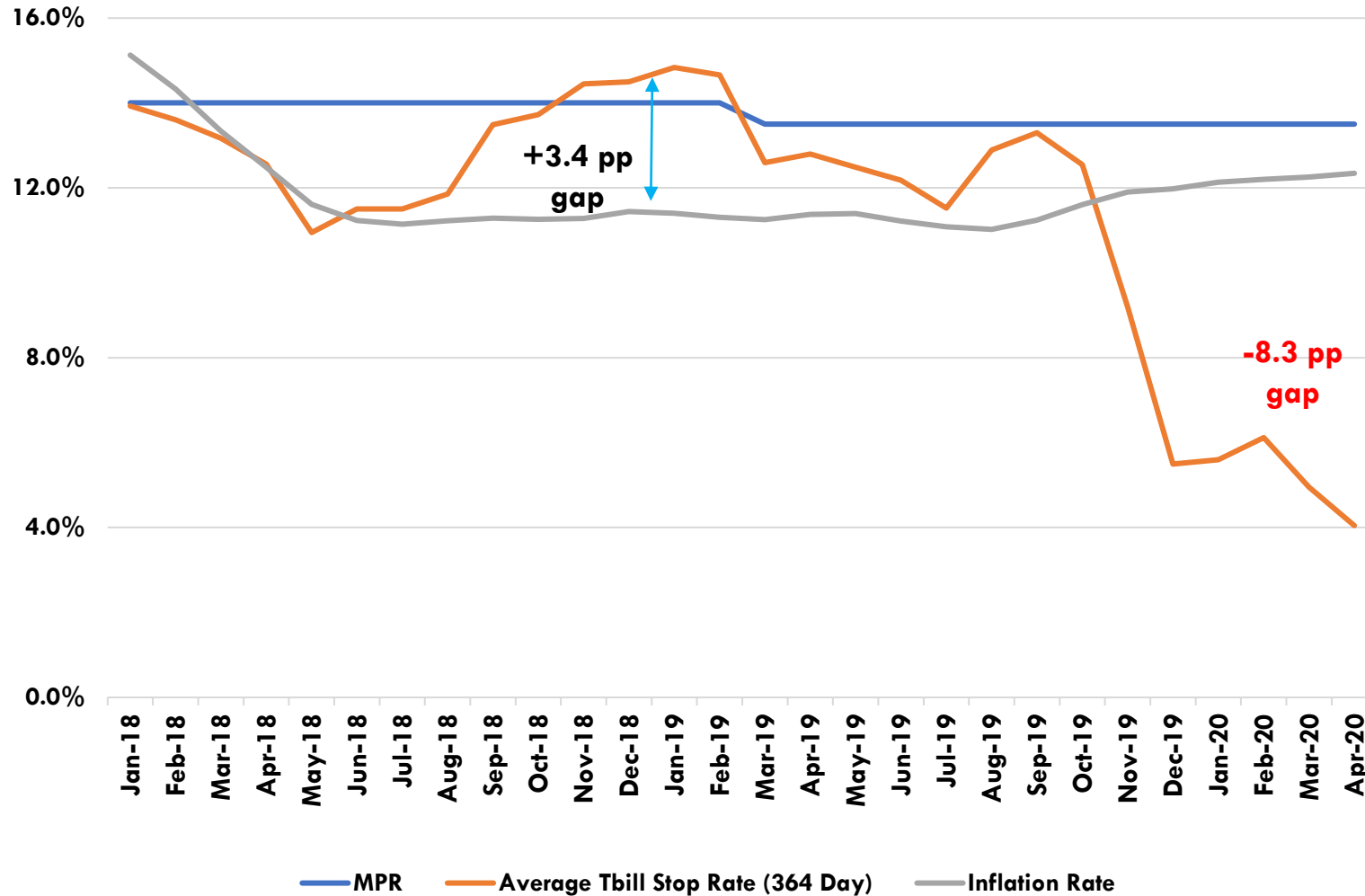
Restrictions of some economic activities due to social distancing policies. Transport inflation is expected to increase.



Pressure on the local currency is a major risk to inflation in coming months.

Real interest rate gap expands from -6.5pp in Jan 2020 to -8.3pp in April

Real Interest Rate: 364-Day Treasury Bill Average Rate vs Inflation Rate



- Real interest rate gap expanded to -8.3 percentage points (pp) in April 2020 (January 2020: -6.5pp).
- CBN OMO policies resulted in excess system liquidity which has led to declining rates on government securities since September 2019.
- With a larger Federal government deficit in the 2020 revised budget, which will be largely financed by borrowing, we expect real interest rate gap to narrow in the year.

Macroeconomic Projections*

	2016	2017	2018	2019	2020f
GDP Growth	-1.6%	0.8%	1.9%	2.3%	1.4%
Average Inflation Rate	15.6%	16.5%	12.1%	11.4%	12.6%
Average Exchange Rate (N/US\$)	490	363	358	358	420
Average External Reserves (US\$ Billion)	27.0	39.4	43.1	43	32
Monetary Policy Rate	14.0%	14.0%	13.5%	13.5%	14%
Private Investment as a % of GDP	14.9%	14.8%	17.0%	23%	22%
*(forecast to be revised by June 2020)					