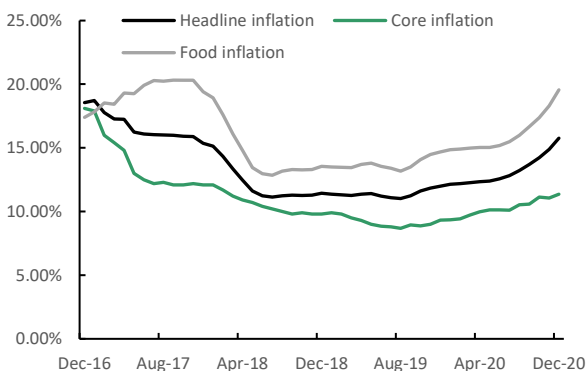


**CPI to rise by 16.10% YoY in January 2021**

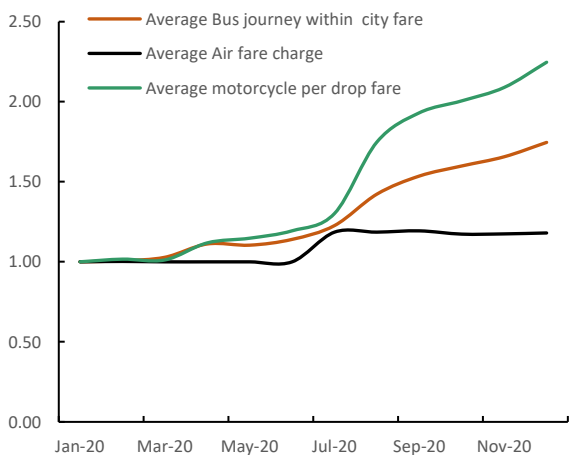
*“In January 2021, we expect a further uptick in the headline inflation rate to 16.10%, from 15.75% reported in December 2020”.*

**Chart 1: Inflation Series (Dec. 2016 – Dec. 2020)**



Source: NBS, Meristem Research

**Chart 2: Average Transport cost trend (Jan 2020 – Dec 2020)**



Source: NBS, Meristem Research

**Global Demand to Remain Non-inflationary in the Short-term**

As at December 2020, inflation in advanced economies had firmed up (US- 1.4% and UK – 0.6%) when compared to 1.2% and 0.4% in November 2020 respectively. Euro Area inflation remained unchanged at -0.3%. Clearly, at current levels it still lags the 2% target which could trigger a change in monetary policy direction. As the global economy recovers gradually, we expect that movement in energy prices will be a key driver of global inflation in the near term. Already, we have seen this play out in the past few months where inflation in many climes ticked higher following improvements in crude oil prices.

When we consider the commitment of OPEC+ members to production quota compliance and Saudi Arabia’s voluntary cuts, we have reasons to expect some level of energy-price induced inflation. Although, we do not neglect demand-pull inflation arising from government support through the pandemic, our prognosis is that global demand should remain within non-inflationary bands till herd immunity from the virus is achieved. Having considered global vaccine manufacturing capacity and required doses, we estimate herd immunity to be attained no earlier than 2022.

**Domestic Inflation: Risks Remain Tilted to the Upside**

At 15.75% (as at December 2020), Nigeria’s inflation rate sits at a three-year high and sufficiently above the 12% - 13% threshold that the CBN considers injurious to economic growth. While some of the pre cursors to the inflationary pressure have eased ( re-opened borders and electricity tariff hike roll back), we worry about the sticky nature of prices and the time horizon in which price adjustments can occur. On land border closure, we note that although the borders have been re-opened, importation of certain food items are still restricted. We therefore look to the rules of origin guiding the AfCFTA which is expected to have seen considerable progress by July 2021. Under the AfCFTA, tariff and non-tariff barriers to trade are expected to be eliminated. Thus, ensuring free movement of goods that pass the conditions of the rules of origin. Pending clear guidance on rules guiding trade under the AfCFTA, we expect local food supply capacity to remain stretched and food prices to remain elevated. In addition to these are security challenges which continue to plague the nation’s food producing regions.

Similarly, risks to core inflation remain tilted to the upside. Prices of production inputs, transportation and health services are tipped to sustain the uptrend. We anchor this expectation on the extant challenges in the FX market and higher cost of air travel on a year-on-year basis due to social distancing measures in the wake of the COVID-19 pandemic. **Having accounted for the risks, we project an inflation rate of 16.10% in January 2021.**

# Inflation Expectation

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