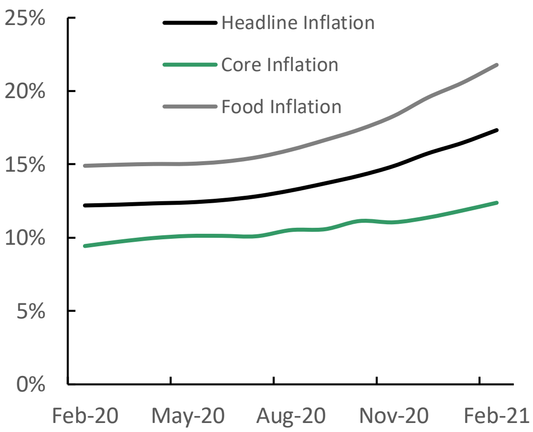
MERISTEM

Macroeconomic Update

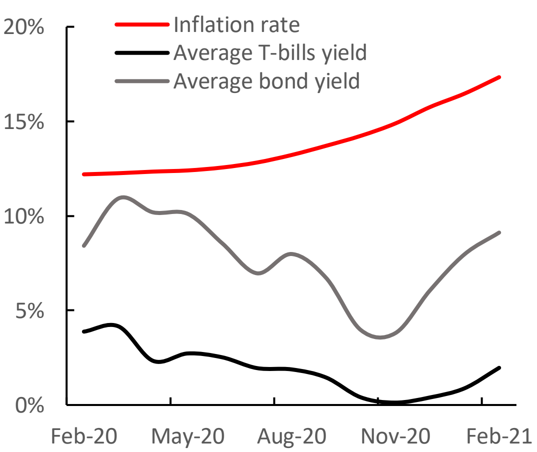
Inflation Report | February 2021

Chart 1: Inflation (Feb. 2020 – Feb. 2021)



Source: NBS, Meristem Research

Chart 2: Inflation vs. T-bills and T-bond Yields



Source: FMDQ, NBS, Meristem Research

The report on consumer prices by the National Bureau of Statistics (NBS) showed that inflation was higher, at 17.33% YoY in the month of February 2021 (vs 16.47% YoY in January 2021), and 35bps above our projection of 16.98% YoY. Both the core and food indices contributed to the upward trend in headline inflation. Increases in the prices of food items like Bread and cereals, Potatoes, Yam and other tuber, Meat, Fruits, Vegetable, Fish, as well as Oil and fats were the major triggers to food inflation. The food index for the month edged higher by 21.79% YoY (from 20.57% YoY in January 2021). Similarly, core inflation was higher at 12.38% YoY (vs 11.85%YoY the previous month), driven majorly by rising costs of air transport , Medical services, Hospital services, Passenger transport by road, and Pharmaceutical products. On a month-on-month comparison, uptrend in food inflation increased pace to +1.89% from +1.83% in January 2021. On the other hand, core inflation slowed to +1.21%MoM from +1.26% MoM seen in the previous month.

Pre-existing Factors Keep Food Prices Elevated.

Observing the trend and causes of food inflation in recent times, it is safe to conclude that food prices are yet to show signs of slowing down. This stems from the lingering perennial insecurity challenges plaguing the food producing areas of the country and logistics issues stifling agri-business. Like we mentioned in our inflation expectation report, these extant factors overshadowed any respite that may have been provided by post-harvest supplies. Also, we cannot deny the impact of the recent Shasha crisis in Oyo state as well as the strike action by the Amalgamated Union of Foodstuff and Cattle Dealers of Nigeria (AUFCDN) on prices of food items. In our opinion, the continued uptick in the inflation rate would not subside in the near term especially as the insecurity challenges are yet to be resolved.

Core Inflation Suffers from FX Crisis.

In our previous updates, we have consistently highlighted the exchange-rate pass through effect and how the challenges in the FX markets reflects clearly in the prices of production inputs. Other triggers would be the current devaluation of the exchange rate to NGN410/USD (from NGN400/USD) at the I and E window. Thus, it is no surprise that drivers of core inflation for the month are import dependent items such as medical services, pharmaceutical products, and motor cars. Going forward, we expect core inflation to continue its uptrend due to current rally of global oil prices which would potentially hike fuel prices.

Kindly refer to page 2 for important Analysts' Certification and Disclaimers

Contact Information

Investment Research

ahmedjinad@meristemng.com (+234 809 187 8917)
research@meristemng.com

Corporate websites: www.meristemng.comwww.meristemwealth.comwww.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:
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