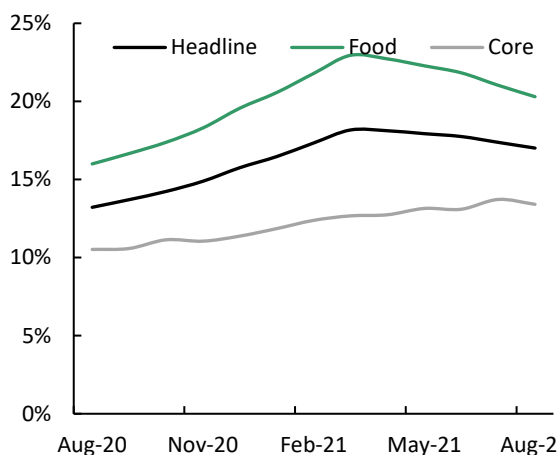
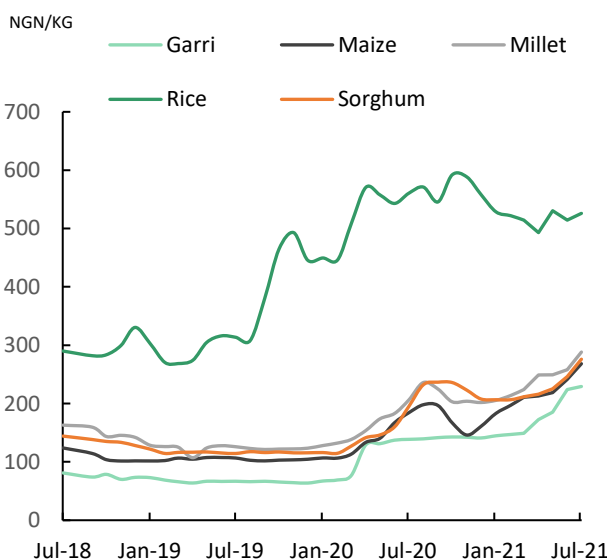


**Chart 1: Inflation (Aug. 2020 – Aug. 2021)**



Source: NBS, Meristem Research

**Chart 2: Price Trend of Key Food Items (Jul. 2018 – Jul. 2021)**



Source: FAO, Meristem Research

The National Bureau of Statistics (NBS) reported that the Consumer Price Index increased by 17.01%YoY in August (vs. 17.37%YoY in July) and 12bps above our projection of 16.89%YoY. This marks the fifth consecutive month of disinflation, this time sustained by the slower pace of increase in both the food and core indices. The food index for the month edged higher by 20.30%YoY (vs. 21.03%YoY in July) mainly due to increases in prices of Bread and cereal, Milk, Cheese, and eggs. Similarly, the core index recorded a slower growth of 13.41%YoY, compared to 13.72%YoY in July, which was led by increases witnessed in the prices of Shoes and footwear, Household textile, Motor cars, Garments, and major Household appliances. On a month-on-month comparison, there was a 1.06% uptick in the food index (from 0.86% MoM in July 2021), while core inflation increased by 0.77%MoM (vs. 1.31%MoM in July 2021). The declining pace of inflation in recent times should be a major consideration at the upcoming MPC meeting, where we expect the committee to maintain the status quo. Per our forecast, we expect to see this trend of disinflation continue till the end of the year.

## Food Inflation Continues its Downtrend

In line with our expectations, the food index grew at a slower pace in August, following the same trend witnessed in prior months. We attribute the moderation in food inflation majorly to the base period effect. However, we cannot rule out the price-moderating impact of post-harvest supplies of food staples like Yam, Maize, and Vegetables. In the near term, we expect the downtrend in food inflation to persist, barring any adverse conditions such as flooding and incidences of clashes between farmers and bandits. We note the attempts at tackling insecurity by state governments in food-producing areas (such as the implementation of curfews and ban placed on telecommunication services in Zamfara State which is known to be a major producer of beans, soybean, and cassava).

## Core Inflation Slows for the First time in 9 Months

The core Index also grew at a slower pace due to the high 2020 base. While prices have been sticky downwards since the spike witnessed in 2020, FX-induced inflationary pressures have been witnessed on certain items like motor cars and household appliances. So far in Q3:2021, the exchange rate has averaged NGN515.71/USD in the parallel fx market (vs 479.33/USD in Q1:2021 and NGN490.78/USD in Q2:2021) a result of recent developments particularly, the halt of FX sale to BDCs.

In our view, this partly explains the month-on-month uptick (0.77%) in the core index. However, we note the moderation in air fare which was a major contributor to core inflation in 2020. In our opinion, this is not uncorrelated with the VAT exclusion of air fare tickets under the 2020 finance act.

While the CBN continues to put measures in place to curb the loopholes in the FX market, we identify the potential deregulation of the downstream energy sector as a medium-term upside risk to inflation.

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