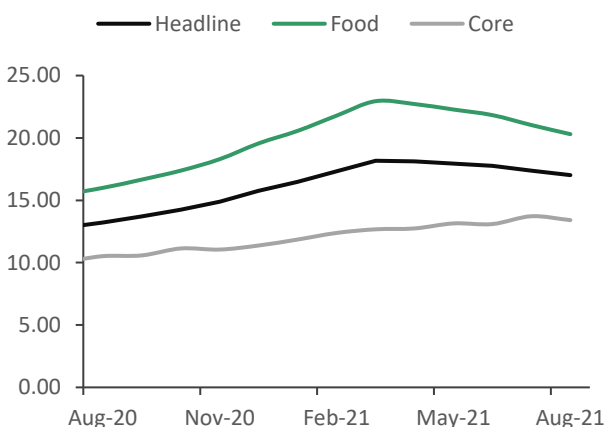


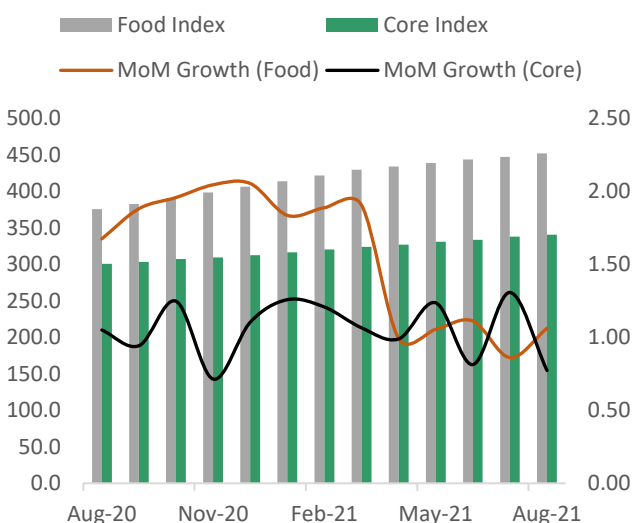
“Headline inflation for the month of September 2021 is expected at 16.60YoY (vs 17.01%YoY reported in August 2021).”

Chart 1: Inflation Series (Aug. 2017 – Aug 2021)



Source: NBS, Meristem Research

Chart 2: Inflation Series (Aug. 2020 – Aug 2021)



Source: NBS, Meristem Research

Advanced Economies: Consumer Prices Keep North

As supply deficit widens for crude oil and gas commodities, energy prices are also skyrocketing, thus prompting sectors to cut back on services while transferring additional cost to consumers. In August, PMI data declined for advanced economies as the US reported a retraction in service PMI (70% of the US economy) to 61.7pts (vs. 64.1 pts in July). Similarly in the Euro-zone, service PMI, which is also Europe's largest sector declined, though slightly to 59pts from 59.8pts reported in July. As energy prices shoot upwards to record high in the past month, the gradual reopening of economies has triggered a demand surge which is now impacting supply chain globally, thus resulting to logistic backlogs. Based on this, consumer prices are trending sharply upwards which in turn might weigh on economic gains achieved so far.

Nonetheless, some countries are recording a disinflation, though still above threshold. In the US, inflation figures moderated to 5.3% (vs. 5.4% in July) for the first time since October 2020. While this buttresses the Fed's view of inflationary factors being transitory, the committee hinted a tapering of its asset purchase program soonest as against raising interest rate. A different scenario is playing out in the Euro-zone as prices continues to overshoot sharply above target, reaching a 13-year high in August to 3.2%YoY (vs. 2.5%YoY in July). Although the European Central Bank mentioned a slow down to its Pandemic Emergency Purchase Programme, we expect imminent monetary tightening especially if current trajectory of prices lingers.

Nigeria: Core Inflation Should Continue to Moderate

For Nigeria, post-harvest supplies of staples food such as Maize, Yam and Rice are beginning to slow the pace of overall price growth. Based on Selected Food Price Watch released by National Bureau of Statistics in August, prices of Maize, Yam and Rice (both local and imported) declined by 1.90%MoM, 1.05%MoM and 0.79%MoM respectively. However, products such as dairy product, wheat flour and eggs are still on the rise especially in the Southeastern region.

For core inflation, we expect the moderation which began in August to persist given the high index base of the previous year. While FX rate remain relatively stable in the I/E window, we suspect rates are still pressured in the parallel market based on the CBN clamp down on supply of FX to BDC. Nonetheless, the growing FX accretion to the reserve (up by 8.13%MoM in September) is likely to improve FX liquidity. Other factors such as rising crude oil price (now above USD80/pb) made no impact on PMS pump prices, which have remained the same since its last revision in November 2020.

On this note, we expect food inflation to retract slightly downwards to 19.57%YoY (vs 20.31%YoY in August 2021) while overall headline inflation to moderate to 16.60% YoY in September.

Inflation Expectation

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