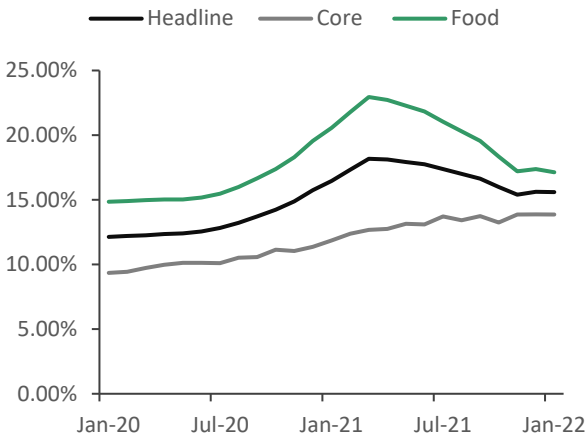
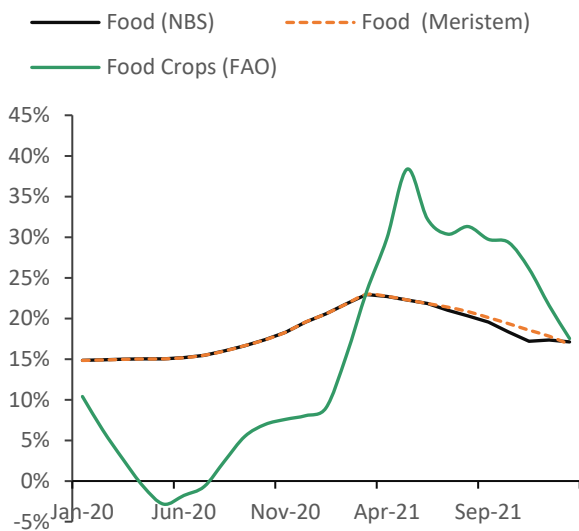


**Chart 1: Inflation (Jan. 2020 – Jan. 2022)**



Source: NBS, Meristem Research

**Chart 2: Price Trend (Jan. 2020 – Jan. 2022)**



Source: NBS, FAO, Meristem Research

The National Bureau of Statistics (NBS) reported a 15.60%YoY increase in the Consumer Price Index for January 2022 (vs. 15.63%YoY in December 2021). The slowdown in headline inflation was driven by a moderation in food inflation which came down to 17.13%YoY (vs. 17.37%YoY in December 2021). Items that drove the food price index include bread and cereals, potatoes, yam and other tuber crops, soft drinks, and fruits. For the core index, the price changed at the same pace as the previous month, rising by 13.87%YoY (13.87%YoY in December 2021). This was largely driven by the increase in charges on electricity bill, liquid fuel, wine, tobacco, solid fuels, cleaning, and personal wears.

Compared to December 2021 (2.19%MoM), the monthly rate of increase in food prices was slower in January (1.62%MoM), while the month-on-month core inflation on the other hand gained momentum, up by 1.25%MoM compared to 1.12%MoM in December 2021. On this note, real rate of return still trend in the negative for fixed income instrument.

## Demand Pressure Has Begun to Ease

Globally, while countries witness bountiful harvest, export constraints have kept food prices elevated. For Nigeria, the high import dependency on some food crops in addition to exchange rate factors, continue to raise prices of food items. For context, Durum wheat accounts for c.5% of Nigeria’s total import which is a major component used in bread production. A close look at price movement of cereal crops (with wheat, maize and sorghum in that basket) in the global market, shows a price increase by 10.62%YoY in January 2022 according to the Food and Agriculture Organisation (FAO). However, this is a moderation compared to December 2021 (18.82%YoY), displaying similar pattern to Nigeria’s rate of food price change. Hence, we suspect demand pressure stemming from festivities have begun to tone down, this in addition to post harvest supplies of some crops such as maize, cassava and rice with harvest period in January.

## Core Inflation at Risk of a Continued Uptick

Core inflation on the other hand increased both on a yearly and monthly basis, driven mostly by increment in prices of electricity tariff, liquid fuel, and soft drinks. The new excise duty of NGN10/litre charged on carbonated drinks are factors that could have sparked an upward movement in retail prices of soft drinks. Also, as crude oil prices trend higher, prices of deregulated refined crude such as Diesel, Kerosene, lubricant, and Jet fuel could continue to keep the core index moving northwards. Hence going forward, this could subsequently spill to increment in food prices given the significance of petrol for supply and logistics.

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