



Rising Prices: The Root of Waning Purchasing Power

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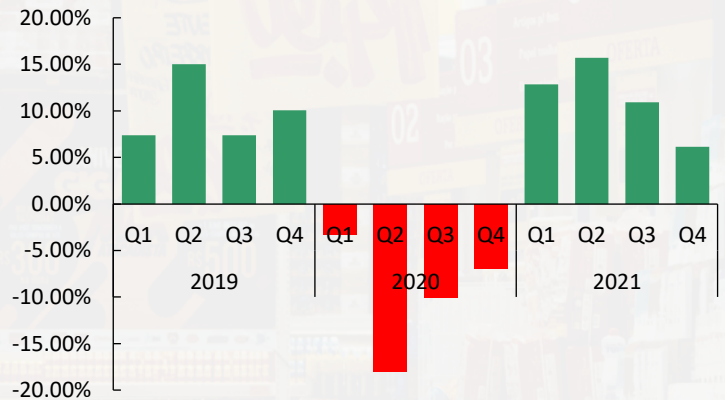
Consumer Goods Update

Consumer wallet strained by rising prices

With the steady rise in the cost of goods and services across the global economy, dwindling consumer purchasing power has remained a critical subject, especially amongst the most vulnerable households in developing economies. In our opinion, consumers are beginning to expend more on cheaper alternatives and essential products, a behaviour that is expected to persist in the near term.

Data from the National Bureau of Statistics (NBS) revealed that the Nigeria consumer price index accelerated for the fourth consecutive month to 17.71% YoY in May 2022 (highest since June 2021) from 16.82% in April 2022. The rise in food prices has been a significant factor driving the headline inflation in Nigeria. For May 2022, food inflation came in at 19.50% YoY, representing its highest figure in 9 months. The impact of the substantial increase in food prices is also reflected in the most recent nominal food and beverage sector GDP growth. In Q1:2022, the sector's GDP growth rate in nominal terms (+16.95% YoY) was significantly higher than the real growth rate (+9.81% YoY). We also observed that though household spending for Q2-Q4: 2021 increased year-on-year, it was flattered by a low base effect as spending declined significantly in 2020. In our view, the uptick in prices due to sustained structural challenges represents a major cause for the slower growth of household spending in 2021.

Chart 2: Final Household Consumption Expenditure (YoY)

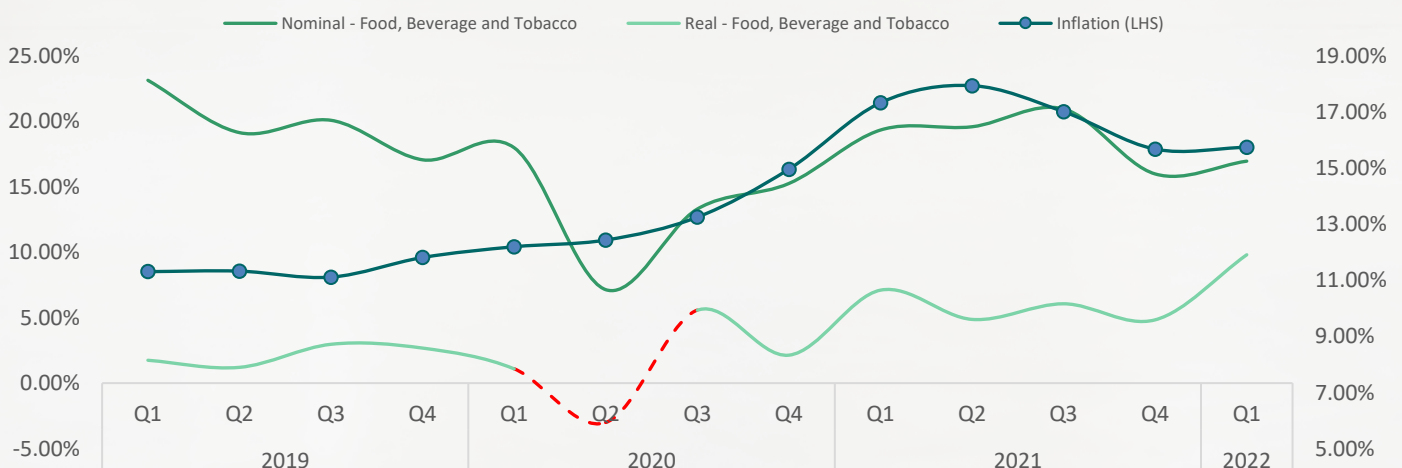


Source: National Bureau of Statistics, Meristem Research

What are the Factors Responsible for the Strained Consumer Wallet?

The structural inadequacies in Nigeria (including infrastructural deficiencies, high energy cost, FX illiquidity, currency devaluation, insecurity, and logistics difficulties, among others) have been major catalysts for the rising prices. The NBS's April price watch data further bolsters this point, as the prices of several household items have surged by substantial double-digits compared to the previous year.

Chart 1: Nominal and Real Food, Beverage and Tobacco Sector Growth and Movement in Inflation

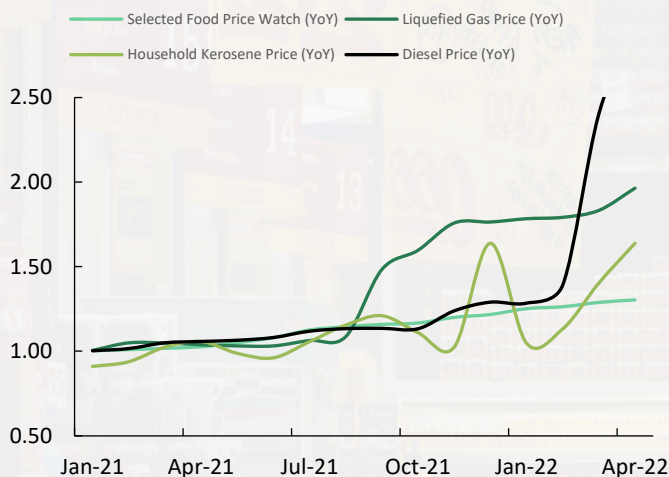


Source: National Bureau of Statistics, Meristem Research

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The average prices of selected food items (+28.86%YoY), transport fare (+43.23%YoY), gas (+89.10%YoY), household kerosene (+74.26%YoY), and diesel (+175.92%YoY) have no doubt eaten into income sources as these items have significant importance in household consumption.

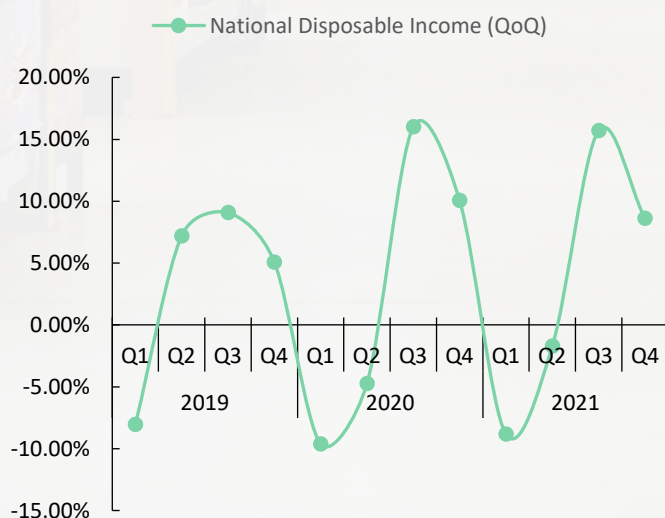
Chart 3: Selected Price Watch



Source: National Bureau of Statistics, Meristem Research

However, the increase in income has lagged behind the increase in prices. Data from the NBS revealed that although the National disposable income increased in Q4:2021 to NGN170.64trn, it grew at a slower pace in the quarter (8.62%QoQ and 12.64%YoY) relative to the growth recorded in Q3:2021 (15.71%QoQ and 14.14%YoY).

Chart 4: National Disposable Income Growth (QoQ)



Source: National Bureau of Statistics, Meristem Research

Are those Factors Impacting the Standard of Living?

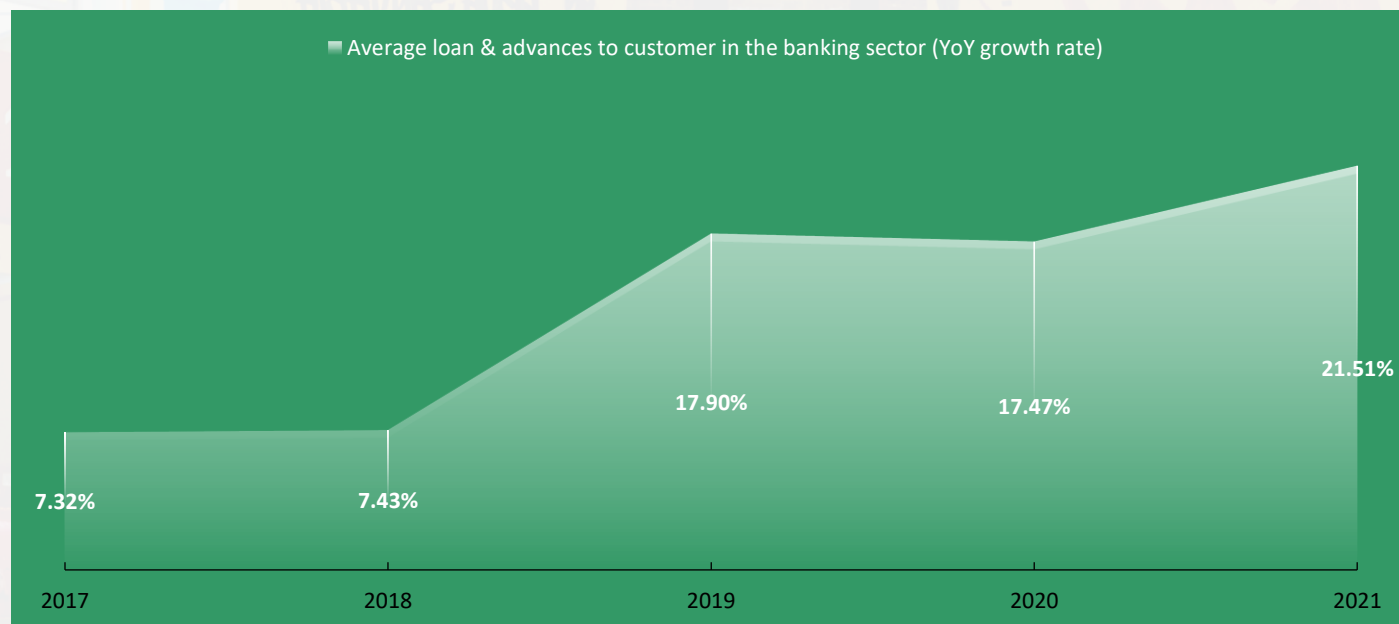
With the double whammy impact of the rising food prices (some induced by the Russian-Ukraine conflict) and the lingering energy crisis, it is no surprise that several household standards of living have been adversely impacted with no commensurate improvement in income. The country's unemployment rate is currently at high levels (33.30% as of Q4:2020) amidst a substantially high inflation rate (17.71% YoY as of May 2022), implying a misery index of 50.10%. This indicates that not only has the standard of living deteriorated over time, but the percentage of people living below the poverty line has also increased. A recent World Bank report (theme: Nigeria Poverty Assessment 2022: A Better Future for All Nigerians) revealed that 4 in 10 Nigerians are below the poverty line, insinuating that over 80 million people are poor, and the current economic situation will potentially push another c.5.00mn Nigerians into poverty in 2022. This implies that until the underlying challenges impacting the economy are addressed, the near-term outlooks for consumer purchasing power will remain bleak.

How Resilient are Consumers to Waning Purchasing Power?

The most recent GDP growth numbers showed that the economic growth was mainly supported by the marked improvement in the manufacturing, telecommunications, and financial services sectors. This implies that an average consumer still spends on food and other essential products despite a strained wallet.

Companies across these sectors are also constantly developing initiatives that suit consumers buying power. For instance, companies, particularly in the fast-moving consumer goods (FMCG) sector, produce some of their products in smaller packages to increase market penetration and patronage. This has helped many companies increase their customer reach and profitability despite the price increases. Also, in the telecommunication sector, players are constantly innovating products (such as cheaper pricing of data bundles) that suit subscribers' current reality.

Chart 5: Average loan & advances to customer in the banking sector (YoY)



Source: Banking Companies Financials, Meristem Research

Innovation and digital disruption have also been the theme in the financial services sector. Insight from the banking sector average loan and advances to customers showed that, on average, customer loans expanded by c.21.51% YoY in 2021 from 17.47% YoY in 2020. Our opinion is that access to easier credit facilities (such as Access bank QuickBucks, GTCO QuickCredit, Stanbic IBTC EZCash, amongst others) proffered by banks and other financial institutions has also helped to support consumer spending and growth in the sector.

What is the Near Term Outlook?

Due to the continued conflict between Russia and Ukraine and resultant supply chain challenges, rising prices of products and services are anticipated to linger in the foreseeable future. This is because Russia and Ukraine are deeply integrated into the global supply chain and are responsible for supplying essential commodities (such as wheat, barley, maize, and crude oil) utilized in the domestic economy. Therefore, the decrease in the availability of these key commodities is projected to exacerbate inflationary worries in the economy, potentially lowering household living standards.

Apart from war-related imported inflation, increased borrowing costs due to contractionary monetary policy is projected to impact the cost of doing business in the country. As a result, businesses would obtain finances at a higher cost, compelling them to raise the prices of the products and services they offer to maintain profits.

Given the current economic reality, it is expected that both the fiscal and monetary authorities will deploy additional measures to ease inflationary pressures and potentially reduce the current level of economic instability. Furthermore, key players in the core sectors of the economy should continually innovate products and services that can suit the current consumer needs. This can potentially boost economic growth and mitigate the impact of growing prices on consumer spending power.

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