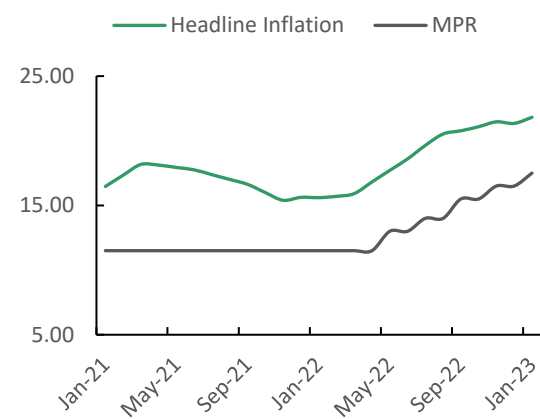


Key Summary Statistics

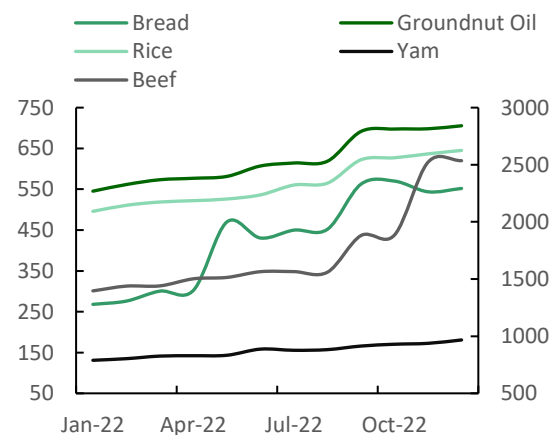
Category	Jan-2023	Dec-2022	Jan-2022
Headline inflation	21.82%	21.34%	15.60%
Food inflation	24.32%	23.75%	17.13%
Core inflation	19.16%	18.49%	13.87%
Imported Food inflation	18.49%	18.35%	17.40%

Chart 1: Trend in Headline and MPR (%)



Source: NBS, Meristem Research

Chart 2: Selected Food Prices



Source: NBS, Meristem Research

In contrast to our expectation of 21.30% YoY, inflation edged higher to 21.82% YoY in January 2023 (vs 21.34% YoY in December 2022), according to the National Bureau of Statistics (NBS)'s report. This represents a reversal of the one-time disinflation recorded in December 2022 and the highest rate since September 2005. Both component indexes contributed to the uptick in headline inflation. The food index grew by 24.32% YoY (vs 23.75% YoY in December 2022), driven by the increase in prices of bread, cereals, potatoes, fish, oil and fat, yam, and other tubers. Similarly, the core sub-component of the index rose by 19.16% YoY (vs 18.49% YoY in December 2022) due to the increased cost of gas, liquid and solid fuel, vehicle spare parts, fuels and lubricants, and transportation by air. On a month-on-month (MoM) basis, the food and core indexes rose faster by 2.08% and 1.82%, respectively, compared to 1.89% and 1.33% in December 2022. The pressure on price level is sustained despite the consistent rate hikes to combat inflation.

Food Inflation: New Pressure Point Emerge

Given that global inflation has started to moderate, it is safe to conclude that domestic factors majorly caused the uptick in food inflation. While we expected moderation in imported food inflation, it recorded a marginal uptick (49bps) which we attribute to the passthrough effect of a higher exchange rate. Also contributing to the higher food inflation are higher transportation costs, the persistent structural challenges across the agricultural value chain, and the impact of flooding on the food supply.

In the near term, we expect food inflation to continue to trend upwards, premised on the indirect impact of the Naira Redesign policy, which has led to a cash crunch in the domestic economy and may translate to an increase in the cost of food items. In addition, increased demand for food staples as the election approaches may further pressure food prices.

Core Inflation: No Moderation in Sight Yet

One of the drivers of the uptrend in the core index is higher prices of gas and fuels, reflecting the report by the NBS, as the average price of PMS and 5kg Liquified Petroleum Gas grew by 24.38% YoY and 27.00% YoY to NGN206.19 per litre and NGN4,565.56, respectively in December 2022. The increase in fuel price did not come as a surprise, given the prolonged fuel scarcity in the country due to the demand-supply imbalance. The increase in fuel prices pushed transportation costs northwards, further contributing to the rise in core inflation. Furthermore, we note that the naira depreciated by 2.29% MoM to NGN461.55/USD in January 2023, which impacted the prices of vehicle spare parts and other constituents of the core index as they are mostly imported. As noted in our [Inflation Expectation report](#), **we do not see a declining trend to core inflation in the near term. Similarly, headline inflation is expected to remain elevated in the near term owing to the challenges related to the Naira-redesign policy as identified in the referenced report.**

Analyst: Bolade Agboola

boladeagboola@meristemng.com

Contact Information

Investment Research

damilarejo@meristemng.com

(+234 816 890 2771)

praiseihansekhien@meristemng.com

(+234 817 007 1512)

research@meristemng.com

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

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