# Macroeconomic Update

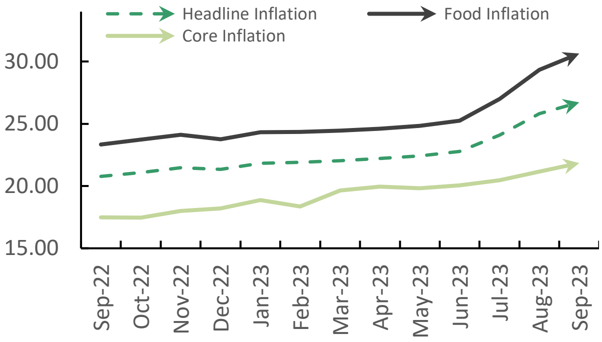
## Inflation Report for September 2023

### Key Summary Statistics

| Category | Sep-2023 | Aug-2023 | Sep-2022 |
|---|---|---|---|
| Headline inflation | **26.72%** | **25.80%** | 20.77% |
| Food inflation | **30.64%** | **29.34%** | 23.34% |
| Core inflation | **21.84%** | **21.15%** | 17.49% |
| Imported Food inflation | **21.72%** | **20.17%** | 17.99% |

**According to the National Bureau of Statistics (NBS), the country's headline inflation reached its 18-year high at 26.72% YoY (vs. 25.80% in August 2023). The food index remained the primary contributor to headline inflation, edging up by 1.30% points to 30.64%. This was solely driven by increased prices of food products like cereals, bread, potatoes, yam and other tubers, fish meat and vegetables, etc. In the same vein, the core index was higher by 21.84% (compared to 21.15% in August), on the heels of higher prices of air and road passenger transport, medical services, etc. We note that on a month-on-month basis, headline inflation and food inflation increased at a slower rate by 2.10% MoM and 2.45% MoM (compared to 3.18% MoM and 3.87% MoM). However, the core index accelerated by 2.22% MoM (vs. 2.18% MoM in August), representing the highest increase since May 2016.**

**Chart 1**: **Trend in Headline, Food, and Core Inflation**



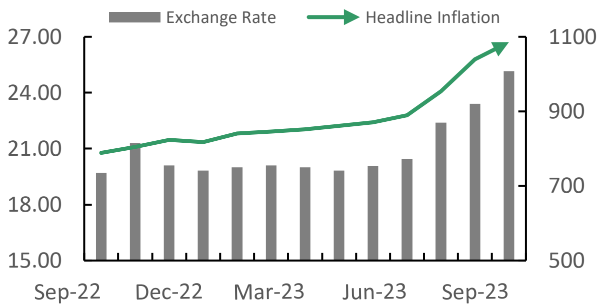

*Source: NBS, Meristem Research*

### Continued Macroeconomic Woes Drive Food Prices Higher

Domestic food prices continue to remain high, with the food index showing an increase of 30.64% YoY. However, the price moderating effect of post-harvest season of crops like maize, sorghum, and yam, resulted in lower MoM uptick in the food index (2.45% MoM from 3.87% MoM in August). The rapid ripple effect of further Naira depreciation continues to exert pressure on imported food inflation as it ticked up to 2.71% MoM (vs. 1.58% in August) despite the slowdown in food prices globally (121.50pts in September vs. 121.40pts in August) according to the FAO (Food and Agriculture Organization).

We note highlight the continuous legacy issues (such as increased banditry, insecurity in food-producing regions and infrastructural deficits in the agricultural sector) also play a major role in increasing food prices. **We expect the effect of post-harvest supplies of certain farm products like millet, sorghum, and yam to increase availability of supply, thus moderating the prices of food. However, mounting concerns about flashfloods in the North due to increased rainfall and outflows from the dam in Cameroon are a cause for worry. Additionally, the higher impact of transport cost of food items and existing challenges in the agricultural sector are expected to drive an increase the food index.**

**Chart 2**: **Trend in Parallel Market Exchange rate and Headline Inflation**




*Source: NBS, FMDQ, Meristem Research*

### The Core Index Reaches Record Highs

Core inflation comes in higher during the month at 2.22% MoM, the highest since July 2005. We note a significant surge in automotive gas oil (AGO) prices, surpassing the N1,000 per liter mark during this period. The continuous rise in global crude oil prices, coupled with increased landing costs for importers, has been a key driver of the escalating fuel prices. This, in turn, has had a cascading impact on transportation expenses, further straining the core index. Moreover, the depreciation of the Naira in the parallel market, (NGN1,008.00/USD, compared to NGN920.00/USD as of August and NGN735.00/USD in September 2022), has resulted in elevated costs for materials essential to the operations of import-dependent local manufacturers.

**For the rest of the year, we see no immediate respite to the prices for petroleum products, especially Premium Motor Spirit (PMS). This is due to the weakening currency and the expected rise in energy costs, partly because of ongoing supply cuts by OPEC+ and the awakening war in the Middle Eastern region. This means continued challenges for consumers and markets as we expect headline inflation to continue northward. Also, the recent decision by the CBN to lift its 8-year ban on 43 items from accessing foreign exchange (FX) through the official window is expected to ease pressures in the parallel market with the major downside to this expectation being the persistent FX illiquidity challenges. Thus, we anticipate that prices will remain elevated in the near to medium term before moderation is seen in the longer term.**

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