



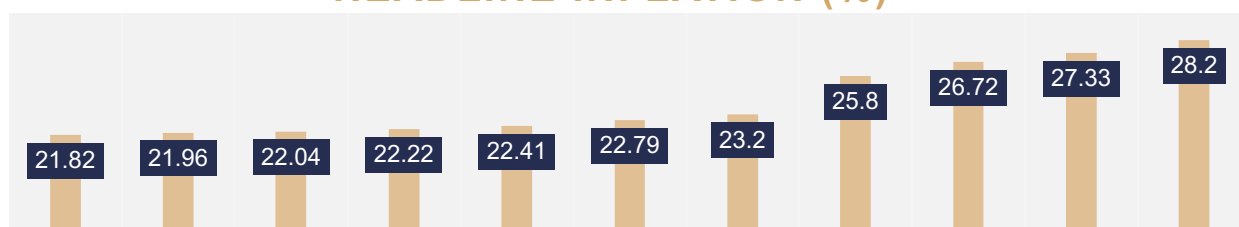
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Berkshire Market Briefs

Nigeria's headline inflation climbs to 28.2% as food prices soar

The recently released inflation data by the National Bureau of Statistics showed that Nigeria's headline inflation (y-o-y) climbed to a record high of 28.20% in November 2023, an increase of 0.87% from 27.33% in October 2023. This brings the average inflation rate so far in 2023 to 24.12%, much higher than an average of 18.29% in the corresponding period in 2022. The sustained acceleration in consumer price inflation is largely due to cost-push (Naira depreciation and higher logistics costs) and demand-pull factors (festive-induced boost in aggregate demand). The Naira has crossed the ₦1,200/\$ threshold at the parallel market, pushing imported inflation to 23.74% from 22.76% in October 2023. The price of diesel has also remained elevated at ₦1,080 per litre.

HEADLINE INFLATION (%)



Source: Nigerian Bureau of Statistics, Berkshire

Notably, all inflation sub-indices with the exception of core inflation increased in November. The decline in core inflation (inflation less volatile items like food and energy costs) to 22.38% from 22.58% in October 2023 is an indication that inflation could be approaching a point of inflection and could begin to taper towards the end of Q1'24 especially as CBN continues to reinforce its commitment to maintaining price stability.

	October 2023	November 2023	% Change
Month-on-month inflation	1.73	2.09	+0.36
Food inflation	31.52	32.84	+1.32
Core inflation	22.58	22.38	-0.20
Rural inflation	25.58	26.43	+0.85
Urban inflation	29.29	30.21	+0.92

Source: Nigerian Bureau of Statistics, Berkshire

Impact of higher inflation on the economy

- Higher inflation has serious implications for the Nigerian economy, as it affects various aspects of economic activity and welfare

Squeezed purchasing power

- As prices rise, consumers can buy less goods and services with their income, leading to a decline in their living standards and a change in consumption patterns

Increased cost of production

- Producers face higher costs of production as input costs rise, which may force them to reduce output, lay-off workers, or pass on the costs to consumers by raising prices

Reduced competitiveness

- As domestic prices rise faster than foreign prices, goods and services becomes less competitive in the international market leading to reduced demand, ultimately resulting in loss of export earnings and foreign exchange reserves

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Possible Policy Response

Whilst Central banks in advanced economies are hinting at the possibility of rate cuts by H1'24 due to slowing inflation, the CBN is likely to hike its monetary policy rate by a minimum of 50 basis points in January 2024 as inflation continues to spiral.

The Apex bank has reiterated its commitment to maintaining price stability and has announced an end to its intervention programs. Continuous interest rate increases will not only lessen inflationary pressures but will also curb capital flights, perhaps leading to currency appreciation. Other variables contributing to Nigeria's elevated inflation, such as structural challenges, supply chain disruptions, and external influences, are, however, outside the power of domestic monetary policy.

Consequently, and as a result, a prudent combination of fiscal and monetary measures are required to effectively combat inflation.

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