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Research & Insights

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Berkshire Market Briefs

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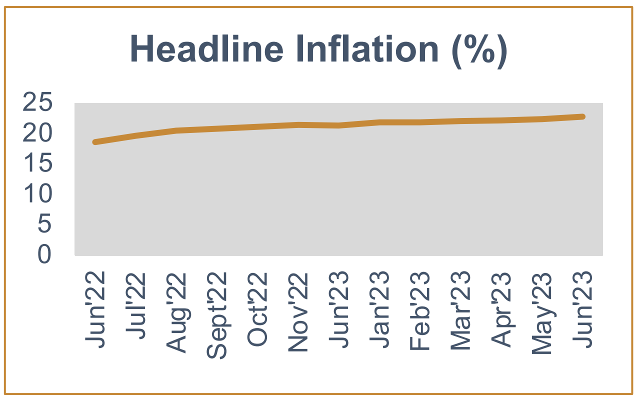
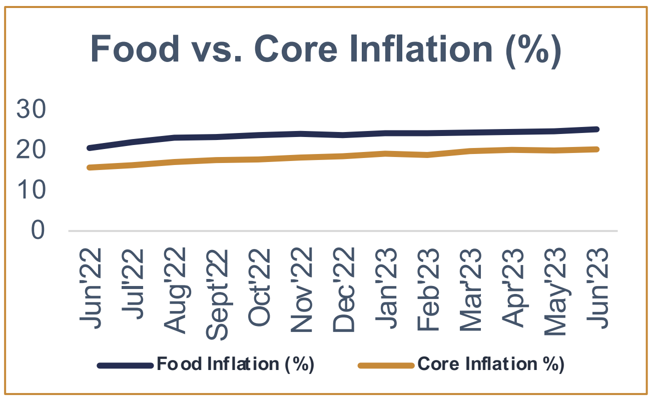
Inflation surges to 22.79%, highest rate in 18 years

According to the National Bureau of Statistics, headline inflation, which measures the annual change in general price level rose by 0.38% to 22.79% in June 2023 from 22.41% in May 2023. This is the 6th month in a row that inflation will be increasing. It is also the highest level since September 2005.





Source: National Bureau of Statistics

Prices increased across food and non-food baskets

The items in the inflation basket can be divided into food and non-food. In June 2023, the average price of items in the food basket (food inflation) increased by 0.43% to 25.25% (year-on-year) and by 0.29% to 2.40% (on a monthly basis). However, core inflation which excludes food and energy costs from the overall basket, surged by 0.21% to 20.27% on an annual basis but declined by 0.07% to 1.74% on a monthly basis.

Why is inflation increasing in Nigeria?

The spike in inflation in June 2023 can be attributed to the combined effects of supply shortages (planting season), festive-induced boost in demand (Eid-al-Fitr celebrations) and the short-term impact of the recent policy reforms (particularly petrol subsidy removal and exchange rate unification). Following the removal of subsidy on petrol on May 29, the pump price of PMS across the country increased by an average of 166% to ₦532/litre, pushing up transportation costs across the country. Also, the Tinubu administration begun the process for the unification of the multiple exchange rates. While this is widely noted as a laudable step, forex supply remains insufficient thereby increasing the pressure on the currency. In June 2023, the Naira crossed the ₦800/$ threshold at the official market (I&E window). The continued depreciation in the value of the Naira increases the risk of higher inflation even in the coming months as imported commodities becomes more expensive.

How will the current inflation rate impact you?

- **Consumers:** Higher inflation will reduce real purchasing power of consumers. This means that if you had ₦100 as at June 2022, it will only be worth ₦77.21 as at June 2023. To remain on the same indifference curve (enjoy the same amount of goods), a consumer will either dis-save (spend out of your savings) or borrow

- **Investors:** Higher inflation erodes real value of investment. To preserve the value of your investment, investors must bargain for interest rate that is equal to or greater than the rate of inflation

- **Manufacturers/Business Owners:** For manufacturers, higher inflation will weigh on sales volume and profitability. Consumers' resistance to price increases means that manufacturers will have to bear some of the burden, which will lead to a reduction in profit. In a bid to stay afloat and remain competitive, manufacturers are beginning to reduce quantity, and in some cases, quality of their products as consumers switch to cheaper substitutes due to weakening purchasing power

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How will the current inflation influence the MPC's decision?

A core responsibility of the Central Bank of Nigeria (CBN) is to achieve price stability and the most potent tool available to fulfil this mandate is the Monetary Policy Rate (MPR). There is no doubt that the continued rise in inflation supports the argument for an increase in the MPR; however, this is the first meeting after the inauguration, hence, it is possible that the committee will leave all monetary parameters unchanged and continue to monitor the impact of the policy reforms.

What is the inflation outlook for July?

Although inflation sustained its upward trajectory in June 2023, it is important to note that it is yet to reflect the full impact of the bold policy reforms. The ability of transporters and manufacturers to increase prices have been limited by consumer price resistance as nominal wage remain static, reducing their purchasing power. Moreso, most manufacturers had already stocked up before the policy announcements. As the level of inventory declines and manufacturers begin the process of re-ordering, the impact of the policy reforms will be more evident. Hence, inflation is likely to stay elevated in the near term.