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Berkshire Market Briefs

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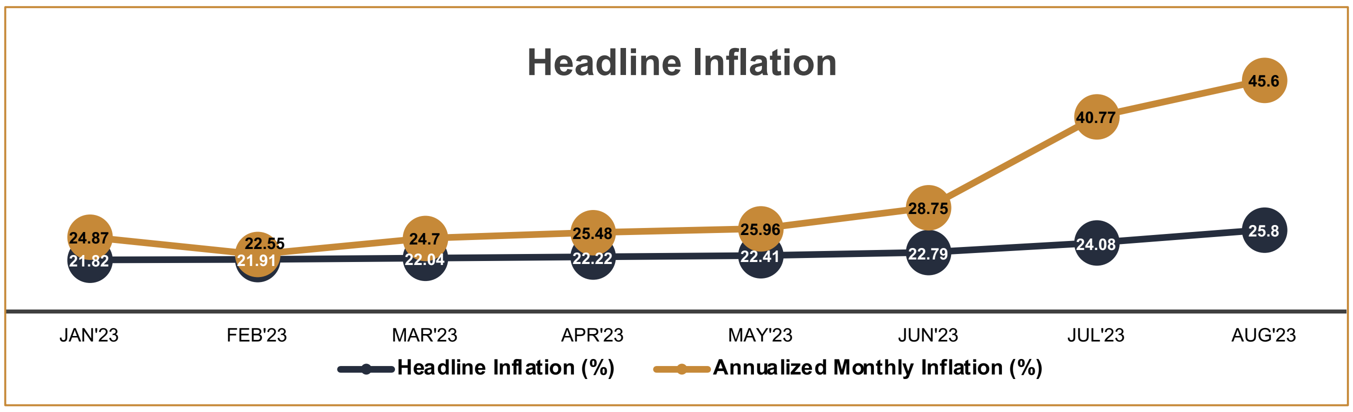
Nigeria’s inflation soars to 25.80% in August as cost pressures persist

The NBS released its August CPI report on Friday, September 15, 2023, and as widely expected, headline inflation continued its upward trajectory, rising at a faster pace to 25.80% from 24.08% in July 2023. This is the 8th consecutive monthly increase and a new 18-year high. Also, the annualised monthly inflation surged to 45.60% from 40.77% in July 2023, indicating an elevated inflation risks.



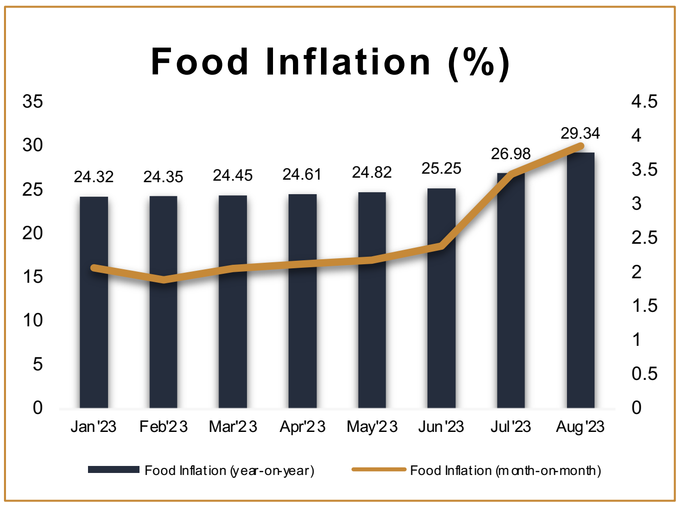
Source: Nigerian Bureau of Statistics, Berkshire

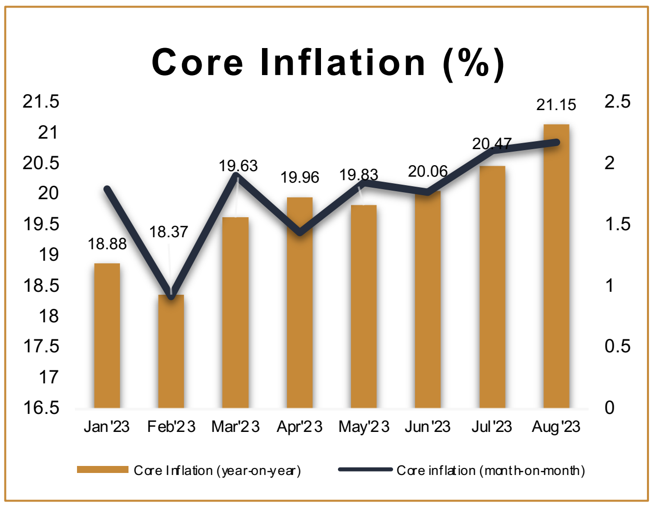
The spike in inflation is largely due to cost-push factors particularly exchange rate pass-through effect and higher energy costs. The currency traded within a band of ₦875/$ - ₦955/$ in August 2023 compared to ₦775/$ - ₦875/$ in July 2023. Also, the price of diesel, which is the major fuel used by trucks for logistics purposes increased by 3.66% to ₦850/litre.

Food inflation surged despite the harvest

A breakdown of the data further showed that inflation increased across food and non-food baskets on an annual and monthly basis. Food inflation increased consistently since the beginning of the year. However, the slope of the curve has become steeper (i.e., increasing at a faster pace) in the last two (2) months despite harvests. In August 2023, food price index increased sharply by 2.36% to 29.34% on an annual basis and by 0.42% to 3.87% on a monthly basis. This is due to several factors including low crop yield, post-harvest losses (as a result of heightened logistics constraints and poor road infrastructure), and higher import costs (owing to the exchange rate pass-through effect).

According to the NBS, imported food inflation rose to 20.46% in August 2023 from 19.79% recorded in July 2023. The continued rise in inflation raises fears about food security in Nigeria as The President declared a state of emergency on food security in July 2023.





Source: Nigerian Bureau of Statistics, Berkshire

Core inflation up 0.68% to 21.15%

Core inflation (inflation less food and energy costs), which oscillated in the first five (5) months of the year, increased steadily in the last three (3) months on an annual and monthly basis. Core inflation rose by 0.68% to 21.15% (year-on-year) and by 0.07% to 2.18% (month-on-month). This reinforces the fact that price pressures are largely due to costs and structural bottlenecks.

Berkshire Finance Company Limited

Research and Insights

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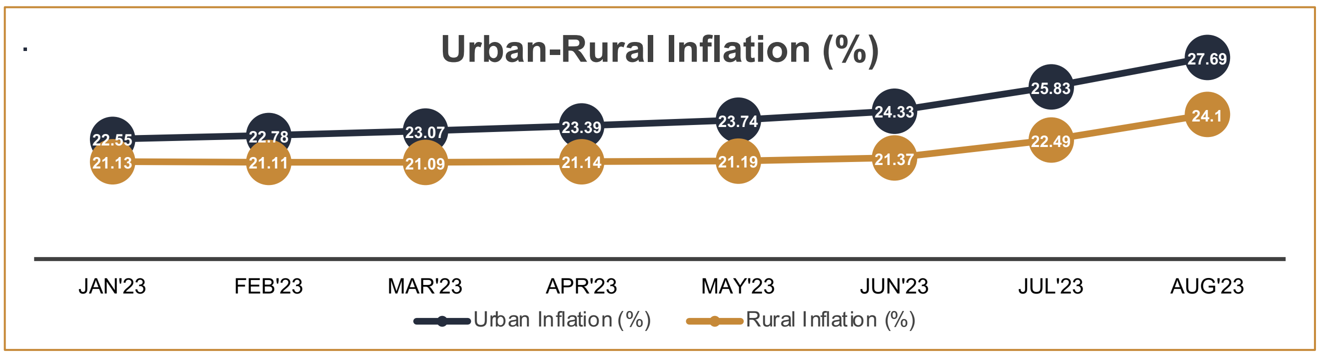
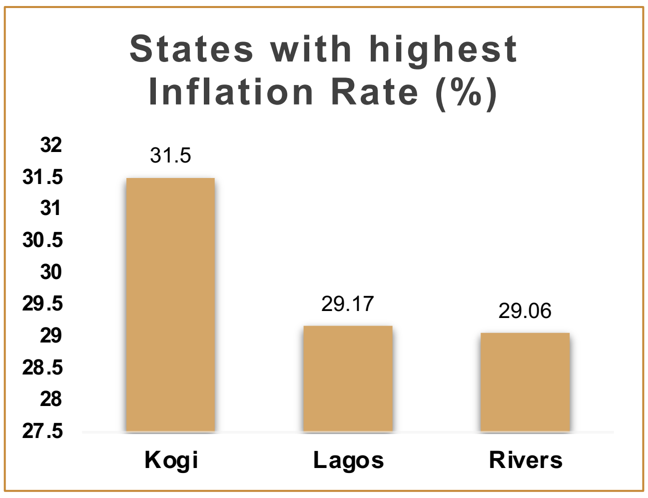
Logistics constraints further widening the urban-rural inflation gap

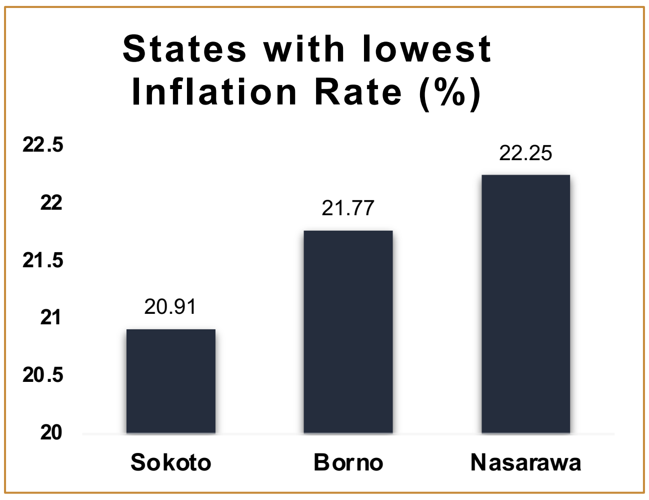
Urban and rural inflation rates have been rising sharply since policy reforms in the oil and foreign exchange markets, indicating that the policy changes are affecting prices in both rural and urban centres. The impact is more pronounced in urban centres due to other logistics constraints such as poor infrastructure which increases post-harvest losses.

In August 2023, urban inflation increased by 1.86% to 27.69% whilst rural inflation rose by 1.61% to 24.10%, thus widening the urban-rural inflation gap to 3.59%, up from 3.34% in July 2023.



The state-by-state inflation analysis further reinforces the impact of logistics constraints on commodity prices. The states with the lowest inflation rates are mostly in the North, the country's food belt, whilst states with highest inflation rates are mostly in the South. The surge in Kogi State's inflation rate is attributable to bad road infrastructure





Impact of higher inflation on you

- **Consumers**: Consumers will keep grappling with squeezed wallets, especially those at the bottom of the pyramid. While aggregate demand is generally declining, there has been a change in consumption patterns in favour of necessities. The palliatives by the Federal and State Governments will serve as temporary relief
- **Investors:** Investors will keep scouting for investment/asset classes with higher yields to minimise the negative impact of inflation on their asset values
- **Businesses/Manufacturers**: Manufacturers and business owners will keep battling with higher operating expenses and reduced aggregate demand, which will have a negative toll on profits
- **Policymakers**: The MPC is expected to maintain an hawkish stance at its September 2023 meeting to rein in inflationary pressures, reduce capital flight and increase forex inflows; especially as renewed inflationary pressures in the United States continues to force the Federal Reserve to maintain high interest rates for an extended period

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