KPMG

# Flashnotes

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## Inflation not yet Peaked, Choppy Economy to Continue in the Near Term

- **The reversal of inflation in March after a seeming slowdown in February, reinforces our view that the determinants of inflation in Nigeria are largely cost push factors which are out of control of monetary authorities.**

- **Further tightening to control money supply may not be best approach for moderating inflation and might have more of an impact on squeezing economic growth, constraining non-oil export growth, and slowing employment creation rather than slowing down inflation.**

- **A strategy to cut production costs and boost supply and control conditions stifling distribution and responsible for high and rising energy and transportation costs might be more effective in controlling consumer inflation, though we expect the CBN will choose to continue monetary policy tightening for now.**

### Event

The Consumer Price Index (CPI) report for March 2023 released today showed consumer prices both on a month on month and year on year basis remained high and rising.

On a year-on-year basis, the headline CPI rose to a new 2 decade high of 22.04% in March 2023 compared to 21.91% in February 2023. On a monthly basis, the CPI which had slowed substantially from 1.87% in January to 1.71% in February, surged again to 1.86% in March 2023.
Food prices, which dominates the CPI basket, continued to rise on a yearly basis to 24.45% in March 2023 from 24.35% in February 2023. On a monthly basis however, food prices surged higher in March 2023 to 2.07% after initially cooling to 1.90% in February 2023, from 2.08% in January 2023.
The core CPI which excluded prices of food and energy, had slowed significantly in February on both a year on year and month on month basis, but rose in March 2023 to 19.86% (18.84% in February and 19.16% in January) and 1.84% (1.06% in February and 1.82% in January) respectively.

### Analysis/Opinion

Yearly and Monthly Core inflation had slowed in February in addition to significant slowdown in monthly headline and food inflation in February, prompting many analysts to opine that inflation might have peaked. Additionally, this trend might have also encouraged the Central Bank of Nigeria (CBN) to ease the pace of its recent aggressive tightening stance at its last MPC meeting in March 2023.

We had however cautioned that the slowdown was more likely a blip and we expected the trend of a generally high and rising trend in inflation to persist for most of 2023. We therefore reiterate our position of a high and generally rising CPI in 2023 at least until we begin to see significant and consistent signs of slowing domestic transportation and distribution prices and domestic and international commodity and energy prices as well as a gradual return to normalcy in economic activity following the cash crunch experienced in Q1 2023.

Following the CBN's policy reversal to allow old naira noted to persist alongside the new notes, currency in circulation which had dropped from N3.28 trillion in December 2022 to N982 billion in February 2023, has risen thereby improving the 'cost of cash' and stimulating economic activity, by boosting available cash to purchase inputs, increasing supply, and stimulating demand. At the same time, many economic transactions, gradually shifted to electronic payment channels despite initial challenges

due to the sudden substantial pressure the platform and systems had to face with the surge in transactions. Both volume and value of mobile banking transactions more than doubled between the periods before and after the naira design policy, just as the number of payment companies, digital banks and POS terminals deployed have grown to record highs by end of March.

It will appear that the gradual improvement in the availability of cash and boost in electronic transactions together with the CBN tightening stance has not yet eased pressure on food and especially energy, transport, and distribution prices. Rising energy, fuel, transport, and related costs were largely responsible for the surge in core inflation in March 2023. Furthermore, the depreciation of the naira against the dollar during the month in question has also put pressure on domestic prices despite a generally slowdown in international commodity and energy prices. The reversal of inflation in March reinforces our view that the determinants of inflation in Nigeria are largely cost push factors which are out of control of monetary authorities and consequently, further tightening at this point has more of an impact on squeezing economic growth, constraining non-oil export growth, slowing employment creation and consumer demand and worsen poverty, rather than slowing down inflation. At this point, a strategy to cut production costs and boost supply and control conditions stifling distribution and responsible for high and rising energy and transportation costs might be more effective in controlling consumer inflation.

These presents further challenges to authorities on how reignite the economy and how to navigate its decision to remove fuel subsidy and pass the 2023 finance bill at a time of hyperinflation and when Q1 2023 GDP growth in particular and 2023 GDP growth in general is expected to be weak and where its finances are in a deteriorating state with unstable and inadequate FX, rising cost of debt and debt service and continuing constraints to revenues generation.

Nevertheless we expect the CBN will continue its tightening in the near to medium term giving that inflation concerns as observed from its recent statements, appear to be more of a concern for now, over other economic challenges like security, weak economic growth and an unstable and depreciating FX environment.

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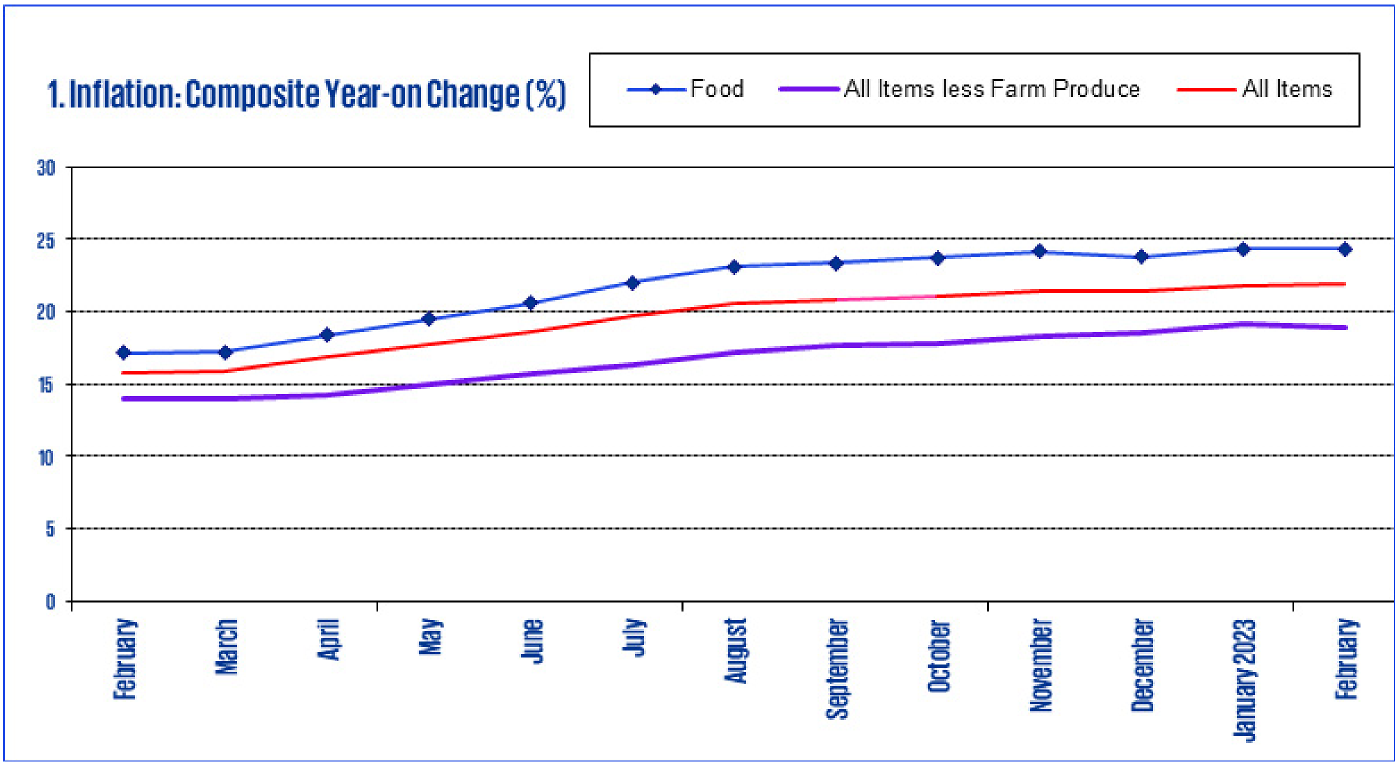
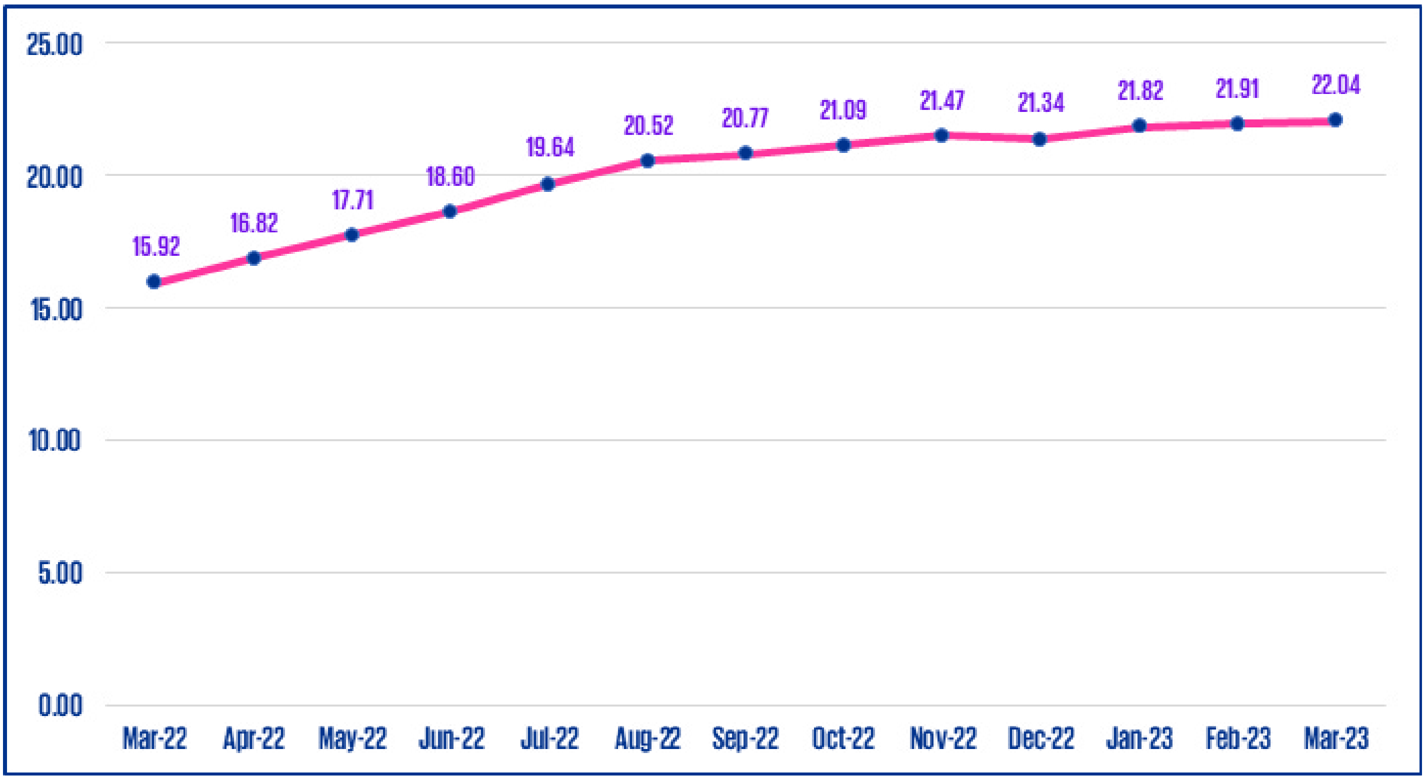
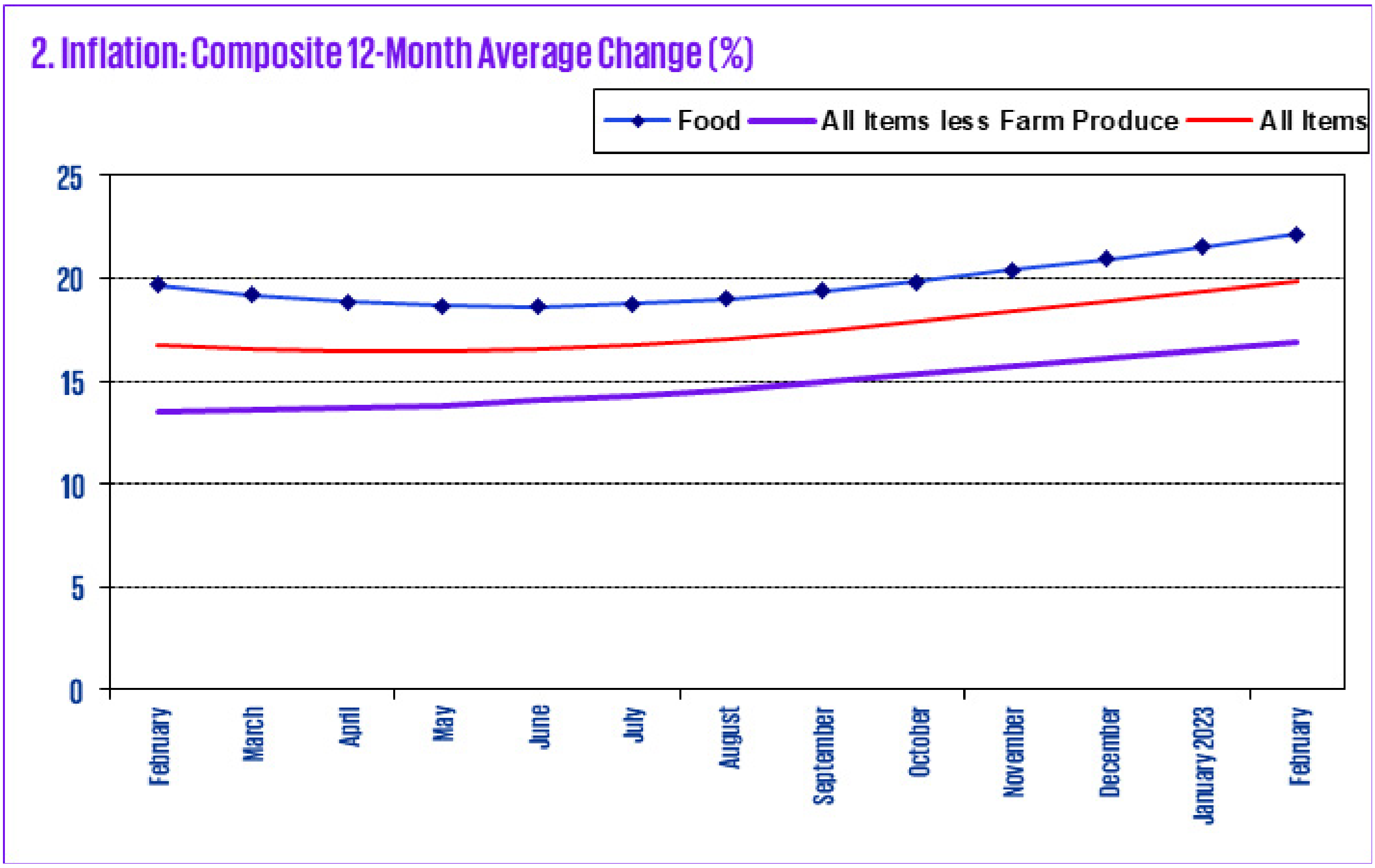


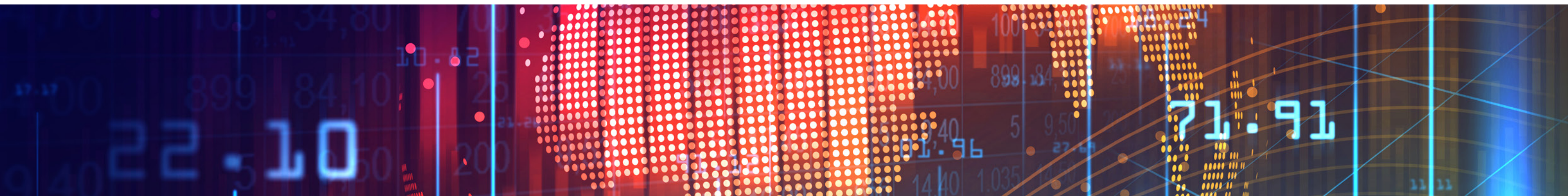

## Headline Inflation Year on Year



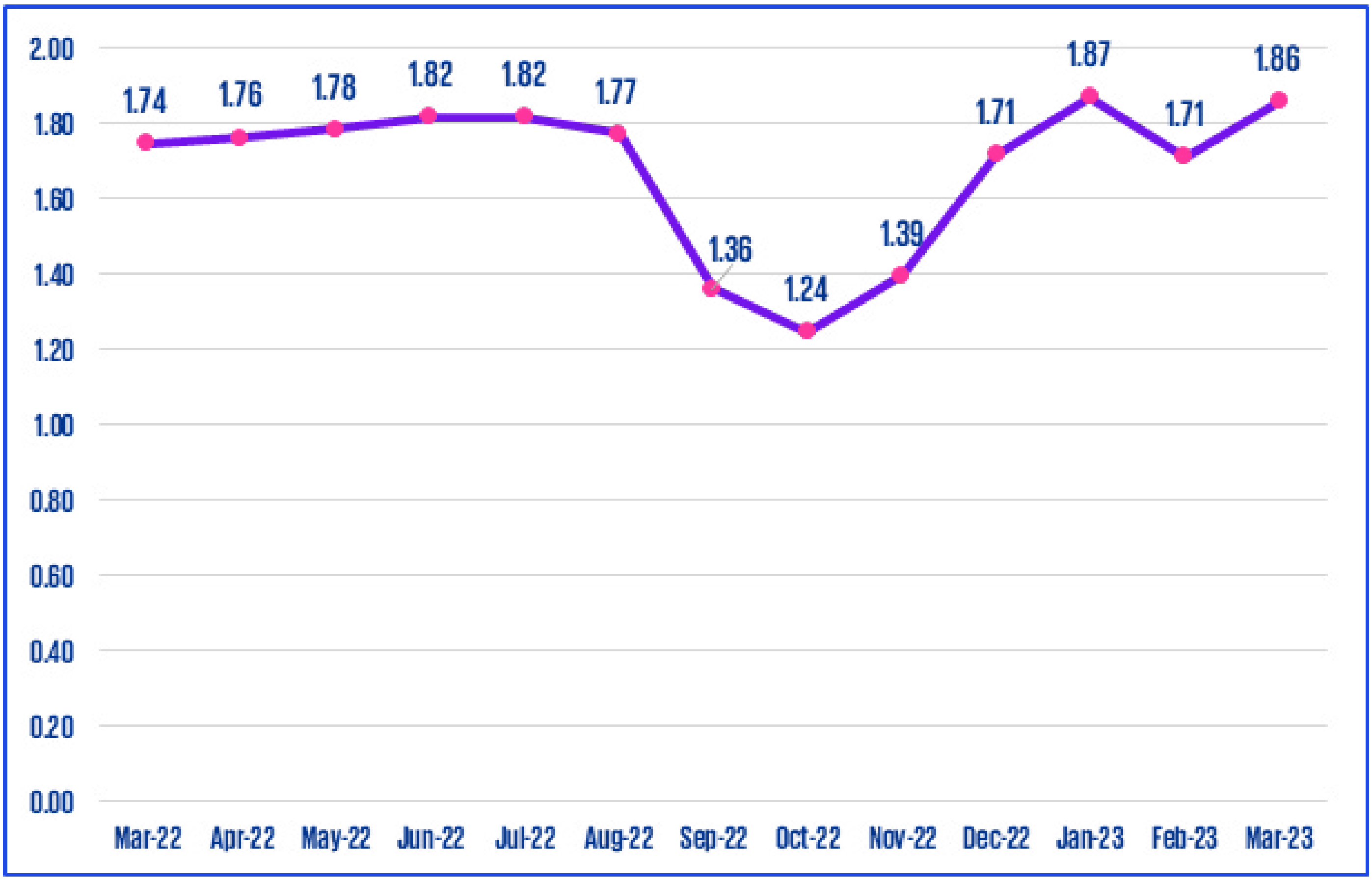

*Source:* ***National Bureau of Statistics (NBS)***




*Source:* ***National Bureau of Statistics (NBS)***



## Headline Inflation Month on Month




Source: ***National Bureau of Statistics (NBS)***

| Date | Currency in Circulation (Trillions of Naira) |
|---|---|
| **September 2022** | **3.350** |
| **October 2022** | **3.245** |
| **November 2022** | **3.250** |
| **December 2022** | **3.288** |
| **January 2023** | **1.386** |
| **February 2023** | **0.982** |
| **March 2023*** | **1.620** |

Source: ***Central Bank of Nigeria***
***Estimated***

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