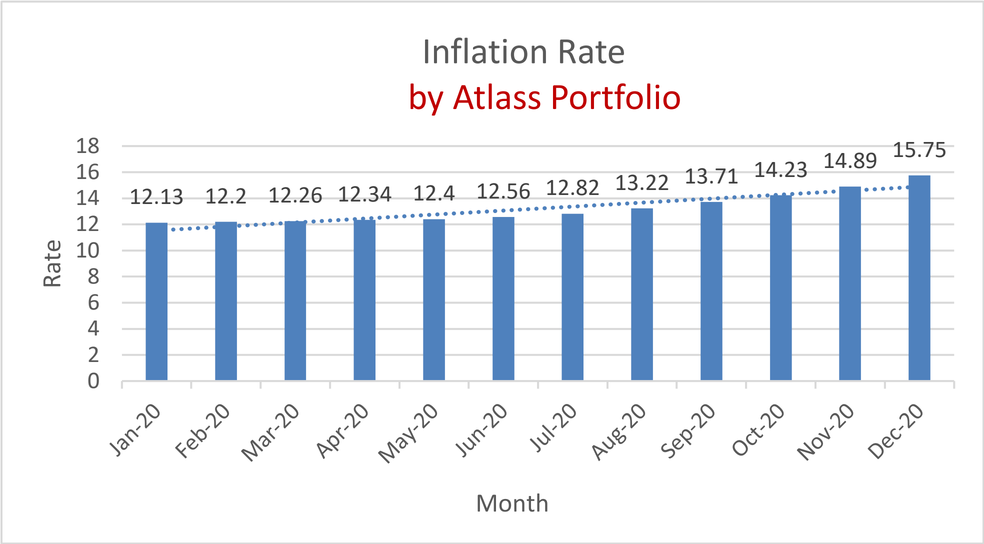
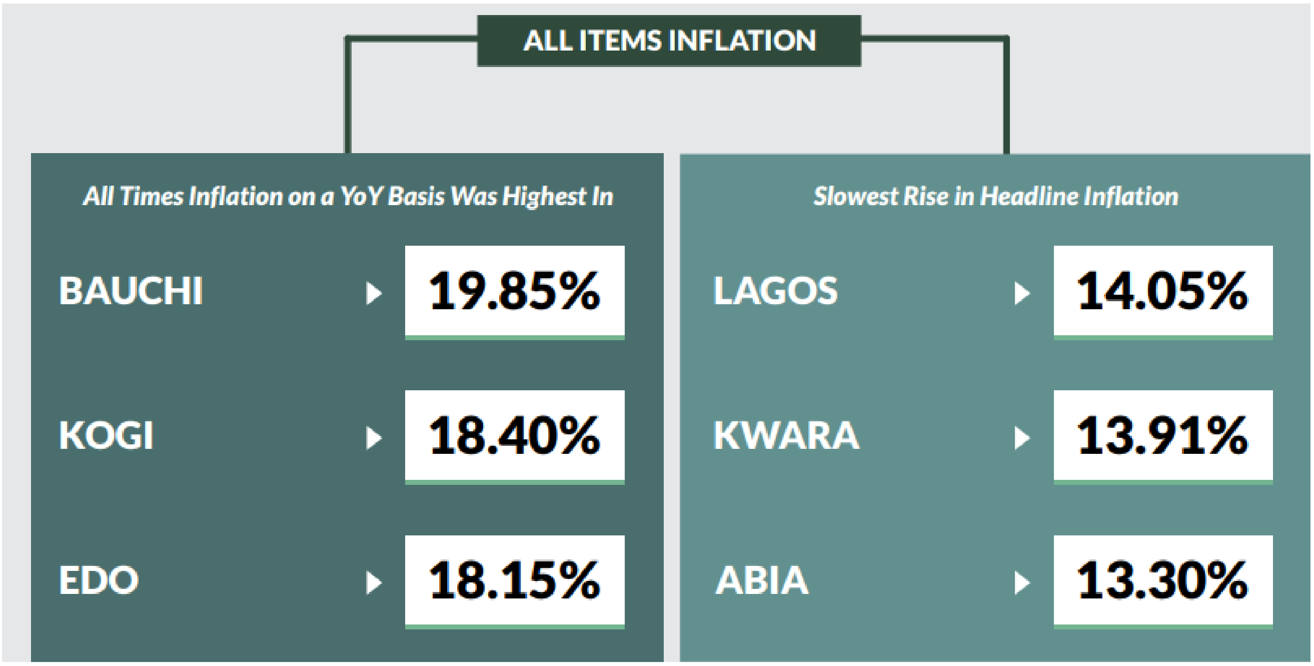
Key take aways



- Nigeria's inflation rate climbed for a 16th straight month to 15.75% in December 2020 from 14.89 % in November owing to the adverse effects of Covid-19 crisis, violent farm attacks and dollar restrictions.
- The composite food index rose by 19.56% (Nov 2020: 18.30%)
- The rise in the food index was caused by increases in prices of Bread and cereals, Potatoes, Yam and other tubers, Meat, Fruits, Vegetable, Fish and Oils and fats.
- The highest increases were recorded in prices of Passenger transport by air, Medical services, Hospital services, Shoes and other footwear, Passenger transport by road, Miscellaneous services relating to the dwelling, Hairdressing salons and personal grooming establishments, Repair of furniture, Vehicle spare parts, Pharmaceutical products, Motor cars, Maintenance and repair of personal transport equipment, Paramedical services, Motor cycle, Dental services and Bicycles.

- Bauchi recorded the highest inflation rate (19.85%) while Abia (13.30%) had the lowest.



The continuous rise in the inflation rate coupled with the high unemployment rate of 27.1% continues to worsen the misery of Nigerians as rising inflation continues to reduce consumer purchasing power and the real returns on domestic investments. Essential commodities such as the prices of food, pharmaceutical products, medical services, transport (by air and road) continue to rise and further worsen the consumers standard of living.

Stagnation in sight as the country faces slow output growth, high unemployment, stagnant demand and high inflation. The huge supply gap is a major reason for the rising inflation in the economy. Nigeria needs to take advantage of its huge market size and drive industrialization in the economy and promote self-sufficiency. Disruptions to global supply chains brought about by the pandemic have spurred the need for self-sufficiency in economies.

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Persistent Negative Domestic Real Returns

Rising inflation at a time of lower interest rates will further worsen the negative real rate of return on domestic investments.

The low yield in the fixed income space in the midst of increasing liquidity in the market, investors are left with an option to bear with the negative real rate of returns or increase their risk appetites. Yields at the NTB Primary Market Auction held on Wednesday 13th January 2021 closed at 0.50%, 1.0% and 1.50% per annum for 91 days, 182 days and 364 days maturities respectively indicating a -14.25% real rate of returns. This will require portfolio readjustment by investors and asset managers as they diversify their investment across asset classes especially equities to combat the negative real interest rate.

Outlook

We expect Nigeria's inflation rate to continue to rise in the short term if the pandemic does not abate. A second wave of the virus and an imposed lockdown could further heighten the pressure on agricultural production thereby increasing food prices, also pharmaceutical products and medical services will be pressured

The prices of road transport may not taper down in the short run given the current instability in the oil sector. However, if the second wave of the Corona virus is abated, prices of pharmaceutical products, passenger transport by road, paramedical services and food may taper down in the medium term
The consistent rise in food inflation has been the major driver of Inflation in Nigeria. The rise in food inflation has been partly

attributed to poor storages, border closure and insecurities in some parts of the country. These problems need to be addressed urgently to prevent further escalation in prices.

On manufacturing activities, growth is predicated on adequate infrastructure, availability of forex for importing raw materials, and a prevention of a further lockdown. We expect the rising inflation rate to be the focal point of discussion for the next MPC meeting.

Although it might take some time for the vaccine to arrive in the country, a quick acceptance and deployment of the vaccines could curb the spread of the virus and propel a recovery in local production which would invariably reduce pressure on prices.

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