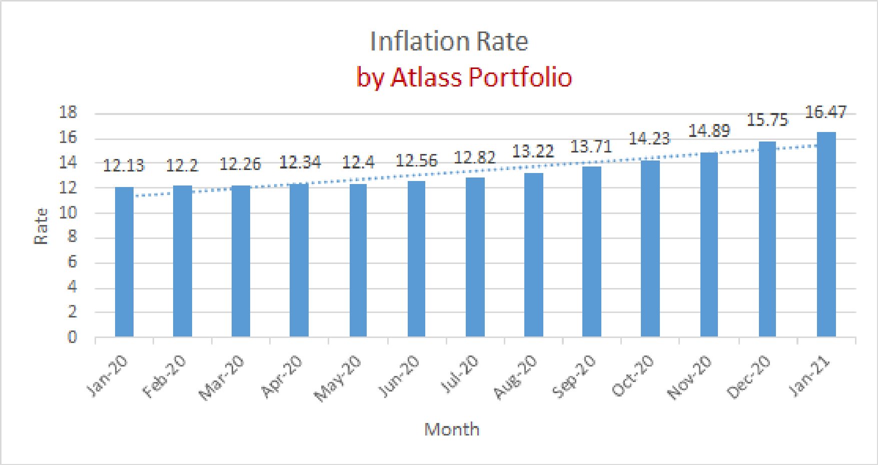
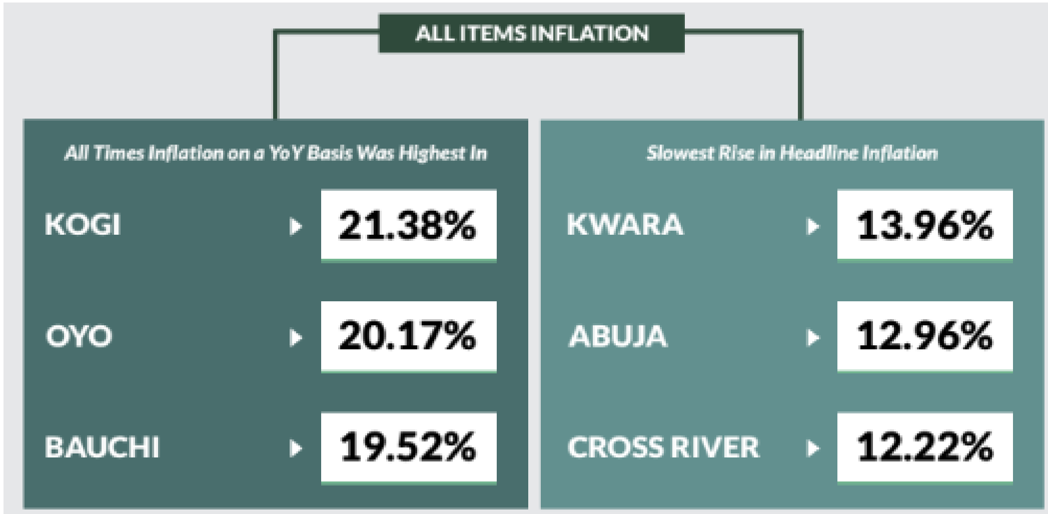
Key take aways



- Nigeria's inflation rate climbed for a 17th straight month to 16.47% in January 2021 from 15.75 % in December owing to the lingering effects of Covid-19 crisis, rising food prices from violent farm attacks and dollar restrictions.
- The composite food index rose to a record high of 20.57% from 19.56% recorded in December 2020
- 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, Passenger transport by road, Pharmaceutical products, Paramedical services, Repair of furniture, Vehicle spare parts, Motor cars, Miscellaneous services relating to the dwelling, Maintenance and repair of personal transport equipment

- Kogi recorded the highest inflation rate (21.38%) while Cross River (12.22%) had the lowest.



It may be another bleak year for Nigerians in 2021 as Inflation continues to soar with the Federal Government admitting that it has no laid-out plan to push inflation down to a single digit. The persistent increase in prices of goods and services without a corresponding increase in income levels is worsening the already precarious state of the economy. Basic necessities are becoming less affordable in an economy where millions of people lost their jobs as a result of the pandemic, rising prices will only worsen the situation of things amidst low levels of income.

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.

Inflation is currently above rate of return for the average household which connotes a negative real income. The treasury bills auction held last week on the 10th of February 2021 showed a rate of 4.00% for a 1 year treasury bill, this means that even if an individual invests in the treasury bill @4.00% his income will still be eroded by 12% (16%-4%). 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.
Also, the higher cost of living for households caused by rising prices will discourage private investments and savings.

The increase in price levels will mean lower sales for businesses especially for non-essential items, as essential items such as food will be the primary focus of consumers. High cost of inputs could cause contraction in profit margins of businesses, this could push companies to downsizing in a bid to maintain price of their products and services. Profit decline of companies will weigh on the tax revenue inflows to the government worsening the country's current budget crisis due to lower oil prices.

To drive down inflation to reasonable levels, government should focus on curbing the consistent increase in commodity prices by supporting the agricultural sector to boost supply.

As already stated by the CBN, inflation is currently structurally driven rather than monetarily driven. Some of such structural issues include; hike in PMS and electricity prices, disruption to the planting season due to the pandemic as well as violent farm attacks by herdsmen. Due to this opinion, the CBN monetary policy stance appears to have given up the objective of price stability for GDP as the MPC in their last meeting decided to hold all rates constant in an attempt to spur growth in the economy. The apex bank continues to battle with the dilemma of whether to stimulate economic growth further via lower MPR thereby accommodating higher inflation with a negative real investment returns.

Outlook

We expect Nigeria's inflation rate to continue to rise in the short term if the pandemic does not abate and the structural issues mentioned in this report are not dealt with. 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 the MPC meeting going forward.

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. We look forward to how the government would respond to these issues, as we expect the inflation rate to climb 18% in 2021.

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