



NBS June 2023 Inflation Data; Decoupling Clarity and Reality

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Picture Credit: **Proshare**

Data is the new oil, it runs economies, gives sense to policies, and provides the foundation for planning. Data is the mother lode of civilization as we know it. For these and several other reasons, a slap-dap approach to data gathering, preparation, cleaning, storage, and analysis is unacceptable. The recently released headline inflation numbers by the National Bureau of Statistics (NBS), the June 2023 headline inflation rate of 22.79% up from 22.41% in May 2023, smacks of a bold but unusual decoupling of clarity and reality. While physical blindness is a limitation it does not define success or lack of it, whereas data blindness brings countries, corporations, and people to ruin.



Image Credit: **Proshare Graphics**

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The inflation figures for June which the NBS in a tweet noted reflected only two weeks of subsidy removal impact have left analysts scratching their heads in confusion as they attempt to comprehend why two consecutive sample data for a month provide a description of the average monthly inflation estimate. Indeed, according to one economist in government circles who requested anonymity because he was not officially permitted to make public comments, 'We appear to have gotten ourselves in a right old mess. We have chucked credibility out of the window, broadened the fronts for the attack on Nigerian data integrity, and generally made ourselves the butt for drunken pub conversations amongst foreign investors. How do you trust real return adjustments for financial assets, when inflation figures appear to come from somewhere between Pluto and Mars?', he asked rhetorically. According to the public servant, 'Playing chess with national

economic numbers cannot be smart after years of building credibility in our national statistics seen as emblems of institutional integrity, burning all this on the altar of expediency is unacceptable', he insisted. Indeed, an economist in one of the country's big four Consulting firms noted that 'In addition to the conceptual problems associated with two consecutive weeks of no survey data within June, there is a broader problem with the weights assigned to the components of the inflation basket. It was almost completed between 2019 and 2020, but it appears that the review exercise was suspended, and what we see now is Grandma's shopping list being handed over to her grandchildren. Few Gen-Zers would be pleased with their grandma's list of vegetables and fruits, and would be asking, where in heaven's name is the pizzaz, French fries and chicken?! ', the analyst insisted that even a review of the country's inflation basket at the moment may be inadequate as the country has since had a focus-induced recession which could have changed consumer spending patterns. He argued that the composition of the items in the country's inflation basket needed to be reviewed every five years.

The Believability Bellwether Breaks.

Reactions have continued to trail the June CPI Inflation report released by the NBS. Although, according to the Bureau, annual inflation rose to 22.79%, a new 17-year high, analysts have been bothered by the integrity of the June print. The numbers, which unexpectedly came in lower than the 25% earlier forecast by several economists, failed to capture the impact of the removal of the PMS subsidy. This decision President Bola Tinubu announced in his inauguration speech at the end of May. Analysts had pencilled in higher inflation on the back of a 150% increase in PMS prices, a 32.7% y-o-y rise in Broad Money to N65trn and a 45% devaluation of the Naira.

In this light, the importance of credible data, according to stakeholders, cannot be over-emphasized; the country is at a point where it is courting foreign investors to unlock opportunities in critical sectors, and this becomes difficult where the integrity of official data is in question. Independent estimates of inflation range between 40 and 45%. But the reason why the recent numbers have been widely criticized is a statement published by NBS through its social media handle on Twitter. The statement, which prompted criticism by economists and statisticians, suggested that **'the June Consumer Price Index (CPI) numbers may not fully capture the impact of the fuel subsidy removal and the unification of the exchange rate. According to the Bureau, this is because the data collection for computing the rate for the reference**

month typically stops around the middle of the month, meaning that the June numbers only reflect approximately two weeks of the policy impact on consumer prices (see illustration below).

Illustration



While the NBS statement seemed to have been aimed at saving face, it did very little to salvage the institutional reputation. This is because even a two-week survey should have captured the 150% increase in the pump price of premium motor spirit (PMS) oil or petrol. While it is understandable that subsequent months would more fully capture the rise, it would typically take between 3 and 6 months for the impact of the price adjustment to be fully absorbed by the economy, the initial impact is expected to be greater than as presented by NBS. Moreso, analysts believe that a 28 basis point increase in headline inflation (Y-O-Y) and a seven basis point decline in monthly core inflation more than underestimate the combined impact of all of the price changes which occurred in June, namely a 40% increase in import duties, Naira devaluation and the PMS subsidy removal (see chart below).

Chart



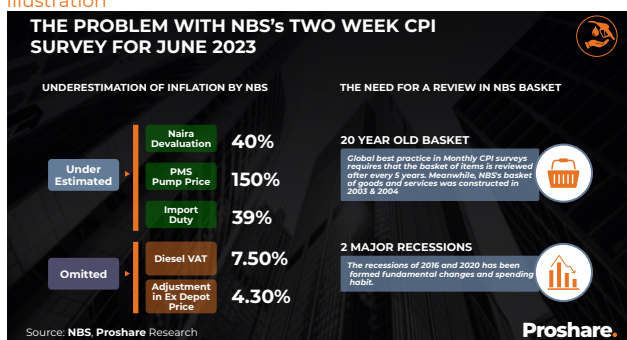
The choice of the first two weeks in June 2023 is difficult to rationalize. What seems to be a newly introduced approach by the NBS has served by default or design to underestimate inflation. Moreso, it neither captures the increase in the ex-depot price in the final week of June nor grasps the removal of value added tax (VAT) exemption on diesel which kicked in around the same time. **The approach distorts the reality of a significant indicator. Inflation numbers not only guide the inflation-adjusted returns expected by investors, but it also meant to paint an accurate life picture of the cost of living of households, the operating cost of businesses, and the project completion cost of the public sector. When inflation numbers are underestimated, reality is altered, and planning is impossible.**

The only way inflation rise between May and June 2023 could have been limited to just 38 basis points as contained in the NBS CPI report is if there was a **base effect**. However, this would not be tenable, as there was no high base effect last year. Moreover, such a base effect would not affect m-o-m figures in such a circumstance. A more substantial base effect last year will also presume that there were factors between May and June 2022 that induced a stronger push than the 200% subsidy removal we saw in June 2023, the like of which is difficult to identify.

Methodological Mysteries.

The composition of the 2003/2004 basket surveyed is outdated and it ought to have been reviewed to reflect the changes in the consumption pattern, likewise, the weights assigned to the 740 items surveyed require a review of reliable sources have it that the process had been initiated two years ago we are unsure of whether this process has been completed. This adjustment becomes even more important given that the country has recorded two recessions in 2016 and 2020. The change in spending patterns and consumption baskets is marked enough to cause a lot of expenditure rationalization. The Bureau's dysphoric or unhappy estimates may be attributable to its failure to meet global standard practice which requires that the basket ought to be updated each half-decade (see illustration below).

Illustration



Lagos: The Centre of Prime Inflationary Power.

Going by the NBS's inflation estimates for June, Lagos State now ranks as the most expensive state in the country. Inflation in the state rose to 25.75% last month, coming in ahead of Ondo (25.4%) and Kogi (25.23%). While inflation in each state is assessed by a bespoke CPI index, the rise in inflation in Lagos is instructive being the country's commercial nerve centre. Food prices however rose fastest in Kogi (29.71%) and Imo state (28.04%) both reflecting the situation of insecurity (see table 1 below).

Table

	Headline Inflation Y-O-Y		Food Inflation Y-O-Y
Lagos	25.75	Kwara	30.80
Ondo	25.40	Kogi	29.71
Kogi	25.23	Delta	28.56
Bayelsa	24.42	Imo	28.04

Source: NBS, Proshare Research

Subsidy Cuts Kick Food Inflation Up by 2.56% in June.

Food and Alcoholic Beverage which contributed over half of the inflation recorded last month printed a 2.56% M-O-M inflation and a 26.93% increase in the sub-index on a year-on-year basis. A survey of marketplaces in Lagos shows that prices of major staple items rose by 26% following the removal of subsidy and the unification of the exchange rate (see table below).

Table

	Before Subsidy Removal (May)	After Subsidy Removal (June)
Garri (50kg) Yellow	N19,000	N28,000
Rice (50kg) short grain	N35,000	N33,000
Beans (Olayin)(50kg)	N30,000	N35,000
Tomatoes (50kg)	N55,000	N65,000
Pepper (bag)	N20,000	N33,000
Onions (bag)	N28,000	N37,000
Pure Water (bag)	N200	N250

Source: FDC, Proshare Research



End Note: MPC Set for a **Rate Hike?**

The controversy generated by the NBS estimate of inflation in June is unfortunate but it raises a fundamental question of Data credibility and integrity, a problem which transcends the NBS and extends to all governmental agencies. Credibility is at the heart of proper planning and policy making and when the data is wrong the decisions premised on It would most certainly be erroneous. The Monetary Policy Committee (MPC) meets next week for its fourth policy meeting of the year, Analysts believe that inflation has bombed the purpose of the 700bp hike by the MPC since May 2022. The expectation from most analysts is that the absence of a substantive head at the CBN would be a reason why only a cautious rate hike or a hold would be considered at the next meeting.

In the broad scheme of things, June's inflation numbers still pour rainwater on the MPC's hopes of moderation of prices and a dovish monetary policy direction. Burying the impact of the depreciation of the naira and subsidy removal on the domestic price index is a lavish indiscretion.



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Director, Stakeholders Engagement

Managing Editor/CE

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