The SBM Homemaker's Guide

The Jollof Index

September 2016 - February 2017

ABOUT SBM INTELLIGENCE

Founded in 2012, SBM Intelligence, an arm of SB Morgen, is an organisation devoted to the collection and analysis of information. We offer comprehensive analysis for, and support to governments, businesses and NGOs.

SBM Intelligence runs a Nigeria-wide network of contacts and associates. In 2015, SBM Intelligence became a partner to Stratfor, one of the leading private intelligence agencies in the world.

sbmintel.com | info@sbmintel.com

@sbmintelligence Facebook.com/sbmintel

DISCLAIMER

The data contained in this report is only up-to-date as at Wednesday, 8 March, 2017. Some of it is subject to change during the natural course of events. SB Morgen cannot accept liability in respect of any errors or omissions that may follow such events that may invalidate data contained herein.

In preparing this report, our researchers did not visit the markets in December 2016. For all the other months, our researchers employed methods such as one-on-one interviews, desk research and polling to collate the available data. Our editors sifted through the data and prepared the report, using various proprietary tools to fact-check and copy edit the information gathered.

All forecasts were built using data from a variety of sources. A baseline of accurate and comprehensive historic data is collected from respondents and publicly-available information, including from regulators, trade associations, research partners, newspapers and government agencies.

INTRODUCTION

Nigeria has started 2017 with a flurry of unflattering macroeconomic data which has painted a picture of an economy groaning under the pains of global macroeconomic forces, a stop-start fiscal policy as well as the weight of an inefficiently designed and managed economy. The result of this is that the Nigerian consumer has become an avid follower of abstract economic numbers while navigating the bottlenecks that a consistent stream of negative data have wreaked on everyday spending decisions. For the Nigerian, the connection between once abstract numbers and their finances have become increasingly clearer to them. Compared with our last SBM Intelligence Housewife’s report, the new survey period, which covered the months of September 2016 to February 2017, was fuelled in large part by the following factors:

- The increase of the pump price of petrol from ₦87/Litre to ₦145/Litre in the second quarter of 2016, began to really show its effects in Q3 2016. The major effect was that transportation costs maintained their elevated plateau through Q4 2016 and Q1 2017, after a spike in Q3 2016.

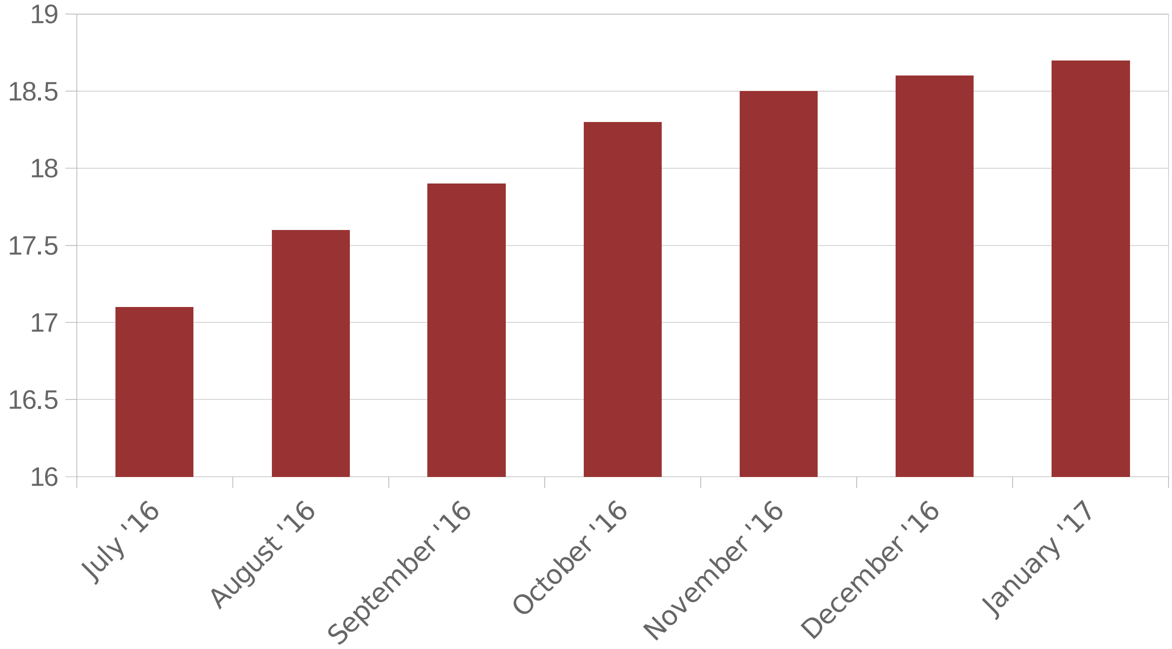
- The Central Bank of Nigeria’s consistent interventions in the interbank market and the naira’s struggles to find its fair value significantly affected importers, exporters whose products, and services requiring raw materials and inputs from abroad. Agricultural and agro-allied industries were also affected.

- Delayed implementation of the 2016 government spending plan meant federal contractors, state governments and other significant economic players had to defray investment planning, impacting on hiring decisions, lay-offs and payroll squeezes with the attendant effect on a workforce that primarily relies on government and its contractors – this includes some of the country’s biggest private sector employers.

- Security concerns in some of Nigeria's primary farming regions at a crucial time in the food production cycle – harvest time, exerted some upward pressure on food prices. Kidnappings and localised violence along key transport corridors in the North Central geopolitical zone also played a role.

Ever fluctuating consumer prices have continued to put millions of Nigerians in a tough bind, not to mention other extenuating social factors such as continued policy double speak, delayed (and in some cases, unpaid) salaries, job losses, rolling power shortages and an increase in the number of states dealing with some form of insecurity – up to 35 according to SBM compilations by the end of February 2017. The overall picture may trend towards the positive by the next time this report is compiled, but in the near term, the country should be buckled up to weather ever choppier waters.

According to the National Bureau of Statistics, inflation hit 18.7 percent in January, its highest level in more than 11 years, continuing a record streak of consumer price increases, at a time when output is at the weakest in more than two decades. Nigeria's economy contracted 1.51 percent in 2016, its first annual contraction in a quarter of a century.

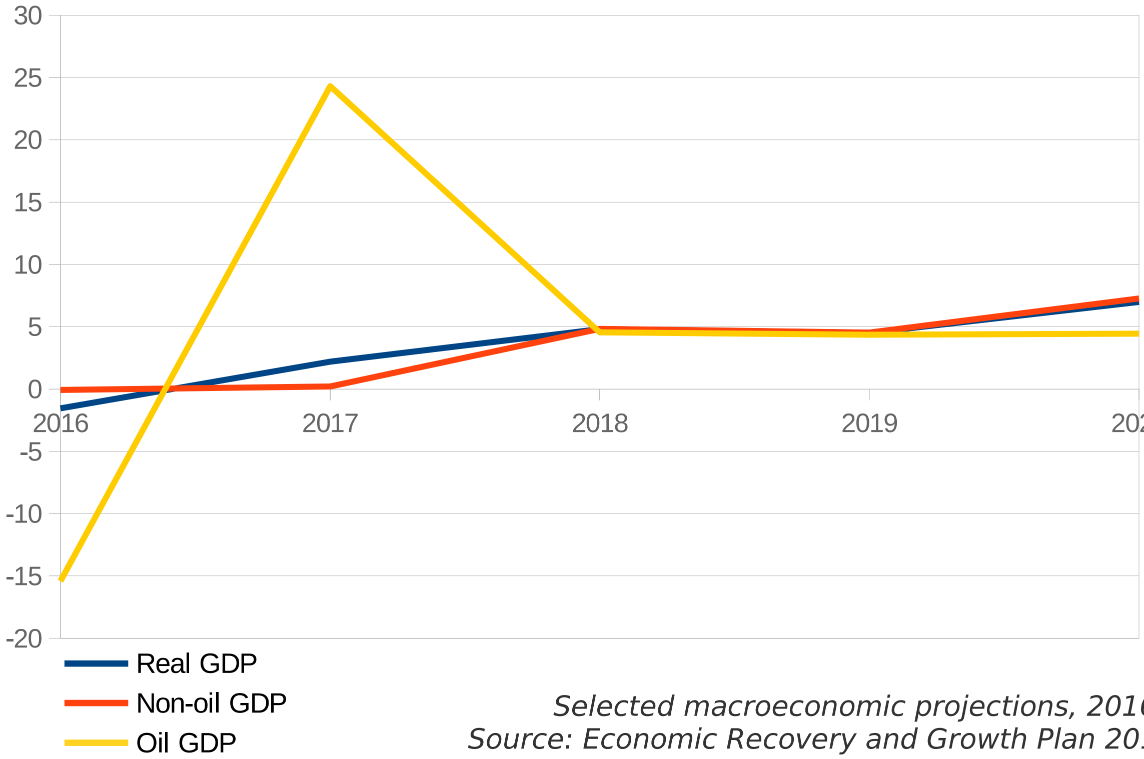


Inflation – July 2016 to January 2017. Source: National Bureau of Statistics

"This contraction reflects a difficult year for Nigeria, which included weaker inflation-induced consumption demand, an increase in pipeline vandalism, significantly reduced foreign reserves and a concomitantly weaker currency," the statistics office said in its verdict.

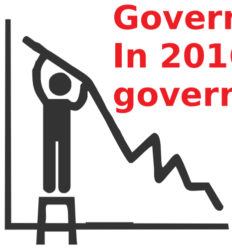
Fourth-quarter national output shrunk by 1.3 percent, ensuring the country finished the year with negative growth. In the non-oil sector, production fell by only 0.33 percent in the fourth quarter. A decline in real estate, manufacturing, construction and trade weighed most on the non-oil sector, according to the agency. a situation which is mirrored in our survey of the major markets where consumers purchase everyday items in six major Nigerian cities. Persistent inflationary pressures coupled with high unemployment and stagnant demand have created the perfect storm for government planners with the finance ministry and the central bank divided over the appropriate level of regulatory coordination between fiscal and monetary pressure. Fiscal and monetary policy implementation in 2016 has been deemed mostly insufficient by economic watchers, hampered by the late approval of the national spending plan in May by President Muhammadu Buhari.

The federal government remained active in the debt market, with a raft of issuances of short and long term bonds every month since July 2016, $3 billion in low-cost, long-term loans from the World Bank and the African Development Bank, the implementation of bilateral loans from China and Japan, a successful issuance of the country's first Eurobond since 2013 which was lapped up by investors, and the release of a new economic plan in Q1 2017 which may pave the way for more funding support from the International Monetary Fund which had required a detailed economic reform policy from planners all in a bid to fund a budget deficit expected to surpass last year's record ₦2.2 trillion tally. All levels of governments, especially the federal and state need to continue to engineer policies that will help curtail the persistent rise in prices of consumer commodities.



Selected macroeconomic projections, 2016-2020.
Source: Economic Recovery and Growth Plan 2017-2020

The official line is that all these efforts will shake the economy out of its recessionary funk and grow 2.19 percent this year. The new proposal includes selling assets and hiking a luxury goods tax. The Economic Recovery and Growth Plan 2017-2020 says gross domestic product is expected to grow an average of 4.62 percent a year until 2020, and hit 7 percent that year. The plan aims to ramp up oil production to 2.5 million barrels per day and for Nigeria to become a net exporter of refined petroleum products by 2020. The goal is to increase export earnings and government revenues by an additional ₦800 billion ($2.63 billion) a year. Under the plan, the government also expects to earn ₦35 billion ($115 million) from the sale of some national assets, including oil joint ventures, and reducing stakes in other oil and non-oil assets. The CBN will aim to achieve a market-determined exchange rate regime, the plan said, as pressure mounts to let the naira currency float freely. Inflation is seen at 15.74 percent in 2017 and 12.42 percent next year. Nigeria hopes to improve tax collection to raise ₦350 billion per annum, in part by boosting a luxury goods tax to 15 percent in 2018 from its current rate of 5 percent. The goal is to increase the overall tax to GDP ratio to 15 percent from 6 percent between 2017 and 2020.



Government revenues plunged significantly In 2016. These are some of the ways the government intends to fill the gaps

$3 billion
long term World Bank and African Development Bank loans

₦35 billion
expected earnings from sale of national assets

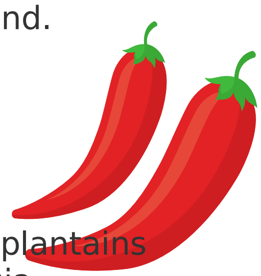
₦350 billion
expected revenue boost from tax collection

$1 billion
raised from Eurobond sale

Despite these lofty ambitions, executing on economic fundamentals will ultimately determine if the government does not squander a crucial opportunity to enact significant economic reform and diversification. We reiterate a long-standing call for government to invest in agricultural extension programmes to help farmers develop better skill sets in all-year farming and modern small-scale irrigation methods which have been shown to increase crop yields. Boko Haram enjoyed a mini renaissance in Q4 2016, increasingly targeting military personnel and targets in the country's north-east but a military counter-offensive has rolled back some of those gains by the group. Concerns remain about the military's human rights record in the region and the lingering humanitarian crisis will remain a drag on growth in the region, and the country as a whole; the United Nations adding the country to a list of countries in sub-Saharan Africa at risk of a famine this year an unflattering reminder that one of Nigeria's primary agricultural regions is far from punching its weight in easing some of the pressure on Nigerian shoppers.

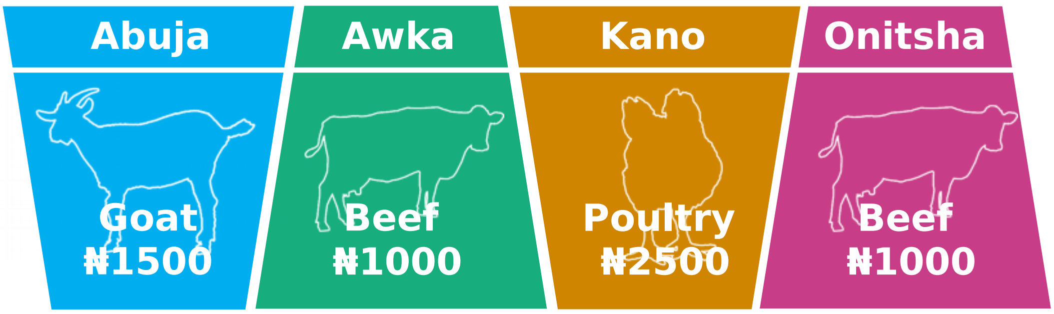
OUTLOOK IN THE LAST THREE MONTHS

Markets across Nigeria have continued to pass on some of the cost of production, and in some cases, importation across various foodstuff categories to consumers. A wider range of product categories saw increases within the last six months, than in any of our previous four reports. During the period as well, many shelves got stocked with fewer products, and with less frequency than before as rising costs and difficulty in getting foreign currency for both the traders in the markets, and their suppliers made imports less seamless. This had the effect of decreased supply, and increased costs, whilst demand has not reduced commensurately causing prices to continue to rise, especially for commodities where price point does not significantly affect the demand.



Perishables, staples and edible consumables

The prices of perishable food items like tomatoes, pepper, yams and plantains fluctuated depending on the markets surveyed. While markets in Abuja, Anambra, Ibadan and Lagos remained stable over the period, Kano was the only market which saw an increase in the prices of those produce. According to a Kano resident, the prices went up because farmers are adjusting to the higher cost of farming. For tomatoes in particular, the price increases were mostly due to the epidemic last year. A lot of people lost their crops to the epidemic, and have not recovered. Ibadan actually saw a decline in pepper and yam prices from Q4 2016 to Q1 2017. People surveyed said that because of Ibadan's location and proximity to trade routes from Northern Nigeria, price decreases tend to start there first. However, the price decreases did not get to other areas south of Ibadan as subsequent months showed. While the prices of poultry and vegetables remained fairly stable across all the cities, the Abuja markets of Wuse and Nyanya



maintained their almost 12-month record as the most expensive places to purchase goat meat in the country, only matched by the two Ibadan markets of Dugbe and Bodija as well as Sabongeri in Kano in which, aligning with their Abuja counterparts were also the most expensive places to purchase goat meat (₦1500). Poultry prices increased in Kano over the survey period (from ₦2300 in November to ₦2500 in February). In Lagos (Trade Fair, Article, Oyingbo & Balogun), beef prices remained unchanged. In Kano, they increased by ₦200 in Q1 2017. The most significant price swing however, was recorded in the Anambra markets (Onitsha & Awka) where beef doubled from Q3 2016 (₦500) to ₦1000 in Q4 2016 before returning to their Q3 2016 levels by February 2017. This price increase occurred following the closure of new Artisan market in Enugu. After that closure, the traders were forced to go to Anambra to buy their meat, and the influx caused a scarcity of beef in Onitsha and Awka.

Tomato prices remained fairly stable through the end of the year and into the first quarter of 2017, after increasing across the country. The spread in prices remained significant however, ranging from ₦700 for a paint plastic (a common medium of measurement in Nigerian open air markets) in Sabongeri to ₦1,000 in the Lagos markets (a step down from about ₦1500 in Q3 2016). Prices had surged in the first half of 2016 to an average price of ₦1,075 in Lagos, up from ₦679.50 for a paint container (6 litres; 2 kilograms) during H2 2015. This compares with ₦540 in H1 2015 and ₦500 in Q4 2014. In Lagos, the price of pepper actually dropped by more than half, with a paint container of pepper selling for an average price of ₦1000 over Q1 2017 from an average of ₦2,800 over the period from June to August 2016, and ₦2,650 in H1 2016.

Abuja	Awka	Ibadan	Kano	Lagos	Onitsha
Tomato 34%	Pepper 300%	Rice 75%	Beans 250%	Garri 225%	Pepper 300%

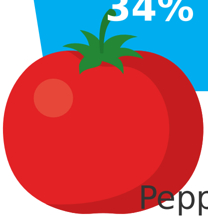


Table – biggest increases for edibles per target city.

Pepper prices remained elevated at an average of ₦2000 for a paint plastic (5 litre space) over Q1 2017 compared with its peer cities, although they represent a drop from a ₦2300 average over H2 2016. This was informed partly by a supply mismatch with surrounding farms struggling to meet seasonally high demand during the second half of 2015 which lasted well into 2016. Beans continued a price differential based on geography. It remained cheaper to buy beans in the southern cities than in the north and while its price dropped in every southern market, it actually increased in Abuja and Kano from Q4 2016 to Q1 2017. The price of a *mudu* (400g) of beans at Wuse and Nyanya markets in Abuja went from ₦450 in October 2016 to ₦500 in February 2017, while in Sabon Gari in Kano, it increased from ₦300 in Q3 2016 to ₦350 in Q1 2017. As recently as Q2 2016, it will have cost you ₦150 to purchase a *mudu* of beans. In the Lagos markets, that figure for a *derica* (the south's equivalent of a *mudu*) was an average of ₦240 in Q1 2017 (up from ₦210 in H1); in Ibadan, it was an average of ₦350 (up from ₦206 in H1 2016), the same figure for Onitsha and Awka (in H1 2016, it was ₦370 and in 2015, it was ₦100).

Garri prices generally held fairly steady across all markets, even reducing from ₦700 to ₦650 in Ibadan, aligning with similar prices in the northern cities and the eastern cities. Lagos was the distinct outlier – in Balogun and Oyingbo markets, the price of a bucket doubled from ₦700 to ₦1800 between January and February alone. In Trade Fair and Article markets on the Lagos mainland, the transition was just as abrupt but spread over a slightly longer period, prices going up from ₦650 in November 2016 to ₦1800 in January 2017. Fresh vegetables like the popular green leaf (*soko* & *tete*), water leaves and pumpkin leaves (*ugwu*) all maintained their 2015 price levels because of their relative abundance in the markets. They were all similarly priced across the country. Other processed food and consumable items with import components like bread, sugar, noodles, wheat meal, oatmeal, and a host of other consumable items were relatively price stable – moving within a 5-10 percent band in the survey Period.

Household and personal hygiene products

Household consumables and personal hygiene products such as detergent, toiletries, and vanity items maintained fairly stable price levels since clocking an average price increase of 27.15% in the Lagos area during the second half of 2015 and the first half of 2016. Across the country, the prices of such things as deodorants, cosmetics, cleaning items, pasta and other items moved within a 5-10 percent band save for a few fluctuations in the data set in certain locales. Cooking gas prices rose across the country, the price of purchasing and refiling a small 5kg LPG (cooking gas) cylinder increased an average of 10 percent over the survey period.

However, this cost was the lowest in Awka and Onitsha (₦5,000 up from ₦4,700 in May), and highest in Kano (₦9,500 in August, same as in May). This average price in Lagos (₦5,660 up from ₦4,500 in H1) remained lower than the national average, a trend observed from our last report. Household needs such as toilet wash, air fresheners, brooms, dustpans and mop sticks remained relatively unchanged over the period. Female use items which include beauty and personal care products, most of which are imported, also remained stable over the survey period, this after recording increases of at least 20% in over the first half of 2016, coupled with a 10% increase recorded in the second half of 2015 on the back of the naira’s instability.

INTRODUCING THE SBM JOLLOF INDEX

The SBM Jollof index is a composite index that tracks the prices of the main ingredients used to prepare a pot one of Nigeria's primary delicacies – Jollof rice. This meal was chosen because it is a delicacy in every part of the country. We believe that this index gives a bird eye’s picture of national inflationary trends. An SBM tally of these prices since the second half of 2016 has showed a quarter by quarter increase in the average national index– from ₦4,087 in July 2016 to ₦5,388 in February 2017.

We did not visit markets in December, 2016, because the seasonal price increases do not present a true picture of the trends being tracked.

An analysis by geopolitical spread shows that the most expensive place to cook Jollof rice in Nigeria is Kano where it would cost a housewife or house-husband ₦6,640 to put together the delicacy in Q1 2017. This compares unfavourably with Lagos, where a pot of the meal will set you back only ₦4,950, the lowest in the country. The south-eastern cities of Onitsha and Awka are also very Jollof friendly at ₦4960 in Q1 2017 each, while in the national capital, Acting President Yemi Osinbajo’s pot of jollof will cost a hefty ₦5,750 in Wuse, the closest major market to Aso Rock – a mighty delicious incentive for government planners to do more to keep one of the country’s few culinary joys from getting out of reach of consumers.

Market	July 2016 (₦)	August 2016 (₦)	September 2016 (₦)	November 2016 (₦)	January 2017 (₦)	February 2017 (₦)	Zone
Nyanya	4,020	4,150	4,860	5,080	5,170	5,520	NC
Wuse II	4,170	4,300	5,040	5,350	5,350	5,750	NC
Kano	4,890	4,950	5,570	5,650	6,030	6,640	NW
Awka	4,190	4,370	5,390	5,530	4,970	4,960	SE
Onitsha	4,050	4,370	5,390	5,530	4,910	4,960	SE
Balogun	3,690	3,950	4,710	4,980	5,200	4,950	SW
Bodija	4,040	4,150	4,990	5,010	5,250	5,380	SW
Dugbe	4,040	4,150	4,990	5,010	5,250	5,380	SW
Trade Fair	3,690	3,950	4,710	4,980	5,000	4,950	SW
National Average	4,087	4,260	5,072	5,236	5,237	5,388	

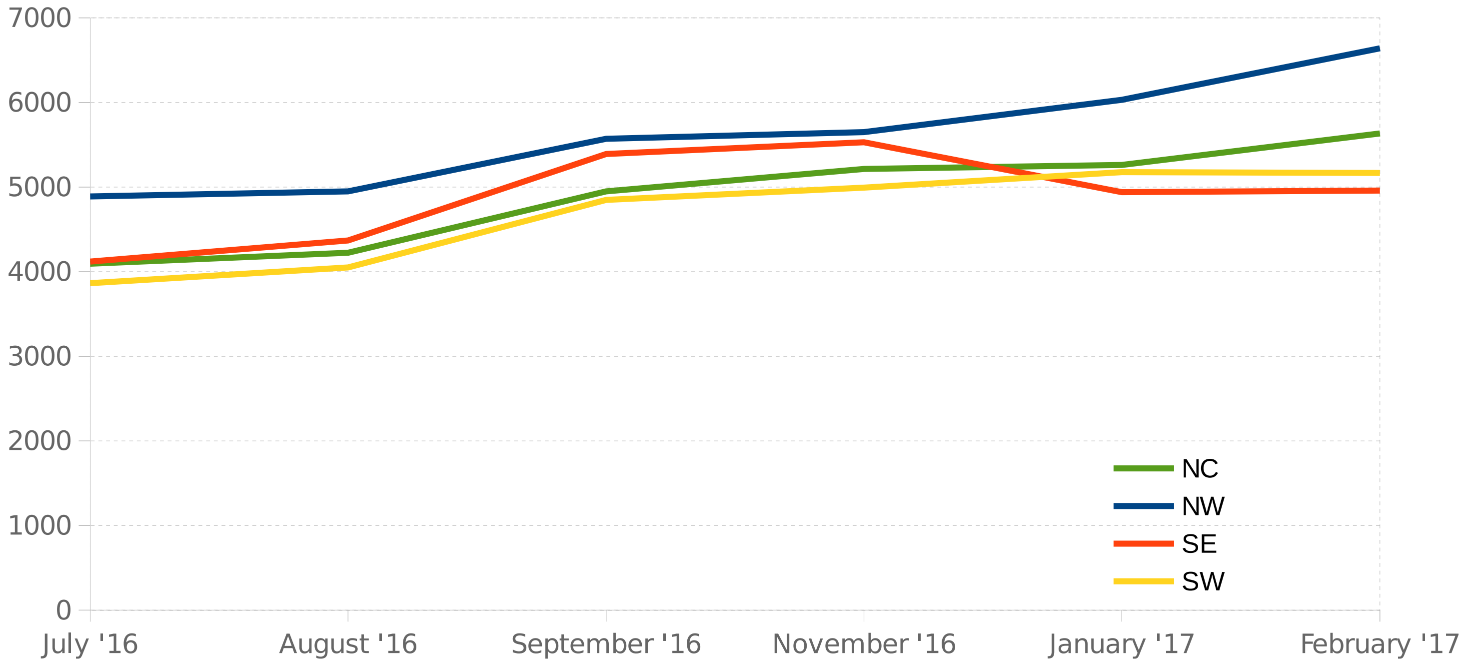
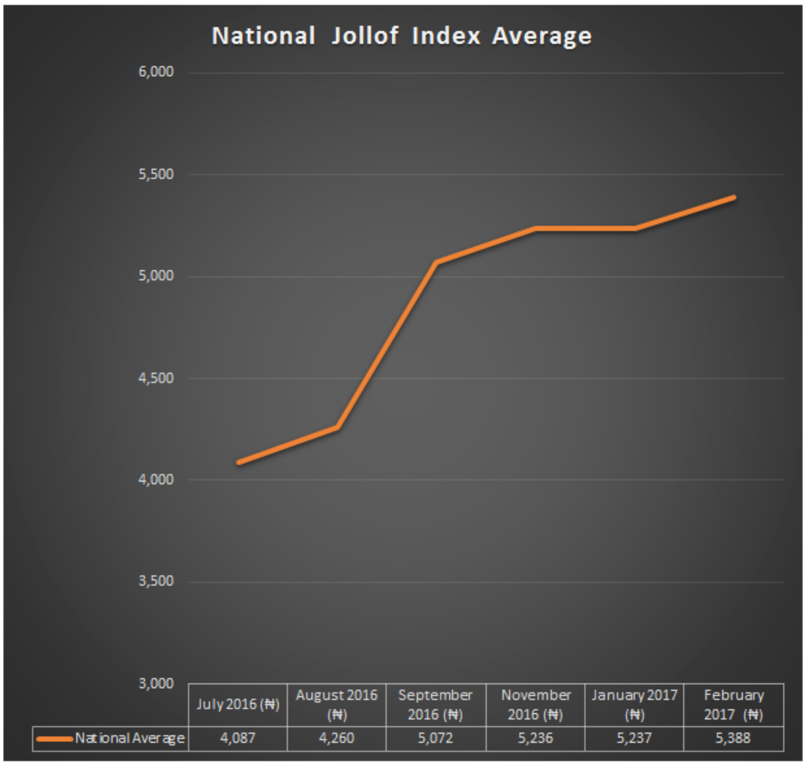


Chart – The rising cost of cooking jollof rice in your geo-political zone

Jollof Index: How Much Does A Pot of Jollof Cost?

Ingredients

- Rice
- Salt
- Seasoning
- Curry
- Thyme
- Pepper
- Tomatoes
- Vegetable Oil
- Tinned Tomatoes
- Beef
- Turkey
- Onions



HOW THE NIGERIAN IS FARING?

Nigerians across the country have decidedly become more methodical in allocating their finances. Most Nigerians we spoke to have chosen to cut back on much of their discretionary spending, focusing on meeting the essentials and putting aside money in their savings where there are leftovers after meeting the essentials, in order to prepare for future price increases.

Also, Nigerians who were ordinarily loyal to specific brands have taken to buying whichever brand is available on the shelves when they want to buy. They have also been more willing to explore more alternatives as price of their preferred brands move out their reach.

Buying habits have also moved away from bulk buying for the month in many homes to a “buy as you need” model as Nigerians seek to conserve cash at hand as opposed to tying their money down for a month.

On March 8, 2017, SBM researchers went out in the Ikeja area of Lagos and spoke with fifty randomly selected street corner traders regarding the effect of rising food prices on their lives. Each respondent answered four questions regarding their monthly expenditure on food, how rising costs have changed their financial habits, how these costs have affected other parts of their lives, and what they may be doing, if anything, to improve things.

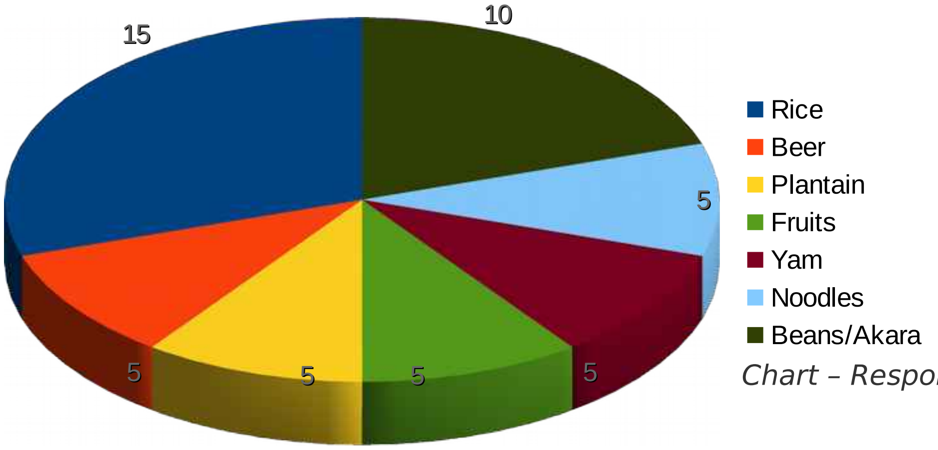
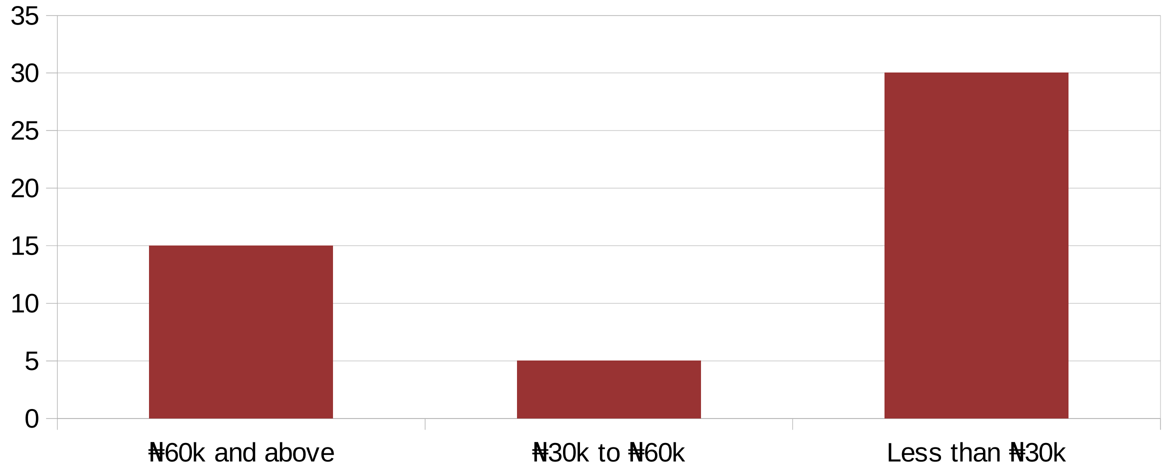


Chart – Respondents by foodstuff sold

Chart – Respondents by monthly spend on food



Only **ten percent** of our respondents say that the current inflationary trends for food items, **have not affected** other aspects of their lives.

Twenty percent of our respondents are **doing nothing** to improve things, **twenty percent** have started **looking for other means of income**, while the rest (**sixty percent**) are **digging into their savings** more and more.

Finally, **eighty percent** of our respondents, have been **forced to change their financial habits** because of the rise in food costs.

CAUSATIVE FACTORS

Transportation costs

Much of Nigeria's food is transported over significant distances before it reaches the local food markets, thus, the cost of transportation is an important input in the price setting mechanism. Plans by the federal government to upgrade the country’s rail network will not reach full implementation for a few more years, so road transportation will continue to be an important component in getting produce from farm to market. The poor state of our roads look set to remain a near permanent drag on prices. A national plan for resurfacing and constructing new interstate roads will be faster to implement and is imperative in any strategy that seeks to make life easier for consumers.

Agriculture policy

It is absolutely important that we update the agricultural practices of our food producers to change the seasonality of farming of specific crops in Nigeria. It is also important to improve storage methods and infrastructure for those annual crops such as yams which are staple, so that they don't have such large price movements seasonally. In the course of the year, events such as the *Tuta absoluta* moth devastation of tomato crops, the queller bird issue and others require better planning and interventions. All of these must be driven by deliberate and coordinated agriculture policy with the express aim of both food security and price stability.

Insurgency and instability

Nigeria continues to experience a host of security challenges. The northern states which account for most of the country's farmland and farm hands continued to witness various forms of insecurity, a situation which has led to a significant disruption in the movement of such produce as groundnuts, vegetables, onions, sugar cane and yams. Boko Haram continued to cast a cloud on food production in the north-east over the survey period, while six months of continued clashes by migrating herdsmen on local farms, villages and towns in the North Central GPZ has led to disruptions during a period which traditionally sees the harvesting of a number of crops. The lack of a clear and coherent government policy towards addressing the Pastoral Conflict which have been on the rise in states including Benue, Enugu, Kogi, Anambra, Nasarawa and reaching as far south as Oyo and Ekiti, means that for this region, at least for the foreseeable future, consumers and families will have little choice but to allocate a growing share of their household budgets to deal with rising food prices – a share which already stands at close to 70%.

Climate change

As our earlier reports have noted, climate change is becoming a major factor affecting food prices. Climate change has caused an upswing in both the frequency and severity of droughts, which mean farmers in drier agricultural zones must increasingly make tough choices regarding which crops and livestock they choose to enjoy precious water allocations. Desertification remains a significant issue in Northern Nigeria and the United Nations warning of a potential famine is 2017 is primarily predicated on changing weather patterns as much as it is an indictment of rising insecurity and poor policy oversight. Farming methods remain an age-old challenge. Many Nigerian farmers still practice various forms of shift cropping. The farmers, both of livestock, tubers and of fruits, vegetables and nuts, have to leave fields fallow due to drought, migrating to other areas to look for precious land, thus fuelling in part, many of the clashes and crises which have occurred in Nigeria's food growing regions.

Fiscal and monetary policy

The continued fall in the naira against the principal global currencies will continue to impact on consumer prices for some time. A proposal in the ERGP to review and possibly remove a ban on accessing foreign exchange for 41 goods and services is not only a great idea, it is most likely the most significant choke point, apart from forex availability, to relieving upward pressure on consumer prices. It also expedites actions such as customs raiding markets to seize rice in stores, further driving prices up. An end to an ill-advised and desperate component of the current administration's fiscal policy could not be more welcome. The federal government looks set to continue on its path to inducing growth by increasing spending. The CBN's Monetary Policy Committee will likely continue to utilise its toolbox, especially raising the base rate and increased treasury yields to wage its war to combat inflation. At some point, it must assess the impact of this policy on diverting credit that may have made its way to the real sector. Until fiscal and monetary policies begin to move in tandem, their net positive effect on the economy may likely remain minimal.

CONCLUSION

The overall outlook remains tricky. The Nigerian consumer has continued to be squeezed by a host of well documented and acknowledged, but yet to be satisfactorily addressed factors. Incidents of widespread lay-offs and cutbacks, falling, and in many cases, delayed wages, and pockets of unrest in key farming regions will continue to show up on the shelves of open-air markets and in the decreasing range of choice available to ordinary families. The irony is that as the purchasing power of Nigerians decreases, the price of the very items they seek to purchase will continue to increase rapidly, creating a double jeopardy situation.

Policy makers need to play a crucial role in curtailing the persistent rise in consumer commodities, especially in areas that it can exert substantial influence over such as infrastructure development, which can ease the logistical challenges all economic actors currently face, and by encouraging small scale farming across the country. Very importantly, these schemes must ensure standardization and yield improvements in the farming practices. The government also needs to invest in agricultural extension programmes to ensure that farmers – a full 30% of the population are ushered into the 21st Century. Critical to increased production is securing the stability of the food growing North East and the North Central regions, and increasingly, the South West and the Delta regions.
The government urgently needs to address the country's persistent and varied security challenges so that farmers can return to planting.

Also crucial to arresting the price fluctuations is the government's FX policy. Much of the increases have been caused by supply chokes due to FX scarcity. We encourage the government to take the bold step of liberalising the FX market properly to enable the market allocate and determine the FX rate.

The government urgently needs to address the country's persistent and varied security challenges so that farmers can return to planting. The government also needs to invest in new, as well as upgraded storage infrastructure and further encourage trade, taking advantage of local food growing comparative advantages, thus elongating the availability of key farm products and ultimately contributing to bringing down their prices. More resources should be allocated to agricultural research and development in order to raise productivity levels in such things as plant yield, improved seed varieties and average production per hectare, as well as deploying technology to give farmers access to market information and modern techniques.

Founded in 2012, SBM Intelligence, an arm of SB Morgen, is an organisation devoted to the collection and analysis of information. We offer comprehensive analysis for, and support to governments, businesses and NGOs. SBM Intelligence runs a Nigeria-wide network of contacts and associates.

www.sbmintel.com