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CPI REBASING:

The Changes and Implications for Monetary Policy and Output

Prepared by

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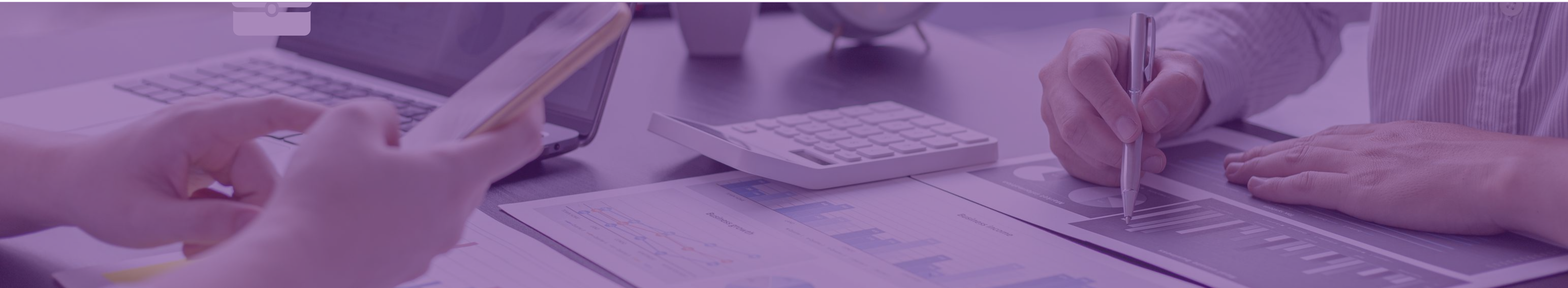
Introduction

- The National Bureau of Statistics (NBS) has recently undertaken a rebasing of the Consumer Price Index (CPI), changing the current 2009 reference period to 2024.
- This exercise is an effort to align the price and weight reference periods to reflect structural changes in the economy, updating the composition of goods & services and other necessary improvements.

- This report aims to summarise the key aspects of the rebased CPI conducted by the NBS, highlighting the methodologies employed, the new basket of goods and services introduced, and the implications of these changes
- The report provides insights into how these changes affect inflation measurement and economic indicators, particularly the conduct of the monetary policy and the anticipated changes in the structure and growth of the economy .



Justification for CPI Rebasing

- The rebasing of Nigeria's Consumer Price Index (CPI) to 2024 is crucial to accurately reflect the current economic realities, capturing changes in consumption patterns and price levels.
- It provides reliable data for policymakers to assess impacts and ensures comparability with global indices, enhancing the credibility of Nigeria's economic statistics.
- This rebasing exercise entails methodological changes that attempt to modernise CPI computation to align with international best practices.

Pros

- It should provide more accurate inflation data to aid policymakers in crafting effective monetary and fiscal strategies.
- Rebased CPI should offer reliable, granular insights into price changes across diverse categories.
- Alignment with international practices should also ensure comparability with global indices.

Cons

- New CPI and inflation figures, coming from new methodologies, sometimes make long-term comparisons and use of data difficult, until appropriate data slicing and backcasting are done
- When the inflation rate declines following rebasing, it does not suggest that the overall price levels are decreasing—only that they are rising at a slower rate than we formerly understood them.

Frequency of CPI Rebasing by Selected Countries

Country	Current Base Year	Previous Base Year	Difference in Base Year (Frequency)
Nigeria	2024	2009	15 years
Ghana	2021	2018	3 years
South Africa	2021	2016	5 years
India	2012	2010	2 years
Egypt	2019	2010	9 years
Kenya	2019	2009	10 years
Japan	2020	2015	5 years

Source: ADSR Research

- Countries frequently engage in CPI rebasing to address volatile economic conditions, shifts in consumer behavior, and changes in the overall economy.
- Regular updates help capture fluctuations in inflation, allowing for better tracking and planning.
- While some countries may rebase every few years, others do so less frequently, depending on their economic stability, resources, and the need for adjustments.
- **Taking Nigeria up to 15 years to conduct the current rebasing shows that the exercise has been long overdue.**

New Inflation Jan, 2025 Figures

Headline Inflation

24.48%

(Dec, 2024: 34.80%)
old base year

Food Inflation

26.08%
(Dec, 2024: 39.84%)
old base year

Core Index

22.59%
(Dec, 2024: 29.28%)
old base year

Urban

26.09%
(Dec, 2024: 37.29%)
old base year

Rural

22.15%
(Dec, 2024: 32.47%)
old base year

Source: NBS, ADSR Research

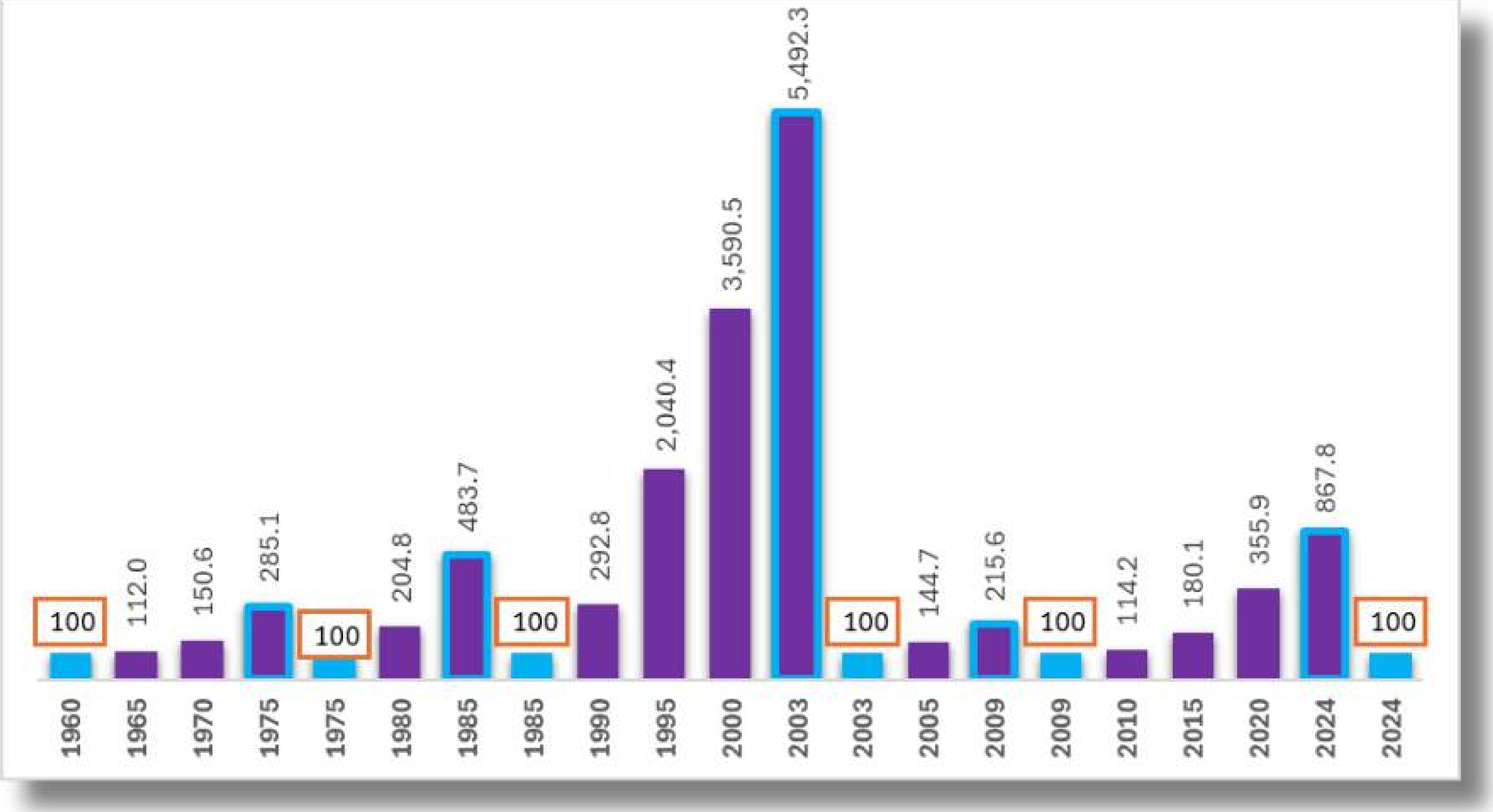
Structural Changes in CPI

Coicop	Divisional Name	Old CPI Weights 2009 (%)	New CPI Weights 2024 (%)
1	Food And Non-Alcoholic Beverages	51.8	40
2	Alcoholic Beverages, Tobacco, and Narcotics	1.1	0.4
3	Clothing and Footwear	7.7	5
4	Housing, Water, Electricity, Gas and Other Fuels	16.7	8.4
5	Furnishings, Household Equipment, and Routine Household Maintenance	5	3
6	Health	3	6.1
7	Transport	6.5	10.7
8	Information and Communication	0.7	3.3
9	Recreation, Sport and Culture	0.7	0.3
10	Education Services	3.9	6.2
11	Restaurants and Accommodation Services	1.2	12.9
12	Insurance and Financial Services	0	0.5
13	Personal Care, Social Protection, and Miscellaneous Goods and Services	1.7	3.3
		100	100

Source: NBS, ADSR Research

- The rebased CPI uses 2024 as the price reference period (the year for comparing prices) and 2023 as the weight reference period (the year for determining the spending patterns used in weighing the items in the CPI basket).
- The number of products in the consumer basket has increased from **740** to **934**.
- The share of Food and Non-alcoholic items in the basket of an average Nigerian has fallen from 51.8% to 40.0%.
- The share of Housing, Utilities, and Energy also fell from 16.7% to 8.4%.
- Conversely, Restaurant and Accommodation rose from 1.2% to 12.9%, Transport rose from 6.5% to 10.7%, Health from 3% to 6.1%, ICT from 0.7% to 3.3%, Education from 3.9% to 6.2% and Finance from 0% to 0.5%.

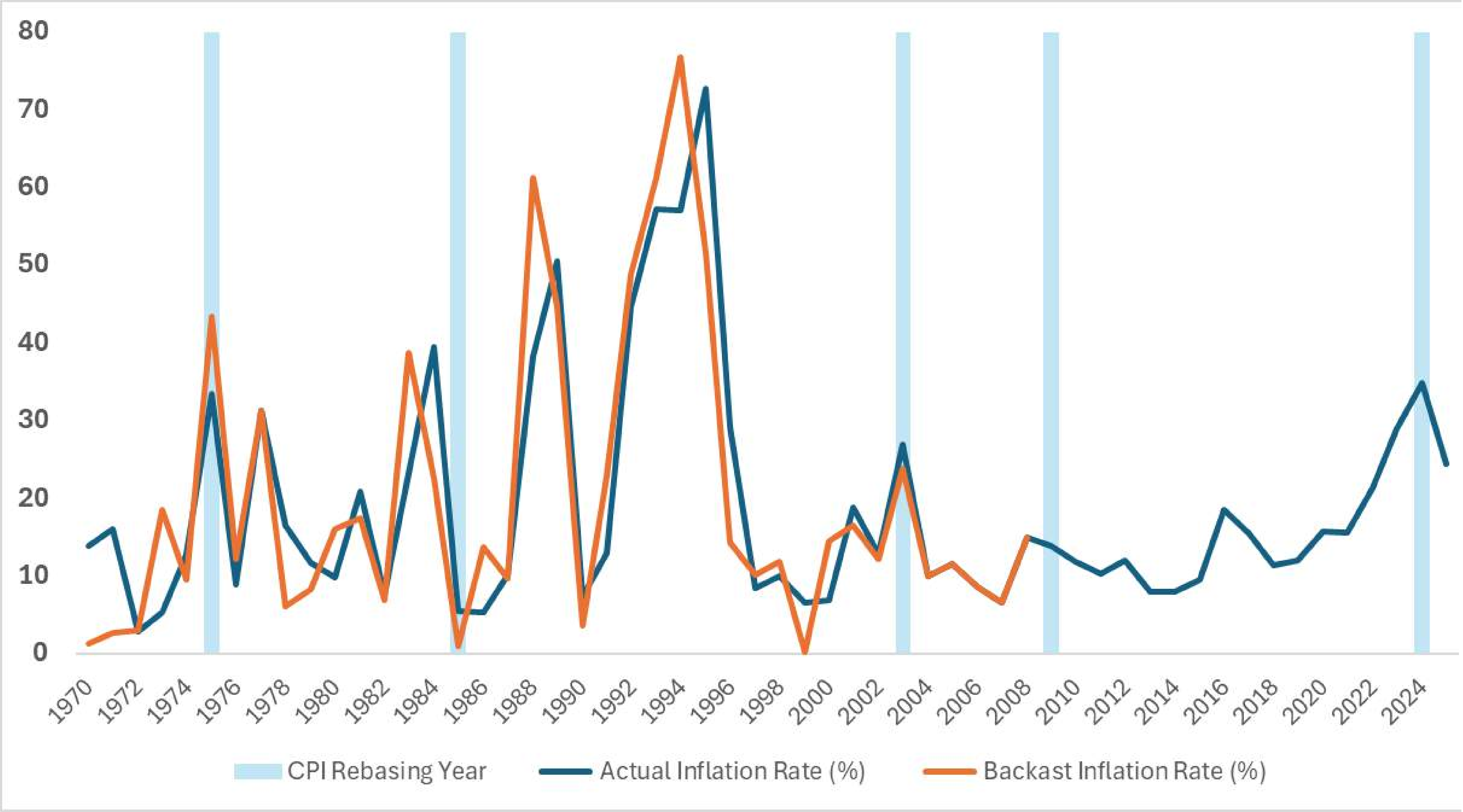
CPI Behaviour around Rebasing Period



Source: NBS, ADSR Research

- The chart marks years where the CPI is rebased, with the index normalized to **100**.
- It shows CPI getting gradually high until it is nomalised to 100 in the year of rebasing
- The following are the base years that have been used and their intervals:
  - **1960**
  - **1975 (15 years)**
  - **1985 (10 years)**
  - **2003 (18 years)**
  - **2009 (6 years),**
  - **2024 (15 years)**

Inflation Trends in the Period of Rebasing



Source: NBS, ADSR Research

- The figure shows wide fluctuations in Nigeria's inflation rate prior to the rebasing of 2003, and less volatility thereafter.
- It also shows that anytime CPI is rebased, the statistical authority usually provides backcast figures of old data using the new methodology to ease comparison.
  - Although this has not been done in the present case, it is believed NBS is on it.
- Historically, Nigeria's inflation rate usually declines in the immediate period after rebasing, however, the rate often moves back up in subsequent years.
- This implies that there is a limit to how methodology changes can address the country's inflation rate when the underlying structural issues are still present

CPI Rebasing and MPR Hike Debasing

Towards a Data Driven and Proactive Monetary Policy

- Until few hours ago, Nigeria's last inflation rate was at 34.80% while MPR was (is still at) at 27.5%

In the Communique issued at the end of its 297th meeting in September, the MPC members noted that:

- ***the real policy rate remains negative… to attract investments into the economy, efforts must be sustained to achieve a positive real interest rate… the Committee opted to tighten policy further .***

-Ref: CBN/MPC/COM/154/297

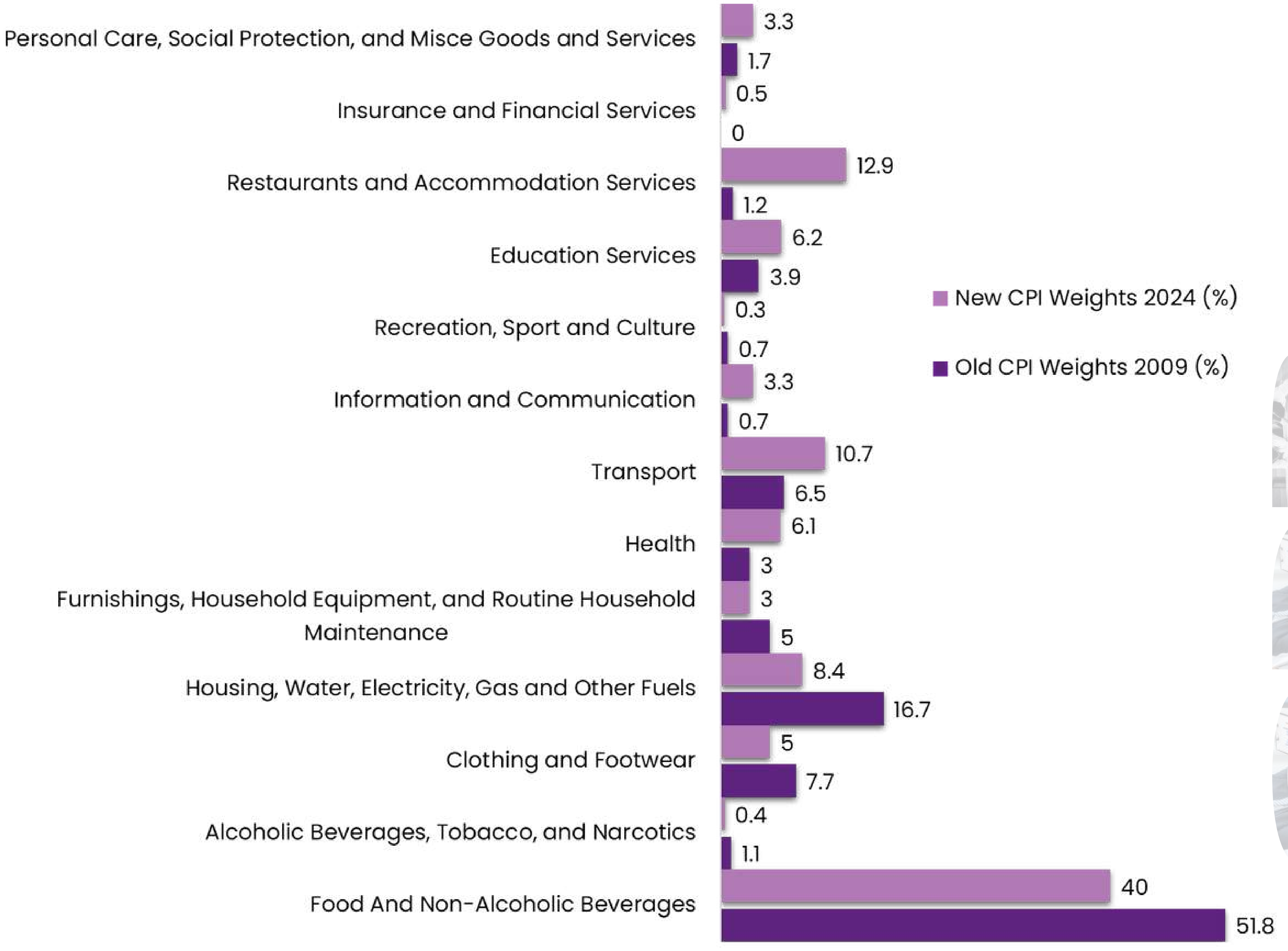
This is expected from an MPC that follows a data-driven monetary policy.

- However, given that the current CPI Rebasing exercise has changed the facts, the MPC can at least stop rate hiking, and may even consider lowering the rate at the end of its meeting on Wednesday, February 19, and Thursday, February 20, 2025.

MPC Rejoice!

- The battle is 'won', at least for now
- What MPR hike struggles at, CPI rebasing has achieved
- But a sustainable decline in inflation rate requires complementing with policies to address structural issues

Any Hint on GDP Result of Rebasing?



Source: NBS, ADSR Research

The reported changes in household consumption patterns potentially provide insight into what we should expect from the upcoming GDP rebasing exercise:

- The service sector is expected to expand, largely driven by real estate, accommodation services, and transport.
- There may be a slight decline in the contribution of utilities (such as electricity, gas, and other fuels). However, industrial demand could offset these changes.
- Structural shifts within the agricultural sector are likely, and this may result in a decrease in its share of GDP.
- ICT will continue to be a key contributor to GDP, but its relative share may not expand as significantly as that of real estate and accommodation services.
- When Nigeria rebased its GDP in 2014, nominal GDP rose by about 90%. We should expect about half of this increase this time.
- We also anticipate that the rebasing exercise will potentially raise the economic growth rate slightly in the short term.
  - **But this depends on the extent that CPI correlates with GDP Deflator.**

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