Capital Bancorp Plc

JAN 2026

Macro Economics Report

Inflation Report

A. OVERVIEW

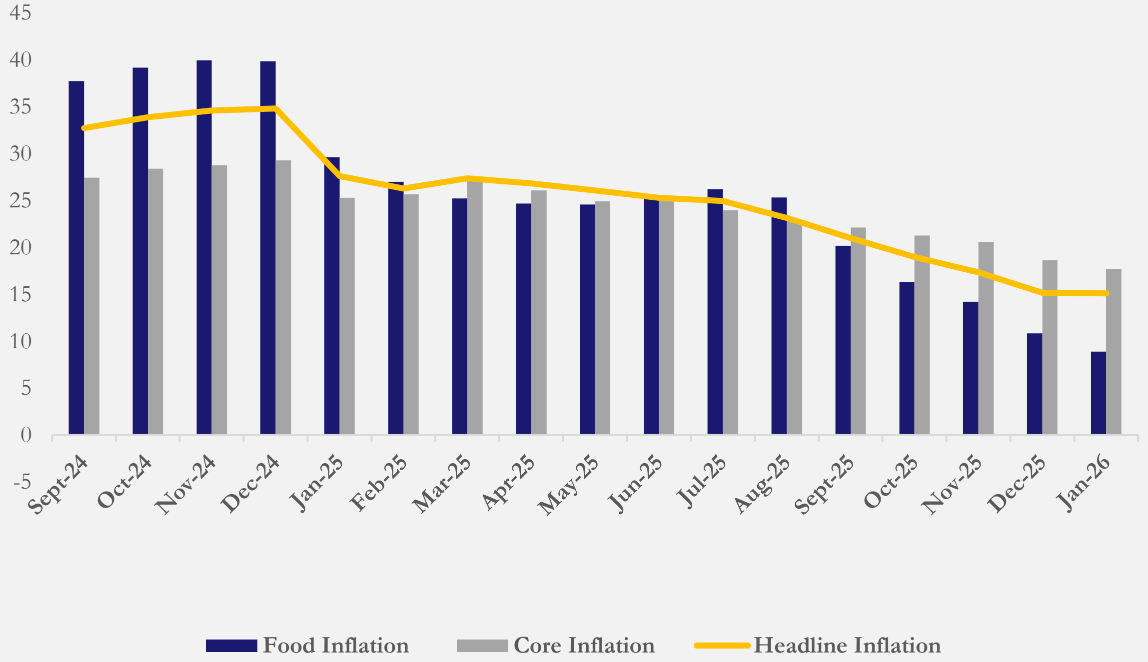
The recently published Consumer Price Index (CPI) report by the Nigeria Bureau of Statistics (NBS) yesterday shows that the Nigerian headline inflation moderated slightly by 5 basis points to 15.10% year-on-year in January 2026, down from 15.15% in December 2025.

It's worth noting that in December, the NBS updated its inflation framework. The new methodology uses the average CPI for the entire 2024 year as the reference base, rather than a single prior month. This smooths out base distortions and prevents artificial YoY spikes. Consequently, the small change in headline YoY between December and January partly reflects methodological stabilisation rather than a genuine slowdown or rigidity in actual price movements.

On a month-on-month (m/m) basis, which better reflects the immediate movement of prices within the economy, headline inflation declined by 2.88% in January 2026, reversing December's 0.54% increase, one of the most pronounced sequential corrections in recent years. Factors such as improved food supply, relative exchange-rate stability, and softer demand all contributed. Seasonally, January is typically a month of demand compression: school-fee payments, post-festive spending fatigue, and a general pullback in discretionary expenditure limit pricing power across retail and services. The January 2026 Stanbic IBTC PMI reinforced this picture, pointing to weaker business activity and softer new orders following December's festive expansion.

Importantly, the disinflation was broad-based. Food inflation dropped 6.02% month-on-month, extending December's mild -0.36% decline, while core inflation turned negative at -1.69% (from +0.58% in December). Urban inflation fell 2.72% MoM, and rural inflation declined

Nigeria Headline Inflation Rate(%)



Source: NBS, Capital Bancorp Research

B. KEY DRIVERS

FOOD INFLATION

Food inflation declined by 195 basis points to 8.89% year-on-year in January from 10.84% in December 2025, with a sharp -6.02% month-on-month contraction. Improved staple supply conditions, post-festive demand settling, and relatively stable logistics costs drove price moderation across key items such as yam, maize, beans, eggs, and palm oil.

Given food's dominant weight in Nigeria's CPI basket, this segment accounted for the bulk of the headline correction. However, while harvest dynamics have provided short-term relief, sustainability will depend on continued logistics efficiency, security improvements in food-producing regions, and stable fuel costs.

CORE INFLATION

Core inflation eased by 91basis points to 17.72% year-on-year from 18.63% in December 2025. On a month-on month, core inflation stood at -1.69%. The move into negative sequential territory is significant, as core components tend to be more persistent and less influenced by seasonal agricultural cycles.

The moderation likely reflects improved FX liquidity, reduced imported input pass-through, and weakening aggregate demand under a restrictive monetary environment. Nonetheless, structural pressures in housing, education, healthcare, and other services remain elevated, suggesting that medium-term inflation risks are gradually shifting toward service-driven components.

URBAN AND RURAL INFLATION

In January 2026, both urban and rural inflation moderated significantly. Urban inflation was 15.36% YoY (down 14.09 percentage points from 29.45% in January 2025), and rural inflation was 14.44% YoY (down 10.60 points from 25.04% a year earlier). On a month-on-month basis, urban prices fell 2.72% while rural prices declined 3.29%, reversing December increases of 0.99% and -0.55%, respectively. The 12-month averages stood at 22.30% for urban and 21.03% for rural areas, highlighting broad-based disinflation across the economy.

C. OUTLOOK

MONETARY POLICY

Ahead of the Monetary Policy Committee (MPC) meeting scheduled for February 23–24, 2026, the inflation data present a more nuanced picture. Although headline inflation remains in double digits on a year-on-year basis, the sharp collapse in month-on-month price momentum shifts the near-term narrative.

Public sentiment appears to be turning, with local media reports indicating that approximately 65% of Nigerians favour a rate cut, reflecting mounting pressure from households and businesses facing tight credit conditions and subdued economic activity. The decline in the January Stanbic IBTC PMI reinforces the view that demand conditions are softening.

However, we expect the Central Bank of Nigeria (CBN) to maintain a hold-and-wait approach. While January's inflation data are encouraging, one month, particularly following a change in methodology, is insufficient to justify a policy pivot. The Committee is likely to seek confirmation of a sustained trend before considering any rate reduction.

The case for caution remains clear. Nigeria's inflation has historically been vulnerable to exchange-rate swings and energy price shocks. Cutting rates prematurely risks reigniting the pressures the CBN has spent the past two years attempting to anchor..

C. OUTLOOK

A premature move could weaken investor confidence, pressure the naira, and reintroduce imported cost pressures

Looking ahead to February, inflation dynamics will likely be influenced by the commencement of Ramadan, which typically increases short-term food demand, particularly for staple items such as rice, flour, sugar, cooking oil, and protein products. Historically, pre-Ramadan stocking activity and heightened household consumption during the fasting period can exert upward pressure on food prices, potentially moderating the pace of disinflation observed in January.

While exchange-rate stability and improved FX liquidity should continue to dampen imported cost pressures, seasonal demand associated with Ramadan may introduce temporary firmness within the food basket. As such, although underlying momentum appears to be cooling, February may witness either a mild rebound in month-on-month inflation or a slower pace of moderation relative to January's sharp contraction.

Overall, we expect inflation to remain broadly contained on a year-on-year basis, with month-on-month readings likely to normalise slightly, barring any significant exchange-rate or energy price shocks.

ANALYSTS' CERTIFICATION

We, the undersigned analysts, certify that the views expressed in this report reflect our independent assessments of economic conditions and trends. Our compensation is not influenced by the views or recommendations in this report, which complies with Nigerian SEC regulations and international best practices.

CONFLICT OF INTEREST DISCLOSURE: Analysts declare no material conflicts of interest with entities referenced in this report. Any potential conflicts are disclosed in the appendix.

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