ECONOMIC SPLASH

Inflation forecast

April 12

2024

Headline Inflation

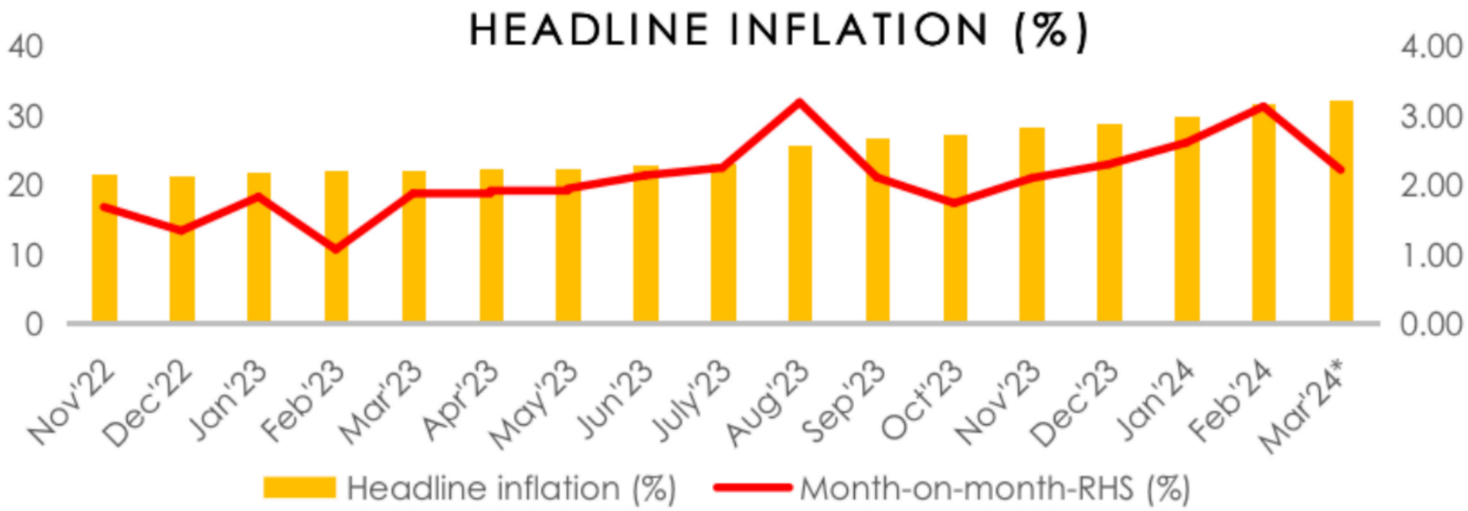
to Inch up to 32.15%

32.15%

Headline inflation forecast for Nigeria

The National Bureau of Statistics will release its inflation numbers on Monday 15th of April 2024. However, it is important to note that the month of March was when there was a confluence of festivities including Easter and Ramadan which increased consumer demand and changed spending patterns. Additionally, there was a notable appreciation of the naira by 21.6% from N1,670/$ to N1,309/$ and a decline in the price of diesel from N1,500 to N1,380. These developments had a direct impact on the costs and margins of retailers. Does it mean that we are at the point of inflection? Yes, it could be! However, if the minimum wage is announced, it could reignite inflationary pressure, further prolonging the inflation spiral.

Our economic analysis, based on surveying major commodity markets in Lagos, shows a slight increase in headline inflation. Expected to rise by 0.45%, to 32.15% from February's 31.7%, mainly attributed to seasonal disruptions, Ramadan, Easter spending, and supply shortages due to planting season, pushing inflation to a 29-year high.



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[1]NBS, FDC Think Tank

There were significant declines in the prices of tracked food commodities, including rice (7.4%), eggs (11%), onions (27.7%), noodles (15.2%), and palm oil (9.1%). Conversely, prices remained stable for items like garri, cereals, melon seeds, sugar, beverages, and turkey. Most imported commodities tracked showed a downward trend, reflecting reduced exchange rate pass-through effects. However, tomatoes (22.9%) and pepper (17.6%) prices continued to rise due to planting season impact in Northern central Nigeria. Food inflation is expected to increase by 0.14% to 38.33% from 37.92%, also, core inflation will move in tandem with food inflation to rise by 0.14% to 25.27% from 25.13%. mainly due to supply-side constraints and the absence of an inflation-targeting framework.

Monthly inflation

To: 2.20%

By: ▼92bps

From: 3.12%

Food inflation

To: 38.33%

By: ▲41bps

From: 37.92%

Data Breakdown and Analysis

Month-on-month food and core inflation to decline in March

We estimate that month-on-month inflation, which reflects the most current economic conditions, is likely to decline marginally to 2.20% (annualized at 29.86%). with food inflation decreasing by 1.58% to 2.21% from 3.79% due to currency scarcity forcing retailers to lower prices. Core inflation is also expected to decrease by 0.15% to 2.02% from 2.17%, attributed to a stable exchange rate and reduced logistical expenses, notably with an 8% drop in diesel prices and a 21.6% appreciation in the exchange rate, easing imported inflation's impact.

600bps cumulative increase in policy rate– Catch your breath and see the effect

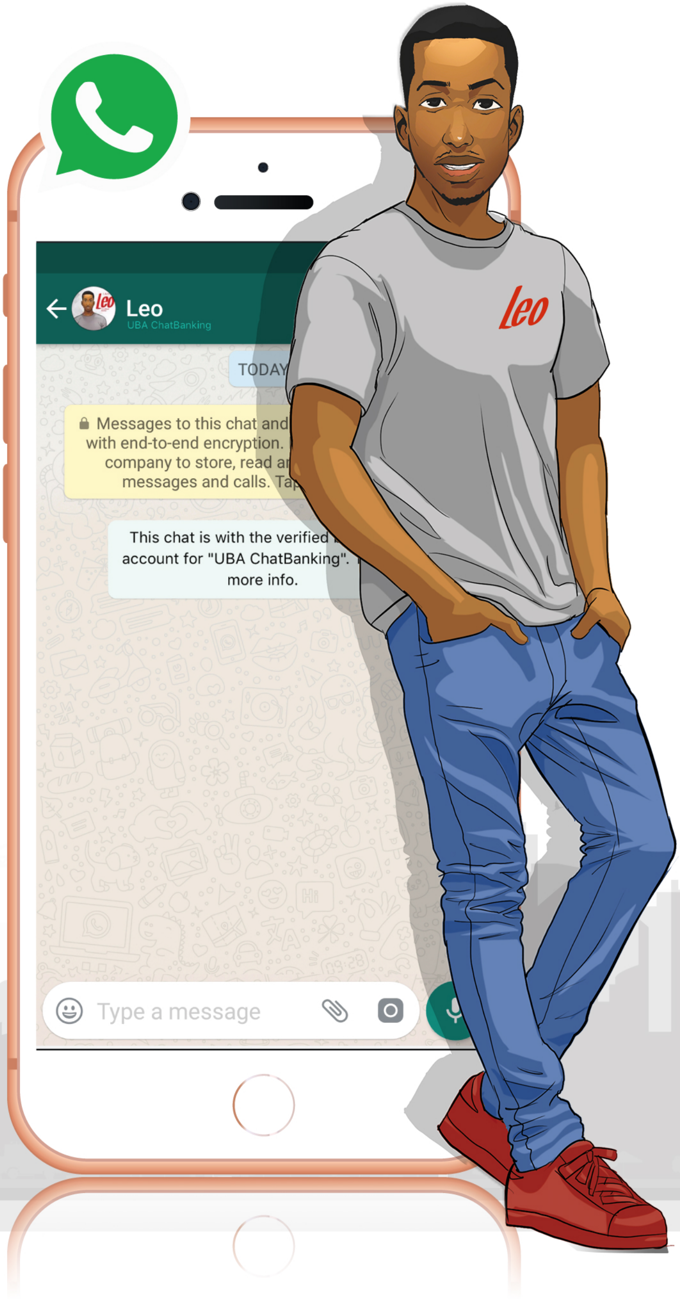
The CBN has in March hiked its policy rate by 200bps to 24.75% in a further tightening of liquidity. The effect of the cumulative increase of 600bps in the first quarter of 2024 has been a slowing of the rate increase in inflation. The trajectory of price increases both annual and monthly will seem to suggest that inflation is fast approaching a point of inflection. Most analysts are of the view that both core and food inflation will taper in the second half of 2024. The EIU is more bullish and is forecasting an inflation rate of 15.1% in 2025.

Outlook

Inflation expectations are that prices will rise in the near term before dipping in the second half. This will be after a sell-off of the existing expensive inventory of traders. However, the long-anticipated wage review is likely to reignite inflationary pressure, further prolonging control of inflation.

UBA

United Bank for Africa



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