

Headline Inflation Sprints to 33.20%

April 16



ECONOMIC SPLASH



2024

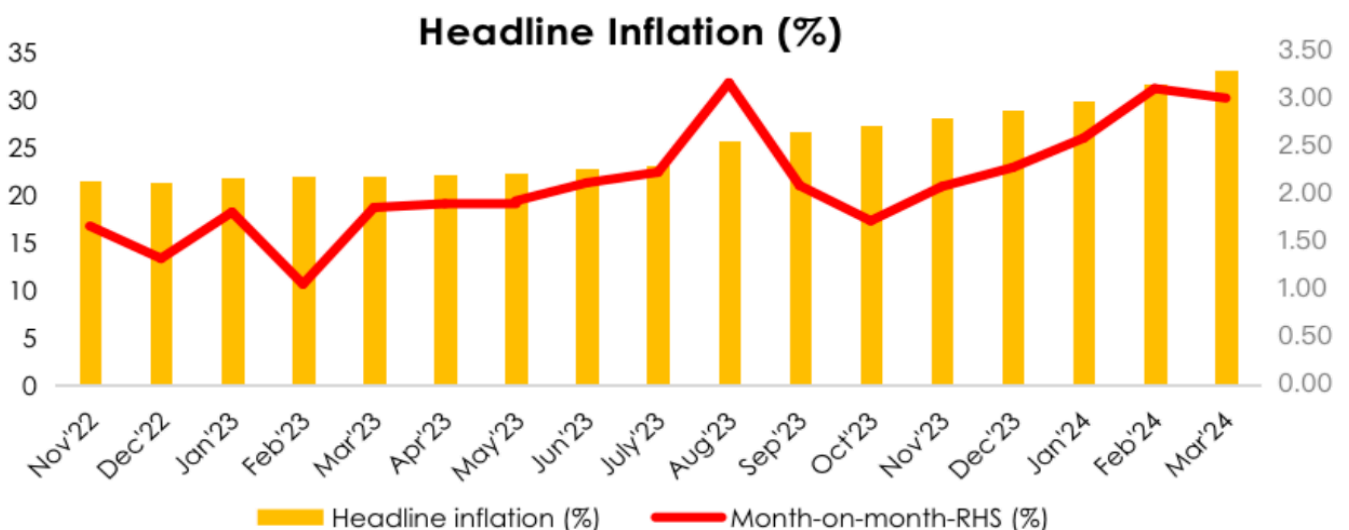
Nigeria's March headline inflation jumps to 33.20% defying a strong Naira

33.20%

Headline inflation rate for Nigeria

The inflation data released by NBS revealed a higher-than-anticipated surge in retail prices in the month of March 2024. Headline inflation spiked by 1.50% to 33.2% from 31.7% in February. This is the highest level since 1996, it also was far in excess of the consensus forecast rate of economists.

Most analysts were of the view that headline inflation would climb marginally because of the dampening effect of a stronger naira in the forex markets. The data showed a significant increase in both the food (40.01%) and non-food (25.90%) baskets. Also underpinning the structural characteristics of inflation in Nigeria is the fact that core inflation increased from 25.13% to 25.90%. The limited impact of naira appreciation on the price level, was more as a result of retailers repricing their inventory on an average cost basis which does not fully reflect the marginal cost of imported commodities.



Therefore, we expect the moderation in retail prices due to a stronger naira to become more apparent in the April/May survey. At this level of headline inflation (33.2%), the MPC may be forced to further tighten rates at the next meeting in May 20-21, just ahead of the first anniversary of this administration.

Data Breakdown and Analysis

Month-on-month Inflation down marginally to 3.02%

On a month-on-month basis, the headline inflation rate declined by 0.10% to 3.02% (annualized at 42.79%) from 3.12% (annualized at 44.54%) in February. This implies that in March, the rate of increase in the average price level is less than the rate of increase in the average price level in February. The decline was mostly due to the lower exchange rate pass-through owing to the naira's appreciation, as well as lower logistics costs.

Food inflation declined to 3.62% on a month-on-month basis

Food inflation (year-on-year) increased by 2.09% to 40.01% in March. Month-on-month food inflation declined by 0.17% to 3.62% from 3.79% in February. The March monthly decline was due to the easing of the usual inflationary stoking factors in the country. Diesel prices fell by 8% to N1,380 per litre from N1,500 per litre in the previous month, lowering logistics costs. Price resistance as well as a fall in the cost of food imports curbed the pace of growth in the monthly food price pressures.

Monthly inflation



Food inflation



***770#**

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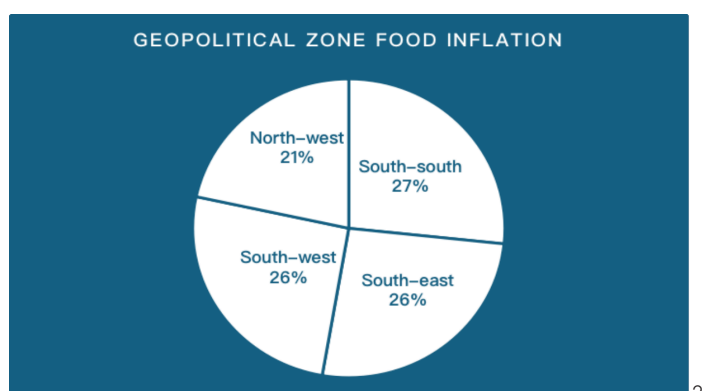
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Food Inflation by Geopolitical Zone

Food inflation by geopolitical zone showed that food inflation is higher in the South-south by 43.71%, in the South-east by 42.72% and South-west by 42.08 in that order. Whilst the North-west recorded the lowest food inflation (35.42%). These variations can be attributed to several factors. For instance, South-south and Southeast regions have a higher reliance on food imports due to their coastal locations, making them more vulnerable to currency devaluation and fluctuations in global food prices. The North-west region, on the other hand, has been affected by insecurity and conflict, which can disrupt food production and supply chains. The South-west region is characterized by a mix of agricultural productivity, urbanization, and industrialization, which can lead to varying food inflation rates across different areas within the region.



Core inflation rises to 25.90%

Core inflation, which is inflation less seasonality, surged by 0.77% to 25.90%. Monthly core inflation sub-indices rose by 0.37% to 2.54%. The increment in the level of core inflation implies that inflationary pressures are becoming entrenched and would require long-term fiscal initiatives to quell price pressures.

Rural and urban inflation

On a month-on-month basis, rural inflation declined by 0.2% to 2.87% in March from 3.07% in February. However, on an annual basis, rural inflation rose by 1.55% to 31.45% from 29.9% in February. Similarly, the annual urban inflation rate rose by 1.52% to 35.18% in March from 33.66% in the previous month. Whilst on a month-on-month basis, the urban inflation rate remained flat at 3.17% in March.

State-by-state analysis

In March, Kogi recorded the highest annual all-items inflation rate (39.97%), followed by Bauchi (38.34%) and Kwara (38.10%). These states experienced significantly high food inflation rates, with Kogi at 48.46%, Kwara at 46.18%, and Bauchi at 38.34% in March 2024. The rise in food prices, which are essential for daily living, contributes significantly to overall inflation rates in these states. The states with the lowest inflation rates were Borno (25.78%), Benue/Taraba (28.12%) and Katsina (28.32%). These states have relatively higher agricultural productivity, which can help stabilize food prices and reduce inflation rates. This likely contributes to Borno, Benue/Taraba, and Katsina having the lowest inflation rates compared to other regions in Nigeria.

Outlook

Headline inflation is expected to moderate in April/May due to a stronger naira. At this level of headline inflation (33.2%), the MPC may be forced to further tighten rates at the next meeting.

² NBS, FDC Think Tank

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