ECONOMIC SPLASH

April Pre-Inflation Report

May 10

2024

Nigerian inflation is likely to surge to 34.25% as

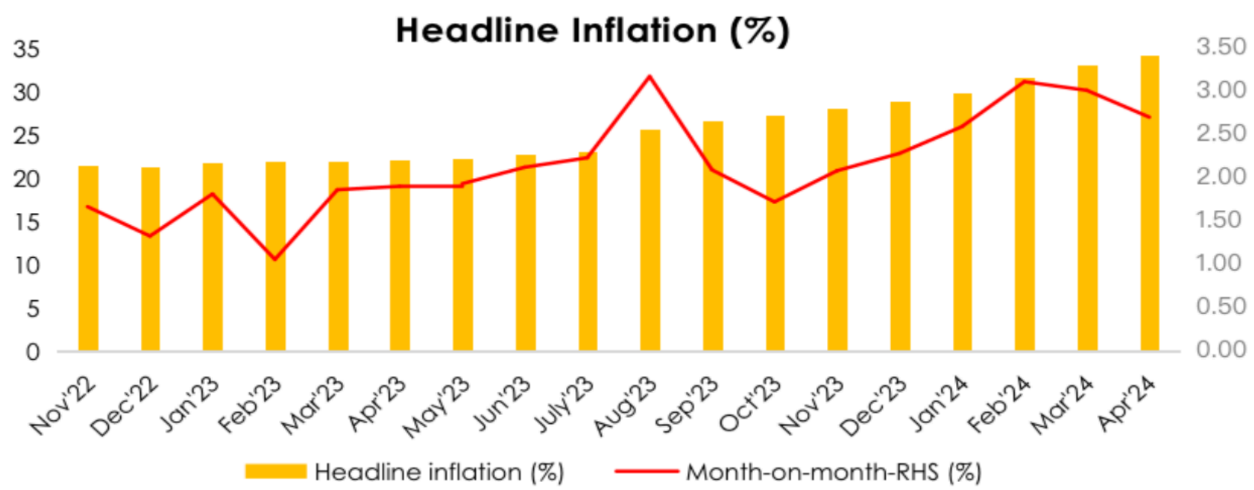
Petrol scarcity and a weakening naira take their toll

34.25%

Headline inflation forecast for Nigeria

NBS is set to release its latest inflation numbers on Wednesday, May 15, 2024. Based on our Lagos market survey and econometric model estimation, our findings suggest an uptick in headline inflation, with expectations pointing towards a 1.05% increase. If projections hold, headline inflation is estimated to increase to 34.25% from 33.2% in March. This expected increase in inflation was adversely affected by the return of petrol scarcity which pushed up prices. This has the potential of distorting the estimate in the margin of error. In addition, this marginal rise can also be attributed to the inherent lag between policy implementation and its tangible impact on the economy and populace. Often, the effects of economic policies take time to permeate and manifest fully.

Food inflation is expected to increase in April due to the planting season effect and logistics cost due to petrol scarcity. The composite food price index is expected to rise by 0.97% to 40.98%, compared to an increase of 40.01% in March. This is a result of supply shortages owing to the commencement of the planting season.



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[1]NBS, FDC Think Tank

A notable increase was witnessed in the prices of several essential food commodities. Garri witnessed a substantial surge of 25%, alongside increases in the prices of vegetable oil (15.4%), onions (17%), tomatoes (16.3%), pepper (10%), wheat flour (7%), and milk (23%). Conversely, prices remained relatively stable for items such as sugar, eggs, palm oil, and melon seeds. Whereas marginal declines were observed in the prices of noodles (4%), rice (15%), and margarine (16%). It's worth noting that most commodities influenced by exchange rate movements exhibited a marginal decline in price, reflecting the direct impact of exchange rate fluctuations on consumer goods.

Core inflation is expected to decline marginally by 0.62% to 25.28% in April from 25.90% in March. The decline is supported by the relatively stable exchange rate in April and moderating logistics costs (lower diesel prices). Diesel, which accounts for over 30% of firms' logistics costs declined by 29.4% to N1200/litre in April while the exchange rate appreciated by 82% in the same period.

Month-on-month food and core Inflation

We estimate that month-on-month inflation, which reflects the most current economic conditions, is likely to decline marginally again to 2.71% (annualized at 37.89%). Food inflation increased by 0.22% to 3.84% from 3.62% due to the supply-demand gap triggered by low productivity. Core inflation is also expected to increase by 0.53% to 2.01% from 2.54%, attributed to the dancing naira in recent times.

Monthly inflation

To: 2.71%

By: ▼31bps

From: 3.02%

Food inflation

To: 40.98%

By: ▲97bps

From: 40.01%

Monetary tightening is likely to resume again at the MPC meeting

The current interest rate regime has indeed lured in more investors eyeing attractive yields in fixed-income instruments. This influx of hot money could temporarily bolster liquidity and investment sentiment. However, the broader implications of sustaining a high-interest rate environment warrant scrutiny. While fixed-income investments may flourish, the high interest rates pose challenges for private investors seeking credit for business expansion. This crucial aspect directly impacts productivity growth, as businesses face higher borrowing costs, potentially stifling investment and innovation. Moreover, the looming trade-off becomes evident during inflationary periods, where the burden of servicing high-interest debt exacerbates economic shocks. It becomes paramount to weigh the consequences of persisting with elevated interest rates. To prevent the economy from overheating and mitigate the risk of raising poverty lines and shrinking productivity.

Outlook

Inflation is expected to remain elevated until H2 before it will begin tapering down. This is underpinned by the lingering planting season characterized by food shortages and this increase will be supported by currency fluctuation.

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