

Nigeria's Inflation Climbs to 33.69% in April

May 15



ECONOMIC SPLASH



2024

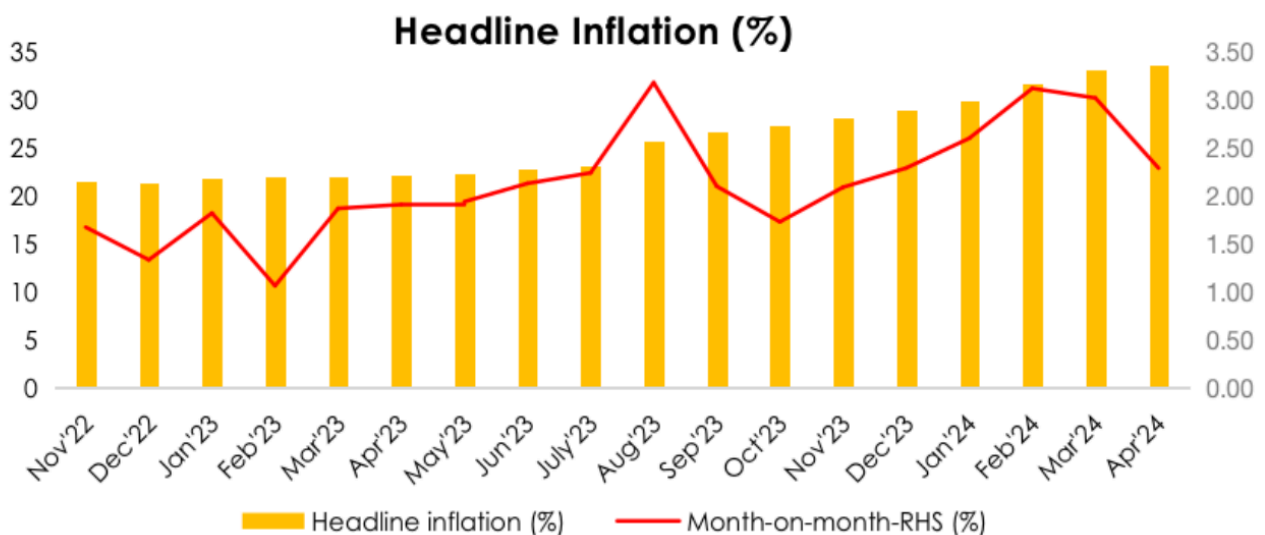
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Headline inflation rate for Nigeria

The National Bureau of Statistics (NBS) released the April inflation report today (May 15) as scheduled. In line with our forecast that inflation will surge, the outcome of the national data did not take into consideration petrol scarcity. However, next month's reading will capture the effect. Not as profound as the effect of petrol scarcity was confined to major cities and did not last very long. The impact on inflation is likely to be transient and not fundamental. Headline inflation increased by 0.49% points to 33.69% from 33.2% in March. The renewed pressure on Niara, and the heightened food prices which are further exacerbated by seasonality are the major stoking factors.

The sustained uptick in the general price level was mainly due to a surge in the food basket, which increased by 0.52% to 40.53% from 40.01% in March. This is not surprising as the second quarter is typically the peak of the planting season. Some of the commodities that witnessed the highest spikes are millet flour, Garri, bread, yam and other tubers, vegetable oil, and fish. The price of

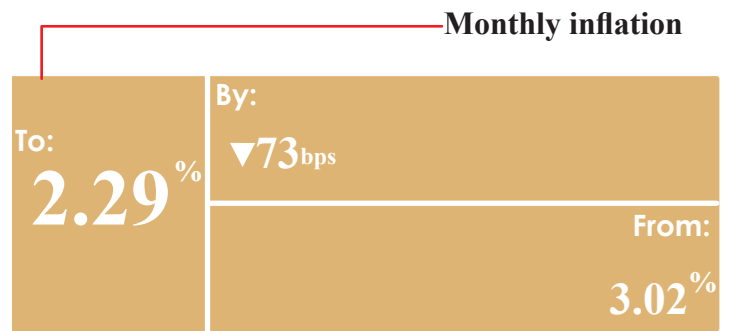


¹NBS, FDC Think Tank

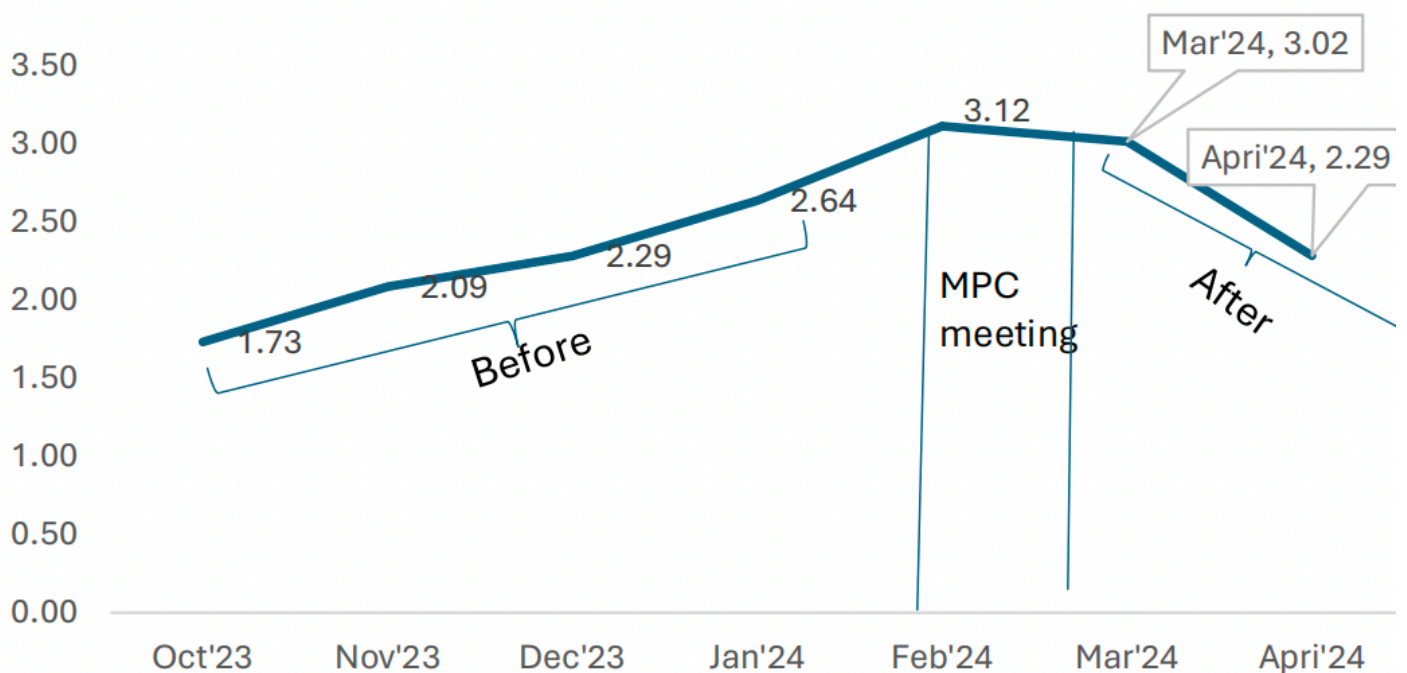
a bag of 50kg Garri jumped by 25% to N40,00 from N32,000. Core inflation moved in tandem with food inflation, increasing by 0.94% to 26.84% from 25.90%. This implies that Nigeria's inflation is more structural than transient.

Monetary policy tightening - The economy's rollercoaster ride!

Two major uncertainties have impacted inflation expectations & psychology in the past few months. These include the price of diesel and Naira misalignment in the forex market. The price of diesel declined by 29.41% to N1200/litre from N1700/litre while the exchange rate appreciated by 82%. After the CBN policy implementation in the month of February, there was a noticeable decline in the month-on-month inflation by 10bps in March and another 73bps in April. CBN is right on track with what



Month-on-Month inflation (%)



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needs to be done to rein in inflation. The MPC meets next week, and as expected are likely to raise rates due to renewed pressure on the naira and the persistent inflation. We expect between 50bps to 100 basis points increase, in line with most other Central Banks in the World.

Data Breakdown

Monthly inflation declined 0.73%

Month-on-month inflation which is a true picture of the inflation rate compared to annual inflation declined by 0.73% to 2.29% (31.16% annualized) in April from 3.02% (42.79% annualized) in March. This implies that in April, the rate of price level increase was lower than in March.

Food prices spike as planting season begins - What's cooking with inflation?

The Nigerian food basket has consistently increased since the beginning of the year. While the uptick in the first three months of the year has been largely attributed to currency misalignment and supply chain disruption, the increase this time is largely due to the planting season effect which is characterized by food shortage. The second quarter of the year is typically the peak of the planting season, and the resulting impact is a reduction in food supply and ultimately higher prices. The annual food index rose by 0.52% to 40.53% in April from 40.01% in March while the monthly food index declined by 1.11% to 2.50%. The commodities that recorded the highest price increases were Millet flour, Garri, Bread, yam and other tubers, vegetable oil, and fish.

Core inflation rose by 0.94% to 26.84%

Core inflation (inflation less seasonalities) rose by 0.94% to 26.84% from 25.90%. This was despite

the relatively stable exchange rate and moderating logistics costs (lower diesel prices) in April. Diesel, which accounts for over 30% of firms' logistics costs, declined by 29.41% to N1200/litre in April while the exchange rate appreciated by 82% in the same period. The highest increases were recorded in the prices of gas, passenger transport by air, liquid fuel, vehicle spare parts, fuels, and lubricants for personal transport equipment, medical services, and passenger transport by road.

Rural & Urban Inflation

In April 2024, urban inflation surged by 36.00% compared to the same month last year, marking an increase of 12.61% points from April 2023 when it stood at 23.39%. On a monthly basis, urban inflation declined marginally by 0.50% to 2.67%, from 3.17% in March. Also, rural inflation stood at 31.64% year-on-year, marking a 10.50% increase from April 2023 when it was 21.14%. On a monthly basis, rural inflation in April decreased by 0.95% points to 1.92%, from 2.87% in March.

State-by-state analysis

In April, Kogi recorded again the highest annual all-items inflation rate (40.80% from 39.97% in March), followed by Bauchi again (39.91% from 38.34% in March) and Oyo (38.37%). Kogi also recorded the highest food inflation (48.62%), followed by Kwara (46.73%) and Ondo (45.87%) respectively. Underpinned by the rising prices of food, food shortage heightens due to the planting season. States with the lowest inflation rates remain Borno (26.09%), Benue (27.53%), and Taraba (28.69%) just like in March. The higher agricultural productivity in these areas is likely to play a role in stabilizing food prices and lowering inflation rates in these states.

² NBS, FDC Think Tank

Outlook

Headline inflation is expected to continue its upward trend due to the renewed pressure on Naira, and rising inflation which is triggered by the planting season effect. This will be one of the major considerations at the MPC meeting later this month (May 20 and 21). The committee will most likely increase the MPR by either 50bps or 100bps, in line with global trends.

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