



# Headline inflation rises marginally by 0.26% to 33.95% in May

June 15



## ECONOMIC SPLASH



2024

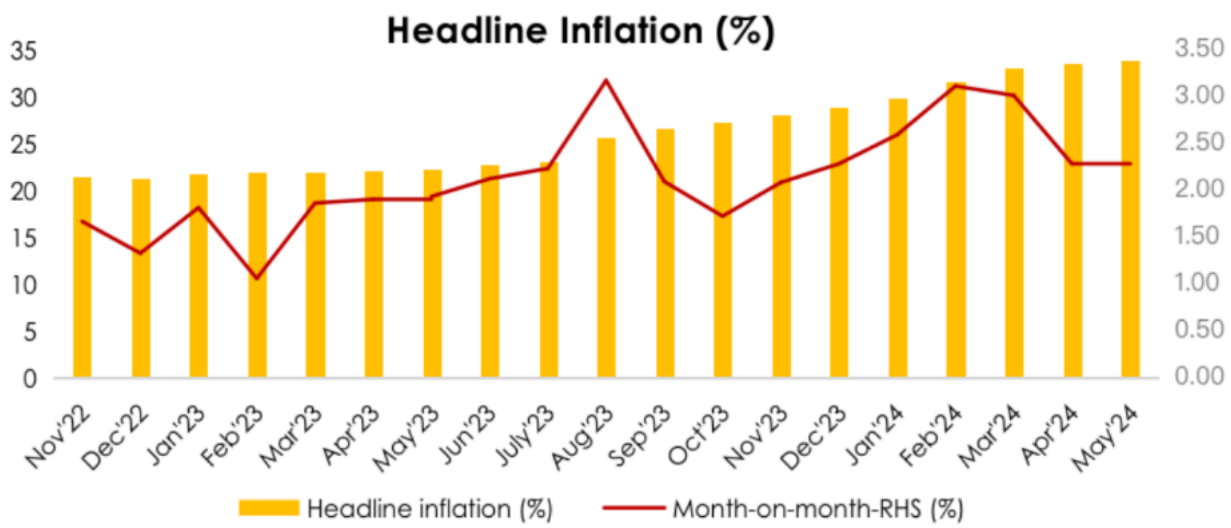
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# 33.95%

**Headline inflation rate for Nigeria**

On Saturday, the National Bureau of Statistics released the CPI inflation report for May. Headline inflation, which analyst's expected would rise, indeed increased for the fifth consecutive month. However, the uptick was modest, edging up by 0.26% to 33.95% from 33.69% in April, although this was lower than anticipated. The rate of increase moderated from 0.49% in April to 0.26% in May, suggesting a potential stabilization in inflationary pressures. Is this indicative of inflation approaching a point of inflection? While the moderation is a positive signal, caution is advised. Impact of planting season will be more potent in the month of June, alongside speculative effects stemming from minimum wage reviews and increased monetary saturation. These factors could influence the inflation trajectory significantly.

Core sub-index (which is inflation-less seasonality) continued its upward trend to 27.04% from 26.84%. The food price indices increased as well by 0.13% to 40.66% from 40.53%. The planting season, coupled with insecurity threats resulted in supply chain disruption.



### Is another rate hike expected in July?

The CBN raised interest rates by 150 basis points to 26.25%p.a. at its meeting in May, marking the third consecutive hike totaling 750 basis points. But following the continuous decline in monthly inflation and slower increase in headline inflation, it appears that the CBN may maintain status quo at the upcoming MPC meeting in June. The decision to hold rates steady reflects a prudent approach aimed at observing whether this downward trend will persist in the coming months. This period of easing inflation could potentially signify that the economy is approaching a turning point, where inflation might stabilize or begin to decrease more consistently.

#### Monthly inflation

To:	By:
2.14%	▼15bps
	From:
	2.29%

#### Food inflation

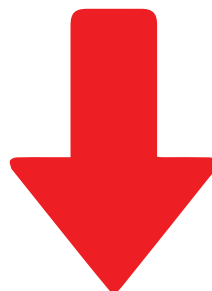
To:	By:
40.66%	▲13bps
	From:
	40.53%

### Producers adopt innovative coping mechanisms

In response to inflationary pressures and currency instability, producers are increasingly turning to domestic sourcing of raw materials to manage production costs effectively. This strategic shift aims to mitigate the impact of rising import costs and exchange rate fluctuations on their bottom line. By sourcing locally, businesses seek to achieve greater cost predictability and reduce exposure to external economic uncertainties. This proactive approach not only helps in stabilizing production costs but also supports local industries, fostering resilience in the face of economic volatility.

### Month-on-month inflation – Decline marginally to 2.14%

The month-on-month inflation (a better reflection of current prices and inflation expectations) was down by 0.15% to 2.14% from 2.29% (25.97% annualized) in the month of May. This is the third consecutive monthly decrease in 2024. The declining monthly general price level suggests that inflationary pressures are likely to taper soon if not disrupted by other structural factors, especially with the minimum wage review.



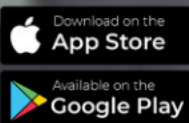


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## Data Breakdown

### Food inflation maintained its upward trajectory

Annual food inflation indices increased marginally by 0.13% to 40.66% from 40.53%. Whereas on month-on-month basis, food inflation declined by 0.22% to 2.28% in May. This reflects decline in consumer demand which is triggered by increase in savings due to higher rates. The commodities that recorded fall in the rate of increase in the average prices include Palm Oil, Irish Potatoe, Cassava Tuber, Wine, Bournvita, Milo, and Nescafe.

### Core inflation uptick by 0.2%

The annual and monthly core sub-indices (inflation less seasonalities) moved in different direction in the month of May. The annual core sub-index rose by 0.2% to 27.04%, the monthly core sub-index declined by 0.18% to 2.01%. Even though the decline in the monthly core inflation is marginal, it suggests that inflationary pressures in the near term would not only be driven by seasonal factors. Core inflation is

27.04% above the 364-day primary market T/bills rate of 20.67%. This is indicative of a negative rate of return of -6.37% on investment. Thus, Investors effectively lose purchasing power, which can deter investment in these instruments.

### Rural & Urban Indices

On an annual basis, both urban and rural inflation increased by 0.34% and 0.18% to 36.34% and 31.82% respectively in May. However, on a monthly basis, urban inflation decline by 0.32% to 2.35% while rural inflation was up marginally by 0.02% to 1.94%. This suggests that the harvest season is likely not to commence earlier in 2024 compared to the previous year.

### State-by-State Analysis

Borno state recorded the lowest inflation rate (25.97%), followed by Benue (27.74%) and Delta (28.67%). The states with the highest inflation rates were Bauchi (42.30%), Kogi (39.8%), and Oyo (37.73%).

## Outlook

We expect inflationary pressures to persist in June. This would be driven by factors including the planting season and speculations of minimum wage review. Due to the continuous decline in monthly inflation and slower headline inflation growth, the CBN might keep rates unchanged at the June MPC meeting to observe if this trend will persist.

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