

ECONOMIC SPLASH

May Pre-Inflation Report

June 11



2024

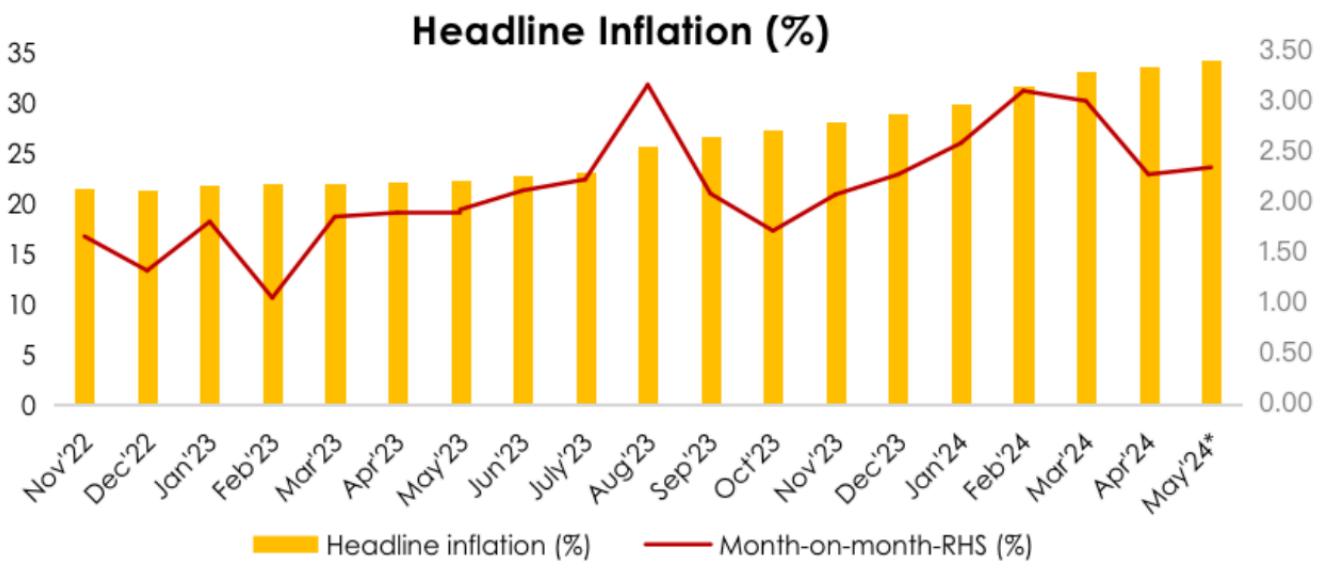


Headline inflation likely to Surge to 34.32% in May – Against expectations

34.32%

Headline inflation forecast for Nigeria

The National Bureau of Statistics will release the inflation data for May 2024 later this week. Based on our regression model from our Lagos market survey, headline inflation is expected to increase by 0.63% to 34.32% from 33.69% in April. If our forecast is accurate, it will be the fifth consecutive rise in 2024. The rate of increase in price level which was 0.49% in April is now projected to increase to 0.63%, which suggests that price will not be moderating anytime soon. This trend combined with other exogenous factors, i.e. the proposed minimum wage review and increase in the rate of money supply, shows that price inflation is still very potent.



¹NBS, FDC Think Tank

Apart from the above, we are also projecting that food inflation will rise by 0.67% to 41.20% from 40.53%. Almost all the commodities tracked in our universe witnessed significant price increases, including rice (13.3%), beans (26.3%), garri (17.5%), yam (11%), tomatoes (120%), onions (36.4%), vegetable oil (38.9%), and Titus fish (50%). Conversely, some prices have remained relatively stable such as eggs, bread, noodles, and palm oil. Core inflation (inflation less seasonalities) is projected to rise marginally by 0.36% to 27.20% from 26.84% in April. This would be driven by the renewed currency pressures and money supply saturation.

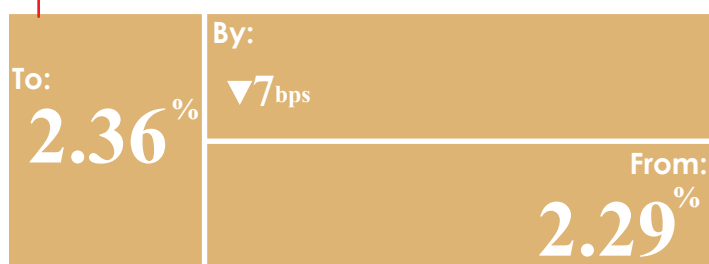
Month-on-month inflation will also increase marginally by 0.07%

Our time series model points to a possible marginal increase in month-on-month inflation to 2.36% (32.49% annualized) from 2.29% (31.16% annualized) in April. This largely reflects an increase in aggregate demand as currency in circulation rose by 1.07% to N3.97trn from N3.92trn in April. Food inflation is to increase marginally also by 0.08% to 2.58% from 2.50% due to the supply-demand gap underpinned by low productivity and insecurity. Core inflation is also expected to tick up by 0.53% to 2.73% from 2.20%, attributed to the dancing naira in recent times.

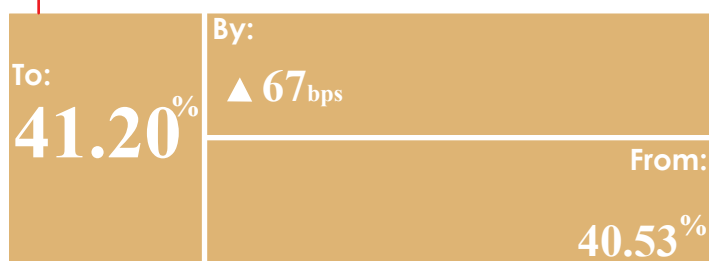
Skyrocketing money supply growth will push inflation further to 35.19%

Money supply growth (M3), which declined in March by 10.26% to N92.34trn, has reversed itself, jumping by 3.98% to 73.02% (N96.97trn) in April, posing a major threat to the inflation trajectory. Research findings show that every

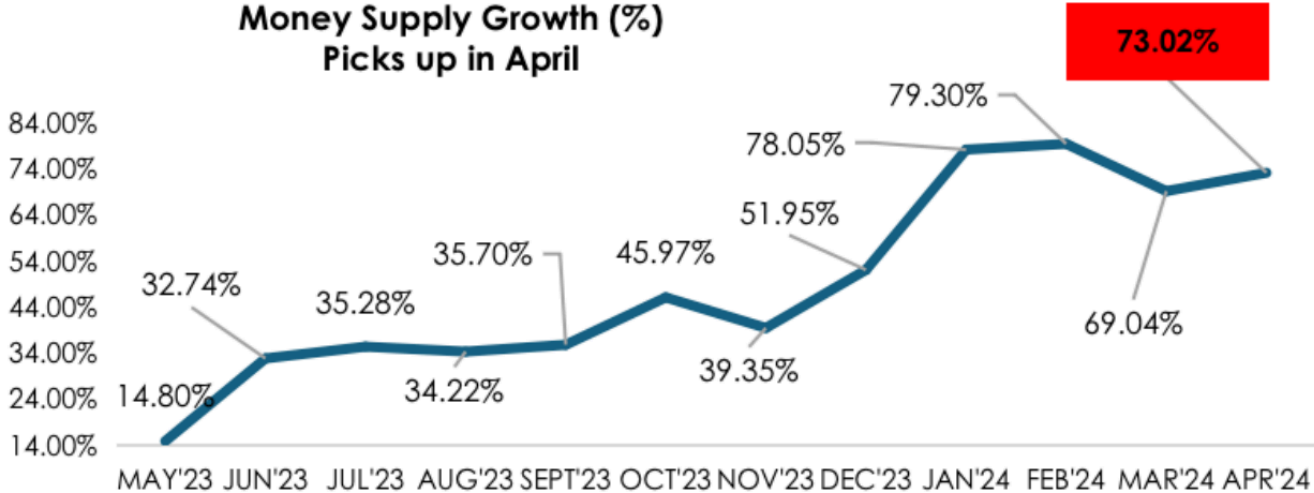
Monthly inflation



Food inflation



1% increase in money supply will lead to a 0.22% increase in headline inflation. This implies that the impact of the money supply growth of 3.98% might result in inflation increasing further to 35.19%. Therefore, the hope that inflation might taper is misplaced at this point in time. Hence, another aggressive rate hike by the CBN is possible at the next MPC meeting on July 22nd and 23rd.



2

Minimum wage increase - Impact on inflation

Nigeria grapples with the proposal to increase the minimum wage amid a spiraling inflation rate of 33.96% and a 750-basis point increase in the MPR. While crucial for uplifting low-income workers, this move could exacerbate inflationary pressures. A higher minimum wage may trigger both cost-push and demand-pull inflation. More so, expectations of future wage hikes may initiate a wage-price spiral, further intensifying inflationary trends.

Outlook

The planting season will increase prices in the coming months, coupled with the renewed currency pressure and money supply saturation. Hence, inflation is likely to remain high in the coming month or two, and it appears that another hike is possible.

²CBN, FDC Think Tank

Leo

on WhatsApp

Chat on +234-903-000-2455



Check Account Balance?

Top up your airtime?

Bank Transfers?

Bills Payment?

<https://m.me/ubachatbanking> ✉️ Leo@ubagroup.com 📞 CFC (+234-1-2807400)

▪ Africa

• New York

• London

• Paris

Important Notice

This document is issued by Financial Derivatives Company. It is for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration. All rates and figures appearing are for illustrative purposes. You are advised to make your own independent judgment with respect to any matter contained herein.

© 2024. "This publication is for private circulation only. Any other use or publication without the prior express consent of Financial Derivatives Company Limited is prohibited."