

ECONOMIC SPLASH

June Pre-Inflation Report

July 11



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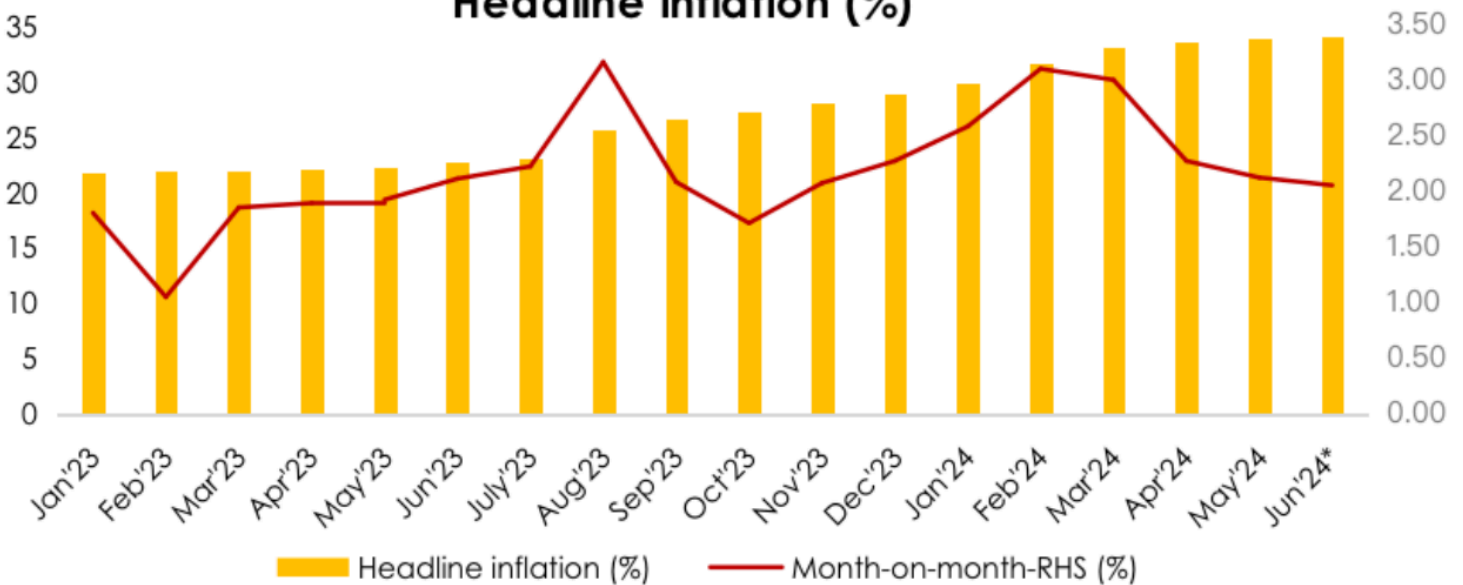
June headline inflation expected to rise modestly to 34.09%

34.09%

Headline inflation forecast for Nigeria

Nigeria's inflation report will be released by the NBS on the 15th of July. Based on our Lagos market survey and estimation model, we forecast that inflation (Y-o-Y) will increase modestly by 0.14% to 34.09%. The rate of increase, which was as high as 1.5% in the month of March, is now sharply lower. In spite of this slowdown in price increase, it will be the 18th monthly consecutive increase and a 28-year high. We project that food inflation will also increase to 40.87%. Whilst core inflation (inflation-less seasonality) will fall to 27.04%. The good news is that the monthly inflation is projected to fall to 2.07% (24.69% annualized).

Headline Inflation (%)



¹NBS, FDC Think Tank

Month-on-month inflation on a downward trajectory

It's worth noting that all monthly inflation sub-indices will mark a decline from the previous month. Month-on-month inflation will dip further to 2.07% (24.69% annualized) from 2.14% in May. This decrease suggests that while long-term inflationary pressures remain unabated, short-term factors may be contributing to temporary relief. Food inflation is to decline marginally by 0.09% to 2.19% from 2.28% due to weak demand from consumers. Core inflation is also expected to decline further by 0.12% to 1.98% from 2.01%, attributed to the forex market's stability as of the period under review.

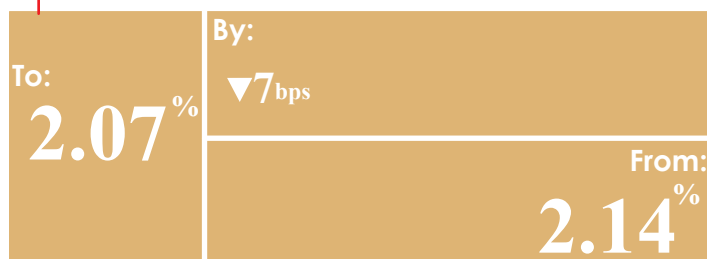
Import duties and levies on staples suspended

The federal government is showing its sensitivity to the plight of Nigerians as they wrestle with an almost intractable cost-of-living crisis. It has announced a 150-day suspension of import duties and levies on staples including maize, husked brown rice, wheat, and cowpeas. The average price reduction is expected to be approximately 10%.

New minimum wage with no productivity gains - Inflationary

Government is supposed to be fast-tracking the minimum wage settlement with labour. The impact of the consequential cost of the minimum wage adjustment on the cost structure of companies and government cost of the public sector will be a fly in the ointment of the inflation trajectory which is expected to begin tapering in Q3'24. 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

Monthly inflation



Food inflation



Outlook

MPC likely to maintain status quo in July

In the near term, the market is expecting that the MPC will maintain the status quo on the policy rate at 26.25% p.a. This is because consensus opinion is that inflation will begin declining as from September. This will be a justification for a wait-and-see attitude at the CBN. The doves will look at the Ghana experience, where inflation fell in June by 0.3% to 22.8% (Y-o-Y). Inflation in Ghana was above 50% in 2023. In the same vein, inflation in the U.S. has cooled more than was expected, to 3%. This means that the Fed is likely to begin cutting rates as soon as September.

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