

Economic Splash

June Post-Inflation Report

July 15



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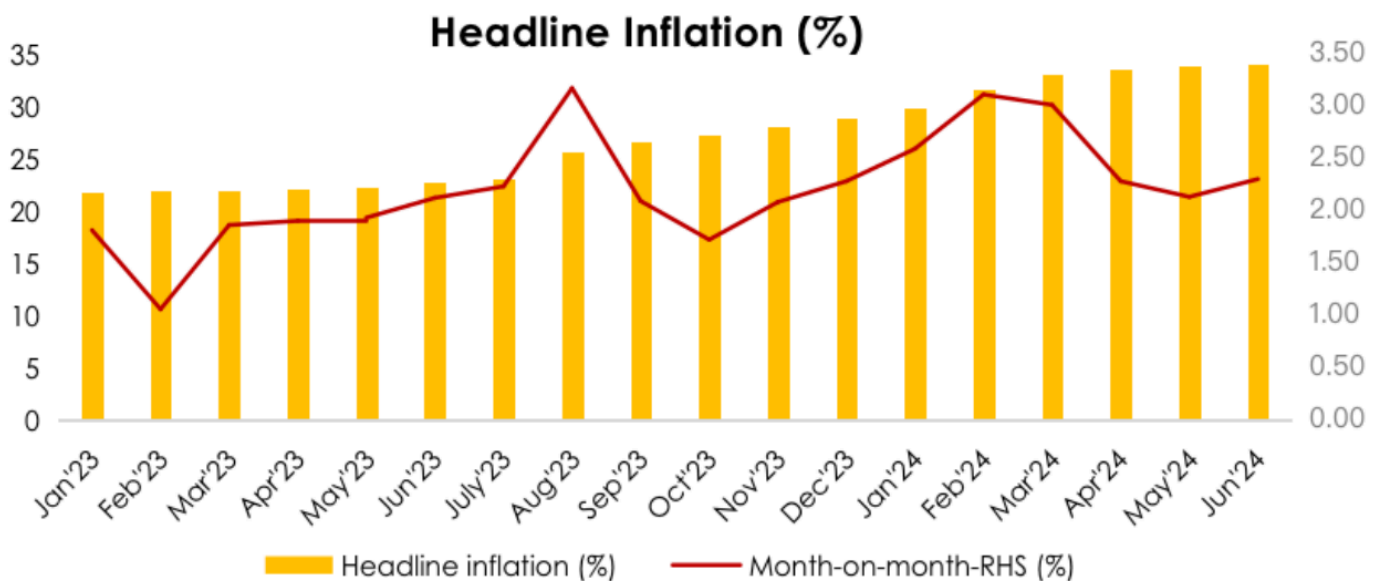
Headline inflation in Nigeria climbs again to 34.19%

34.19%

Headline inflation rate for Nigeria

NBS released Nigeria's official inflation report today. As widely anticipated and in line with consensus opinion inflation increased but only mildly to 34.19%. The major drivers of inflation at this time remains the food basket at 40.80%. The items include the usual suspects like Millet, Garri, yam, groundnut oil, palm oil, etc. Noticeably, absent from the food items are the proteins, e.g. meat, eggs, and chicken. At 34.19% Nigeria's inflation is now at a 28-year high and has increased for 19 months consecutively.

Core sub-index (inflation-less seasonality) surges to 27.40% from 27.04%. On a monthly basis, inflation followed the same pattern, increasing by 0.17% to 2.31% (30.25% annualized) from 2.14 (28.97% annualized).



¹NBS, FDC Think Tank

Let's not be fooled by June inflation - July will tell a different story

The month of June 2024 compared to the prior year was not a typical month as Nigeria suffered from high flood and petrol shortages. Moreover, there was an interesting coincidence of public holidays in June. The celebrations and activities pushed up demand for food products. The full effect of these developments will manifest in the July inflation figures which are expected to be higher than the June numbers. One major development to look out for in July is the imminent passing of a new minimum wage law. From all indications, the effect of a new minimum wage will trigger cost-push inflation.

Monthly inflation increased marginally by 0.17% to 2.31%

Monthly inflation increased marginally by 0.17%, to 2.31% in June. This month-on-month rise bucks the slowing trend observed in May when inflation slowed for the third consecutive month to 2.14% from 2.29% in April. The June increase indicates renewed inflationary pressures.

Data Breakdown

Food inflation rises to 40.80%

The annual food composite price index climbed by 0.14% to 40.80%. On a monthly basis, the index rose by 0.26% to 2.55%. Triggered by planting season and festivity, compounded by supply shortage disruption and security concerns. The planting season effect remains a major dampener to

Monthly inflation



Food inflation



domestic food supply as well. The rise in food inflation on a year-on-year basis was caused by increases in prices of the following items: Millet Whole grain, Garri, Guinea corn, yam, and groundnut oil to mention but a few.

Core inflation climbs to 27.40%

In June, the annual and monthly core inflation sub-indices moved in different directions. The annual sub-index went up by 0.36% to 27.40% while the monthly sub-index increased modestly by 0.05% to 2.06% from 2.01% in May. Currency pressure and the devaluation of Naira are the predominant cause of the increase recorded in the core inflation sub-index.

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Urban-rural inflation both increase

There was an acceleration in inflation across both the urban and Rural inflation sub-indices in June. On an annual basis, Urban inflation rose by 12.23% to 36.55%, while it rose by 0.11% to 2.46% on a monthly basis. Meanwhile, the rural sub-index also increased marginally by 10.72% to 32.09% while the monthly sub-index rose by 0.23% to 2.17%. The differential between urban and rural inflation fell by 0.06% to 4.46% in June from 4.52% in May. This could be attributed to increased transport costs due to fuel scarcity and price hikes, as food and goods travel longer distances to reach rural areas.

State-by-state analysis

Bauchi recorded the highest inflation rate in June (43.95%), followed by Kogi (39.91%) and Oyo (39.15%). Inflation rates are higher in these states due to their status as transit hubs, especially Kogi, and in border states like Oyo, where smuggling activities are prevalent. The states with the lowest inflation rates are predominantly in the North - Borno state

(25.90%), Benue (27.52%), and Katsina (29.21%) as the region produces most of Nigeria's food products.

Meanwhile, food inflation was highest in Edo (47.34%), Kogi (46.37%), and Cross River (45.28%) as they are major transit hubs and host transit populations that drive up prices. In Edo, there has also been an increase in food products demand for industrial purposes such as cassava for ethanol production. Nasarawa (34.31%), Bauchi (34.78%), and Adamawa (35.96%) recorded the slowest rise in food inflation (Y-o-Y). These states are all in the Northern region which is the country's food-producing region.



Outlook

The inflation outlook for July looks gloomy. Despite some signs of cooling in June and the impact of the base effect in July, several factors suggest that inflation may remain high. In spite of the July inflation outlook, we are still of the view that the CBN will maintain the status quo at its next meeting on July 22nd and 23rd.

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