



# INFLATION FORECAST

AUGUST 9



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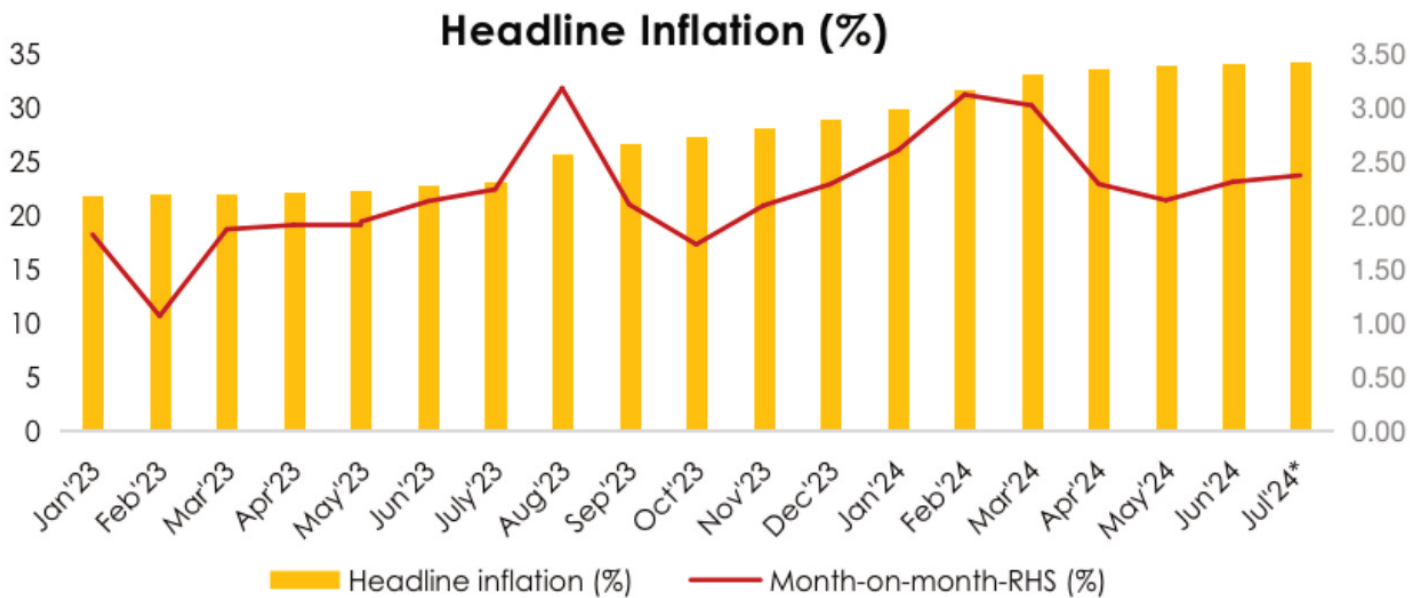


# Headline inflation to surge again to 34.26% in July

# 34.26%

**Headline inflation forecast for Nigeria**

Our recent market survey reveals a further build-up in inflationary pressures by 0.07% to 34.26% as supply chain disruptions continue to take their toll on prices. The foreign exchange uncertainty and the supply bottlenecks together with an increase in the price of petrol (PMS) are culminating in a further rise in headline inflation. Food inflation is likely to inch up further to 40.98% despite the harvest season. Fuel price hikes further impact logistics costs reducing consumer purchasing power. However, the harvest season could slow down the pace increasing food inflation rate.



<sup>1</sup>NBS, FDC Think Tank

An astronomical increase was witnessed in the prices of several essential food commodities. The price of semovita witnessed a substantial surge of 37.5%, alongside increases in the prices of palm oil (33%), milk (40%), onions (27%), rice (6.25%), turkey (16.6%), Garri (2.22%), egg (4%), sugar (3.75%), and vegetable oil (4.16%). Conversely, prices for items such as yam tuber (30%), Irish potato (44.3%), pepper (62.5%), and tomatoes (36.84%) declined sharply attributed to the harvest season of these crops.

Core inflation is expected to move in the same direction as food inflation to 27.48%. The rise is supported by exchange volatility between ₦1304/\$ and ₦1670/\$ in July.

**Month-on-month - Food and core inflation to maintain an upward trend**

We estimate that month-on-month inflation, which reflects the most current economic conditions, is likely to increase marginally again to 2.37% (annualized at 31.26%). Food inflation is expected to increase by 0.11% to 40.98% from 40.87% due to the supply-demand gap triggered by low productivity. Core inflation is also projected to increase marginally by 0.08% to 27.48% from 27.40%, attributed to the volatile naira in recent times.

**Hungry times - A bizarre bite of reality**

Food inflation has become a major concern in Nigeria, affecting both the rich and the poor. This surge in food prices has significantly increased the cost of living, straining household budgets across all income levels. The rise in the cost of living has led to several cascading effects on the economy but what is most worrisome are the unprecedented hunger protests in most parts of the country. Such widespread demonstrations over hardship are a first for Nigeria and reflect the severe impact of inflation on daily life.

**Monthly inflation**



**Food inflation**



**Announcement of duty waiver on staples vs market realities**

There is a huge disparity between the FG short-term price reduction measures, through the duty waiver on staples and the market realities. The price of rice has increased by 6.25%, reflecting a shortage in the supply of rice. Traders have exploited the situation to re-price their inventory upwards. As a result, consumers are not seeing the expected relief in staple food prices as anticipated.

**Outlook**

In the near term, i.e. the inflation report for July is expected to remain elevated at 34.26%. However, with the base effects of 2023 combined with the impact of the stimulus package (duty waiver on imports), we see inflation tapering in the month of September.



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