

Economic Splash

Post-Inflation Report

August 15



July
Nigeria's headline
inflation decelerated
to 33.4% after 19
months



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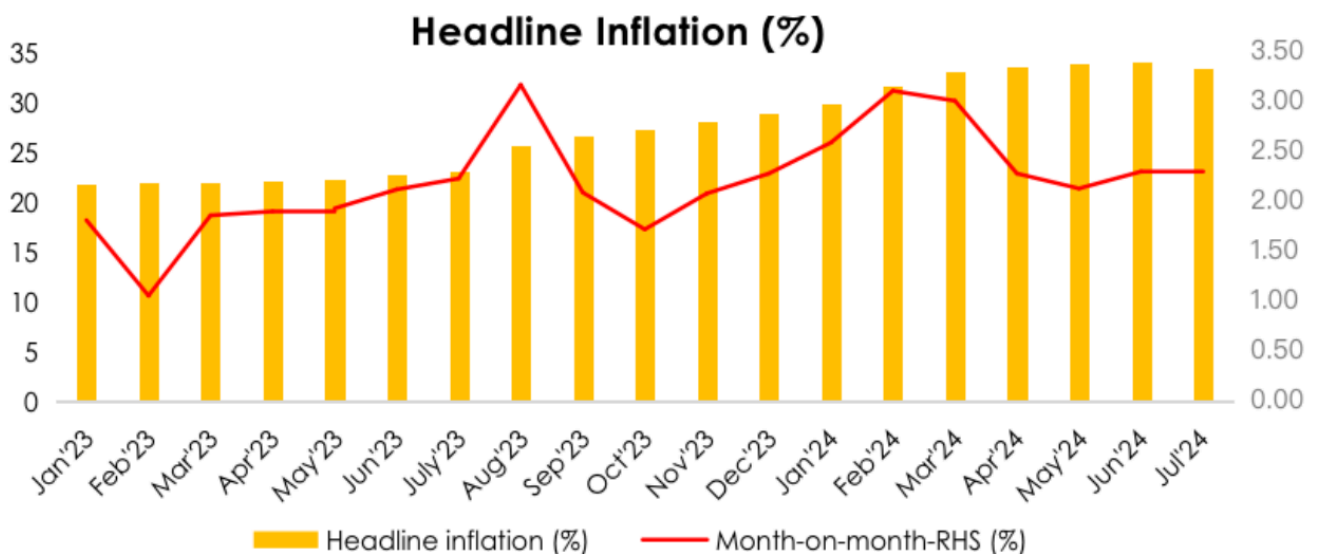
Nigeria's headline inflation decelerated to 33.40% after 19 months

33.40%

Headline inflation rate for Nigeria

NBS released its July inflation number today and surprisingly, the price level slid by 0.79% to 33.40%. This marks the first deceleration in the last 19 months. This sharp decline is partly due to waning base-year effects, erosion of consumer purchasing power, and a stable naira in the forex market. However, the price survey could have been affected by expectations. Interestingly, all the sub-indices except core inflation moved in tandem with the headline inflation indicating that core inflation, which is a structural issue, remains potent.

The food basket, which had been the major contributor to the upward swing in the index declined by 1.34% to 39.53% from 40.87% in the month of June. This is attributed to the decline in the rate of increase in the average prices of tin Milk, Baby powdered milk, fish, Garri, turkey books, and stationeries. Contrary, core inflation, which excludes the prices of volatile agricultural produces and energy rose to 27.47%, underpinned by the increase in accommodation, transport fares, and medicals.



Decline in inflation after 19 months: A glimmer of hope for the cost-of-living crisis?

After 19 months of spiraling inflationary pressure, a recent decline could provide a glimmer of hope for the cost-of-living crisis. The steady price surge has eroded purchasing power, leaving many families struggling to make ends meet. This latest dip in inflation, while modest, suggests that the relentless upward pressure on prices is beginning to ease. This slowdown in price increases can stabilize household expenses, making it easier for consumers to manage their finances without constantly adjusting to rising costs. While prices aren't necessarily falling, the slower pace of inflation is a positive sign that economic pressures might be starting to recede. However, the impact of months of high inflation will linger, and the cost-of-living crisis won't be resolved overnight. Nonetheless, the recent decline in inflation is a welcome development, offering some relief and a potential path toward economic stability.

CBN likely to maintain status quo

CBN is likely to maintain status quo in its next meeting, to wait and see the trend of inflation in the coming months. Thus, policymakers are more interested in inflation expectations, which we believe will bottom out and begin to increase in the coming months. This is due to the possibility of the passage of a supplementary budget, increased liquidity stemming from FAAC disbursements, and the upward review of the minimum wage. Therefore, the most likely outcome is a status quo.

Monthly inflation



Food inflation



Data Breakdown

Monthly inflation snapshot

	Jun'24	Jul'24	Change (%)	Driver
M-o-M	2.31%	2.28%	0.03 ▼	Base year effect
Food	2.55%	2.47%	0.08 ▼	Harvest season
Core	2.06%	2.16%	0.1 ▲	Higher energy costs, currency pressures

All inflation sub-indices moved in tandem with headline inflation. Month-on-month inflation declines to 2.28% (annualized at 31.84%), indicating that the rate of increase in the average price level in the month of July was lower than the rate of increase in June. In the same vein, food inflation tapered to 2.47%, whilst core inflation increased further to 2.16% from 2.06% in June.

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Rural & Urban Inflation

In July 2024, urban inflation declined to 35.77% from 36.55% in June 2024. On a monthly basis, urban inflation declined marginally by 0.003% to 2.46%. Also, rural inflation dipped to 31.26% from 32.09% in June. Whilst monthly rural inflation decreased by 0.07% to 2.10%, from 2.17% in June. This shows that a disparity exists between urban and rural areas.

State-by-state analysis

Bauchi state recorded the highest annual all-items inflation rate at 46.04%, followed by Jigawa (40.77%) and Kebbi (37.47%). Sokoto state recorded the highest food inflation at 46.05%, followed by Jigawa (40.05%) and Enugu (44.06%) respectively. Underpinned by the rising prices of food, food shortage heightens due to increased insecurity issues. States with the lowest inflation rates remain Benue (27.28%), Delta (28.06%), and Borno (28.33%). The higher agricultural productivity in these areas is likely to play a role in stabilizing food prices and lowering inflation rates in these states.

Outlook

The downward trend in inflation brings the CBN closer to its target of price stability. However, CBN is likely to maintain status quo at its next MPC meeting in September to monitor inflation trends in the coming months.

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