



INFLATION FORECAST

SEPTEMBER 13



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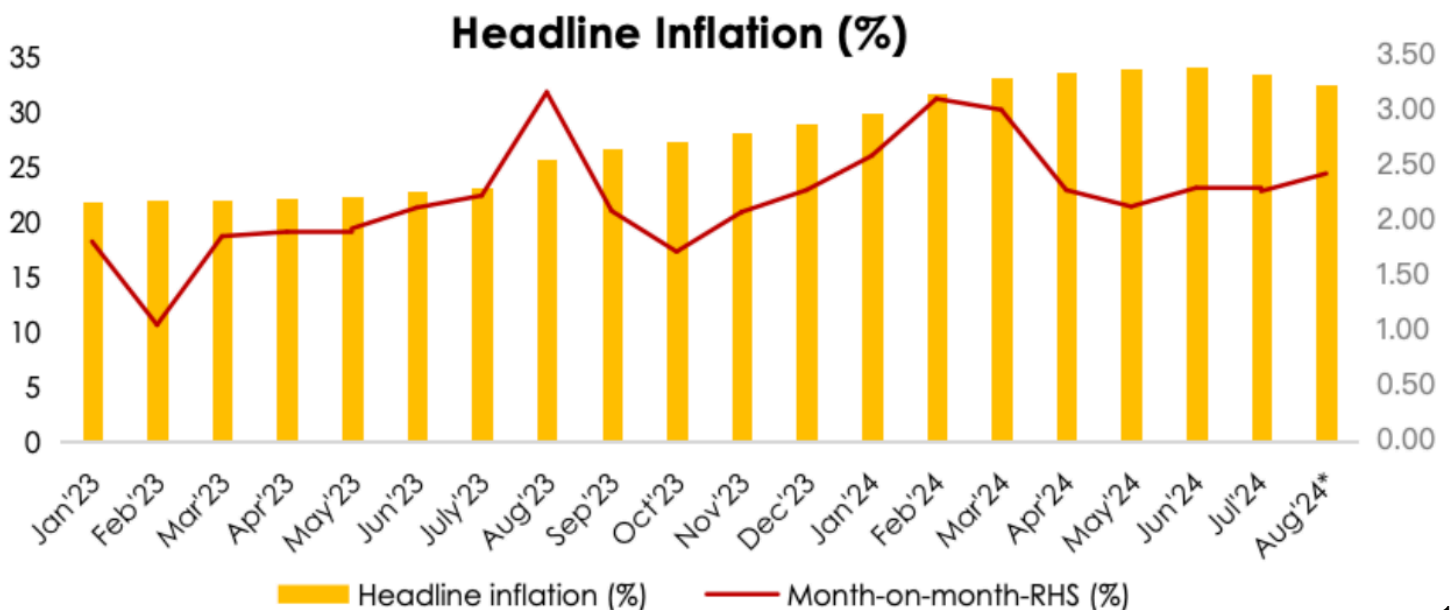


Headline inflation expected to decline further to 32.46%

32.46%

Headline inflation forecast for Nigeria

A few skeptical analysts were of the view that the declining trend of inflation may not be sustainable due to the counter-effect of the new PMS pump price at N900/litre. The projection from our econometric model estimation suggests there will be a further decline in headline inflation to 32.46% from 33.40% in August. The falling inflation is reflective of some aberrational activities that took place in August including #Endbadgovernance protests, fuel scarcity, and the Naira depreciation. However, the anticipated decline can be primarily attributed to the base effect and harvest season. With the hike in prices in the base



¹NBS, FDC Think Tank

year of 2023, we expect to witness a lower inflation rate because the high base compared to the current year would be smaller.

Core inflation is expected to continue its upward trend to 27.62% from 27.47%. Food inflation is projected to move in tandem with the headline inflation declining further to 38.40% from 39.53% in July, after reaching a peak of 40.9% in June. Core inflation is more structural than transient while food inflation responds to harvest and seasonalities.

Notably, commodities whose prices are driven by exchange rates (chicken, turkey, milk, rice, etc.) are still out of reach due to the pass-through effect. Meanwhile, the prices of domestically produced staples like yam (31.25%), sweet potatoes (33.3%), Irish potatoes (11%), basket of tomatoes (50%), palm oil (16.6%), and plantain (37.6%) declined, attributed to the harvest season. However, its price-moderating impact in July-August was largely limited by the recent 50% increase in the PMS pump price, from N600/litre to N900/litre. The cost of logistics and distribution cost has amplified supply shortages creating market disequilibrium. The resulting impact of this is a spike in the prices of commodities, especially food. For example, the price of a 50kg bag of rice increased by almost 5% to N88,00 in September from N84,000 in August.

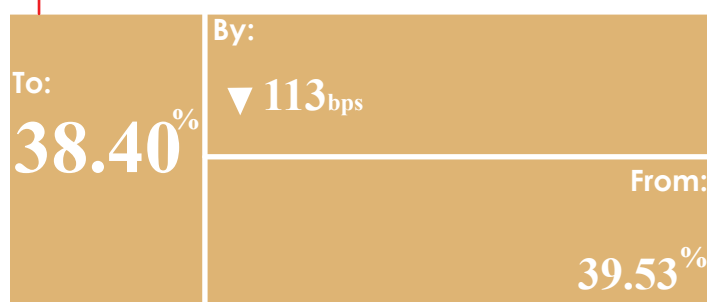
Month-on-month inflation to decelerate

We estimate that the month-on-month (m/m) headline inflation rate, which reflects the most current economic conditions, will increase marginally to 2.44% (annualized at 33.69%) in August from 2.28% (annualized at 31.84%) in July. The m/m food inflation rate, which is expected to decline by 0.23% to 2.24% from 2.47%, will be the primary driver of the downward trend in the m/m headline rate. This will happen because of the improved supply

Monthly inflation



Food inflation



because of harvest season. The m/m core inflation rate is projected to increase marginally by 0.12% to 2.28% from 2.16%, primarily attributed to the exacerbating currency pressures which weakened to N1,610/\$ in August.

New PMS pump price – A spoiler!

The harvest season, which typically commences in the third quarter, is expected to taper inflationary pressures. This is because output especially food usually increases during this period. The resulting impact was a decline in food inflation to 39.53% in July from 40.87% in June. This brought relief to consumers as prices of most staples declined significantly. Nevertheless, this euphoria is temporary given the recent increase in PMS pump price. There is a positive relationship between PMS prices and food inflation. Thus, the excitement that inflation is tapering is temporary given the recent 50% increase in PMS pump price with its knock-on effect on all other prices.

CPI Re-basing - Can't avoid It

The squeeze in consumer's disposable income has compelled consumers to shift their spending patterns in favour of necessities such as food and internet services. However, this change is yet to be reflected in the weights and composition of the CPI basket. A country should review the weight and composition of its Consumer Price Index (CPI) basket periodically (5-year intervals). But in Nigeria's case, the CPI basket constituents were revised 15 years ago in 2009. This has led to a significant bias in the measure of inflation and ultimately affects policy and decision-making.

Outlook

Inflation has momentarily stabilized, and we expect that in September the new trend of inflation will emerge. Analyst expectations for a slash in interest rate will have to wait till January 2025, as MPC is expected to maintain the status quo in its next meeting.



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