INFLATION FORECAST

NOVEMBER 11

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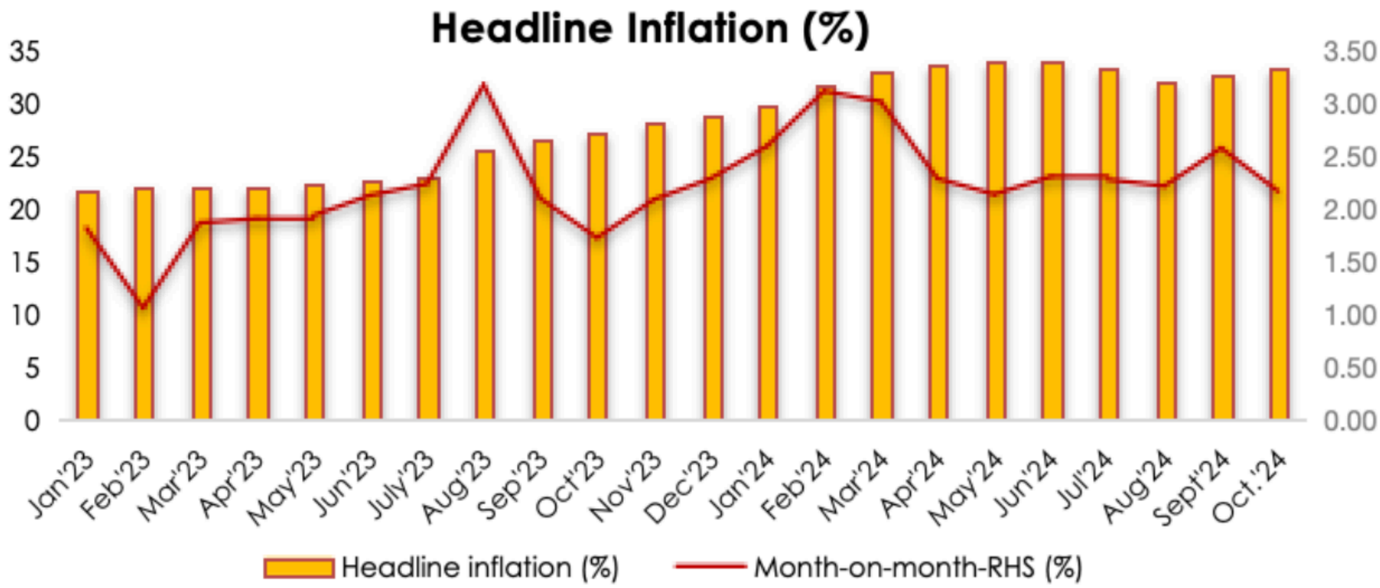
Headline inflation to increase again but at a slower pace

33.29%

Headline inflation forecast for Nigeria

The NBS is scheduled to announce the October inflation rate on November 15. Our econometric model is projecting that official headline inflation will increase again by 0.59% to 33.29%. Our survey of Lagos markets showed that the prices of staple food items in October increased sharply by an average of 3.13% from the previous month. If our forecast is accurate. This will mark the second consecutive increase following a prior two-month decline – partly due to the lingering effect of higher petrol prices and reduced food supply resulting from logistics costs and transportation. Other inflation-stoking factors include increased seasonal demand and a boost in money supply growth to 62.75%.

On an annual basis, all the sub-indexes are expected to increase while all the monthly indexes will move in the opposite direction.



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[1] NBS, FDC Think Tank

Monthly inflation

To: 2.17%

By: ▼35bps

From: 2.52%

Food inflation

To: 38.34%

By: ▲ 57bps

From: 37.77%

Food inflation is projected to increase by 0.57% to 38.34% in spite of the harvest effect and supply. Nearly all commodities have experienced substantial price hikes in the last month, especially those with high import components. Prices of items such as rice (36.4%), vegetable oil (4%), Titus fish (10.3%), beans (12,5%), rice (7.2%), and bread (12.5%) have seen notable increases. This can be largely attributed to the pass-through effect of the exchange rate and elevated logistics costs. Conversely, prices of some commodities like tomatoes, pepper, potatoes, and yam decreased marginally due to the harvest season. Despite the harvest, the prices of locally produced commodities have remained sticky downwards.

Core inflation (which is inflation less seasonalities and energy) on an annual basis is expected to surge to 27.62% whereas monthly core inflation is likely to decline marginally to 2.02% from 2.10% in September.

Month-on-month inflation to decline marginally

In contrast to the headline inflation increase, our forecast is that month-on-month inflation will decline marginally to 2.17% (29.47% annualized) from 2.52% in September. A decline in the monthly index – a better reflection of current prices and inflation expectations suggests that the impact of the petrol price increase is beginning to wane. There is a likelihood that we begin to see some moderation in inflation numbers.

Exchange rate-driven transmission effect on domestic prices

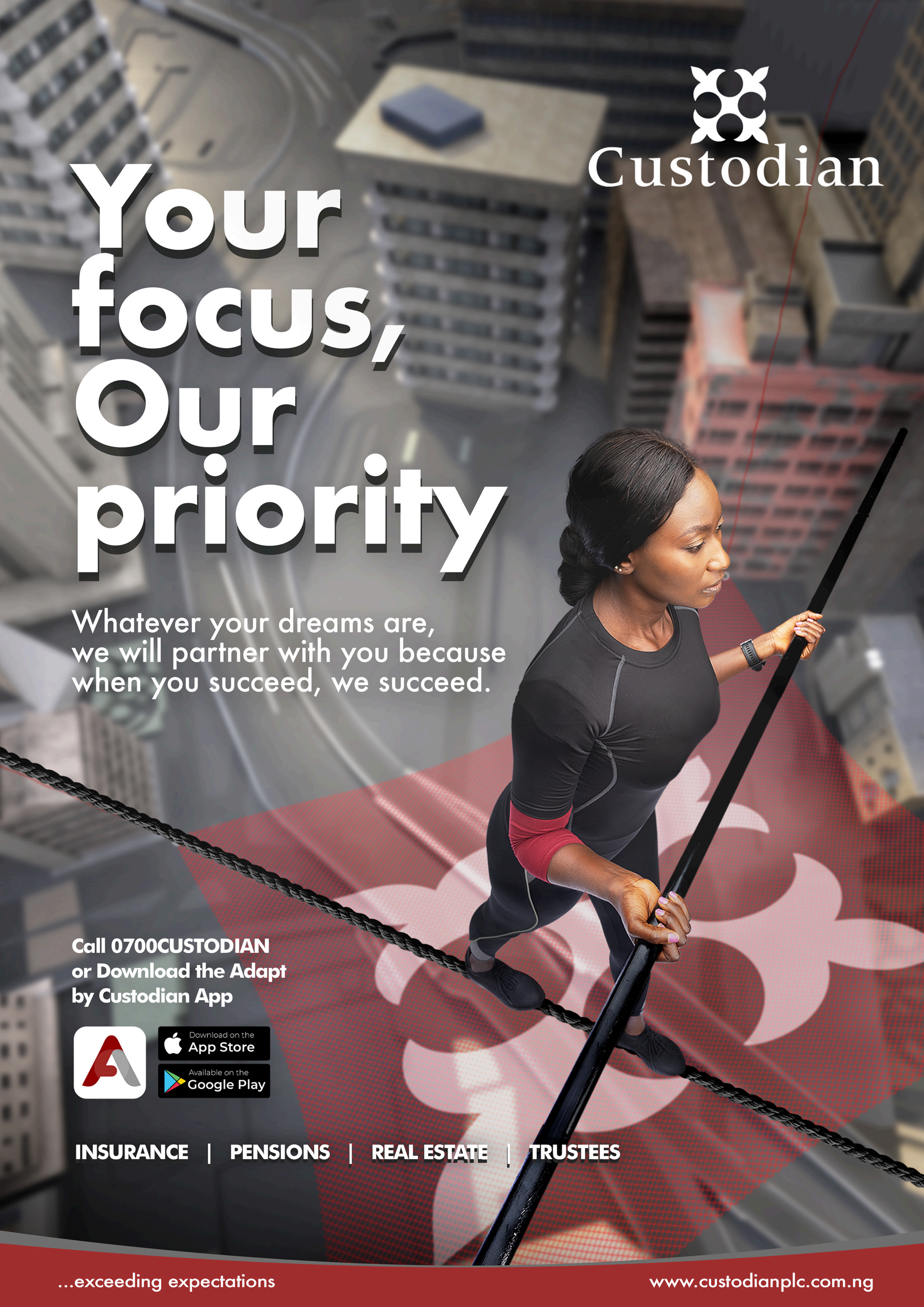
The currency fell to an all-time low of N1,900/$ (on February 21) in the parallel market before appreciating to N1,210/$ (on April 8) as the CBN began its interventions. In recent times, the impact of the Naira in the forex market has been profound, although it stands at N1,730 after dropping to N1,758, it has not been felt in domestic prices. The effect of the depreciated Naira on prices became more pronounced due to the base year effect, as the stronger Naira at an all-time low of N805/$ in the corresponding year, combined with an inflation rate of 27.33%, highlighted the contrast with the previous period's weaker currency.

Policies Vs. Unintended Consequences - The return of Trump

During periods of economic uncertainty, aligning policy objectives & goals as well as ensuring coordinated implementation helps alleviate investor concerns. Measures such as foreign exchange rationing, negative real interest rates, and countercyclical fiscal spending are employed to boost output and control price inflation. However, these measures can have unintended consequences, especially when external factors such as global economic policies—like those from the Trump administration—come into play. Hence, Nigerian policymakers may need to consider alternative strategies to counterbalance the potential impact of Trump's policies.

Outlook

The MPC will closely watch the movement of the exchange rate, as it is the major driver of inflation in Nigeria. If there is an appreciation or flatlining of the Naira, it is more likely that the MPC will maintain the status quo. However, if the exchange rate were to fall further, the MPC would have no alternative but to tighten rates again.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