



INFLATION FORECAST

DECEMBER 13



NOVEMBER

34.64% - Headline
40.02% - Food

20

24



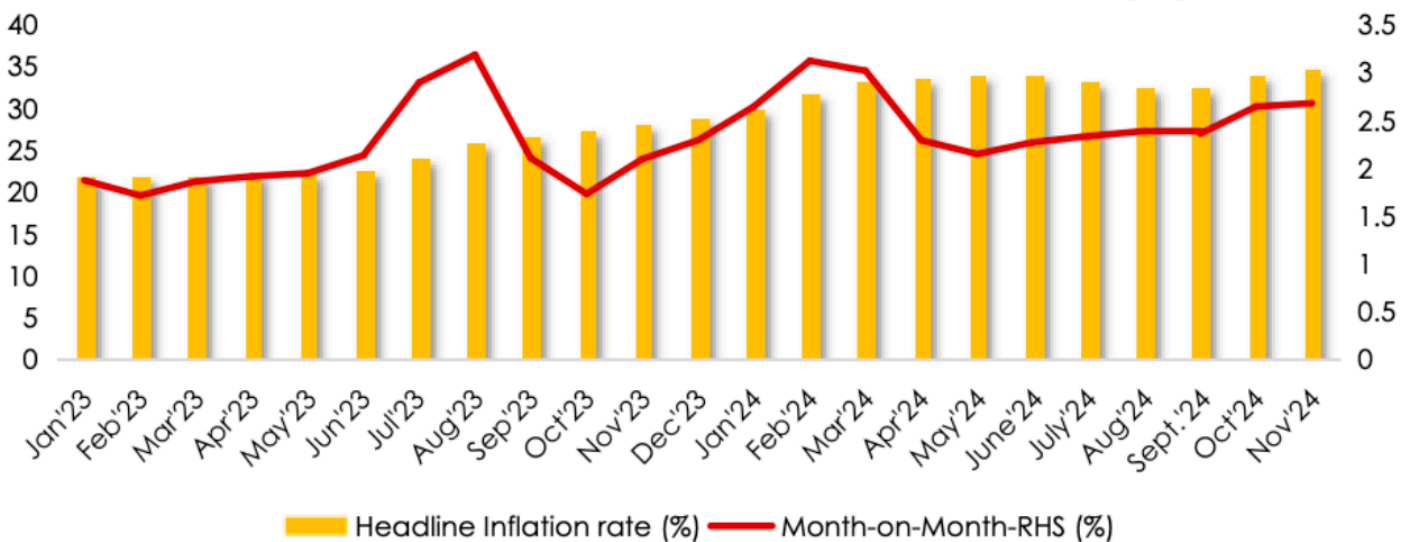
Nigeria's Headline inflation to spike to 34.64%

34.64%

Headline inflation forecast for Nigeria

The National Bureau of Statistics (NBS) will release its November inflation report on Monday, December 16. Based on our Lagos market survey and regression model, we forecast a further increase in headline inflation to 34.64%. This increase is driven by seasonal factors and cost pressures, resulting in higher prices compared to the same period in 2023. According to the Economist Intelligence Unit (EIU), inflation is expected to reach a peak of 35% in December 2024 and remain high in 2025, averaging 27.7%. A disinflationary trend is anticipated in the longer term, driven by forex stability, trade policy, and base effects. However, the pace may be slower due to a loose fiscal-monetary policy mix.

Headline and Month-on-Month Inflation (%)



¹NBS, FDC Think Tank

If our projection is correct, it will be the fourth consecutive increase after inflation was reversed in August. The reasons behind the surge are not far-fetched – they stem from the lingering effects of flooding in agricultural regions, as well as volatility in forex markets. With the Christmas season approaching, we anticipate further upward pressure on prices for essential food commodities such as rice, eggs, vegetable oil, pepper, malt, tomatoes, bread, Irish potatoes, onions, palm oil, noodles, and turkey. These factors combined suggest a challenging economic environment as consumers brace for higher costs during this festive period. Food and core inflation are expected to move in tandem with headline inflation to 40.02% and 29.38% respectively.

Consequently, the price resistance of consumers is increasing, and many are switching to affordable substitutes. In some cases, as is empirically endeared, we have noticed a drop in the quantity of goods demanded – as the PMI has shown a continuous decline. Since price inflation is not a Nigeria-specific phenomenon at this time, there are indications that the price spiral is not likely to be short-lived.

Month-on-month inflation to increase marginally

Monthly inflation is a more accurate measure of current inflation than annual inflation as it gives the current situation in the market more than historical inflation. We are projecting that month-on-month inflation will rise to 2.67% (annualized at 37.25%) from 2.64% in October as cost pressures persist. It implies that the pace of increase in the average price level surpassed the rate observed in October 2023.

Monthly inflation



Food inflation



Month-on-month food inflation

Monthly food inflation is projected to surge to 3.05% from 2.94%. This spike is driven by rising logistics and transportation costs, and seasonality.

Month-on-month core inflation

Meanwhile, core inflation (inflation less seasonalities) is projected to increase by 1.01% to 29.38% from 28.37% in November. This marginal increase is partly because of the seasonality effect (especially towards the end of December).

Nigeria faces a major food crisis as insecurity heightens

Food insecurity in Nigeria has reached alarming levels, exacerbated by insecurity, rising logistics and transportation costs, and seasonality. These factors have disrupted the food supply chain leading to widespread hunger and rising prices of food commodities. As of 2023, approximately 25

million Nigerians faced food insecurity with projections indicating that around 80 to 82 million may experience severe food shortages by 2030.

Interest rate hikes are choking but are necessary

In line with global and regional trends, the Nigerian MPC took a hawkish stance at its November meeting, raising the monetary policy rate by 25bps to 27.50% p.a. An increase in the policy rate is expected to push up the cost of borrowing, reduce excess liquidity, and taper the general price level. Since core inflation has remained more sticky relative to the headline and food inflation, it will suggest that Nigerian inflation is more structural than transient. Therefore, inflationary pressures could persist if monetary tightening is not complemented by other economic policies.

Outlook

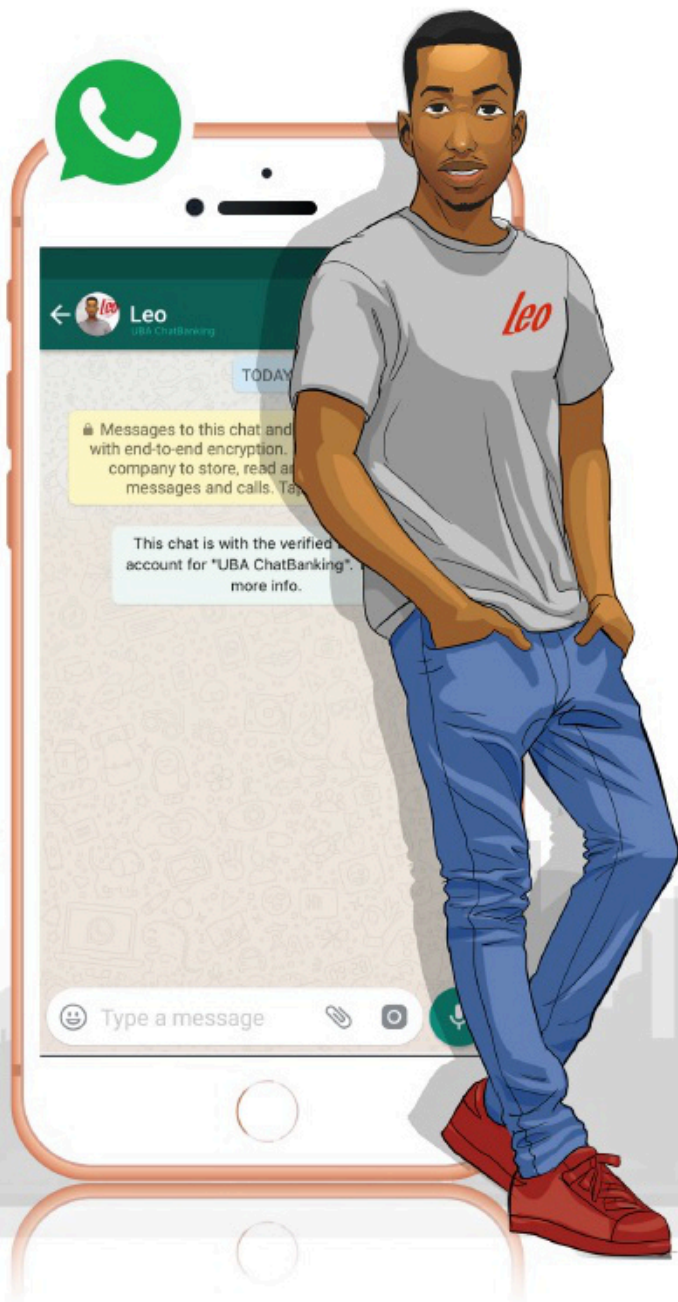
The MPC will meet next in January, and the consensus opinion is that the CBN will continue its tightening process, as this aligns with the trend, given that inflation is expected to maintain its upward trajectory. However, moderation in inflation is likely before mid-2025 as inflation begins to taper.



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