Inflation is rising (35.30%) but CONSUMERS ARE RESISTANT

20 JANUARY 25

Nigerians are broke but inflation will rise to 35.30%

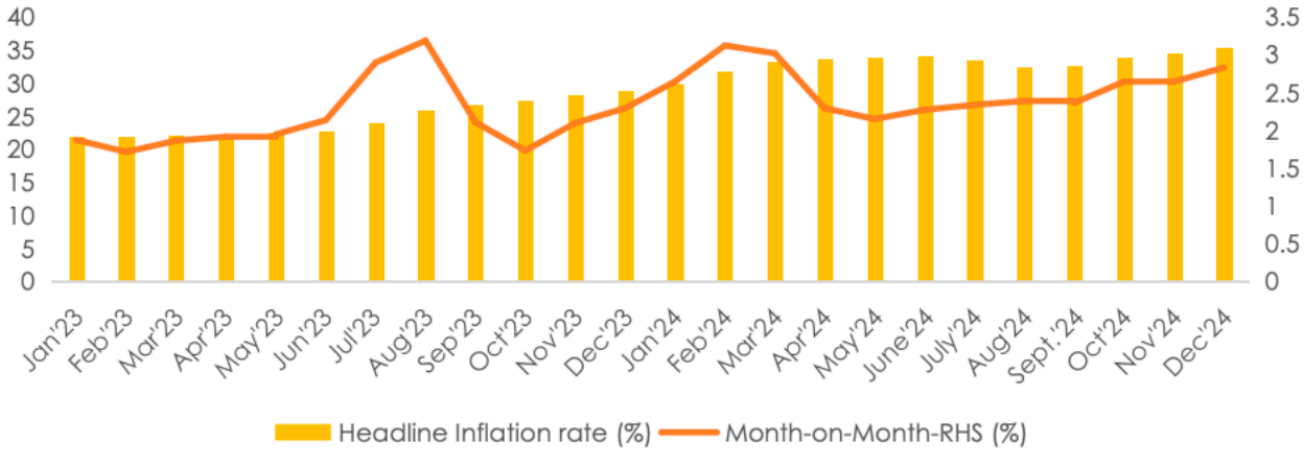
35.30%

Headline inflation forecast for Nigeria

After the festive spending of "Detty December," January has arrived quickly. And many Nigerians are now feeling the weight of financial strain. While most reports highlight that Nigerians are "broke", inflation is still expected to remain high. Our Lagos retail market surveys and regression analysis indicate that inflation will climb to 35.30% from 34.60% in November. We also anticipate that core inflation (inflation less seasonalities) will rise to 29.25% from 28.75%. This reflects the persistence of underlying price pressures across key sectors, including housing, healthcare, and transportation.

Strangely, our food inflation is forecasted to rise to 40.12% from 39.93%, even as global food prices decline by 2.1% in 2024, according to the Food and Agriculture Organization (FAO). This divergence highlights the localized nature of Nigeria's inflation crisis, driven by factors such as supply chain inefficiencies, insecurity in food-producing regions, and currency volatility. Further corroborating this trend, the Economist Intelligence Unit (EIU) has projected that global commodity prices drop by 4% in 2025. However, these global dynamics will unlikely shield Nigerian consumers from escalating food costs.

Headline and Month-on-Month Inflation (%)



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[1]NBS, FDC Think Tank

Month-on-month inflation to increase marginally

Monthly inflation is a more accurate measure of current inflation than historical inflation. We are projecting that month-on-month inflation will tick up to 2.82% (annualized at 39.69%) from 2.64% in November as cost pressures persist. It implies that the pace of increase in the average price level surpassed the rate observed in November 2024.

Month-on-month food inflation

Monthly food inflation is expected to surge to 3.05% from 2.98%. Rising logistics and transportation costs and seasonality are driving this spike.

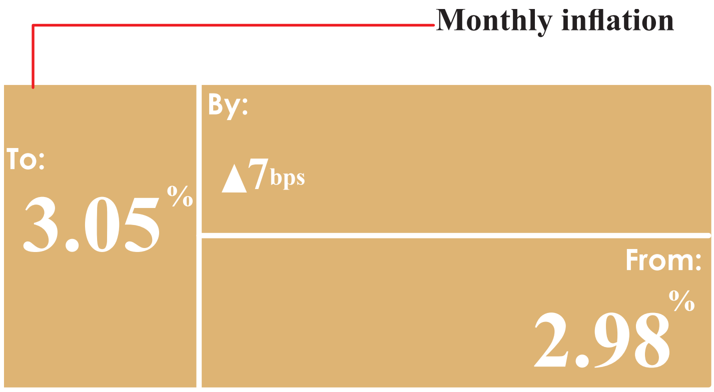
Month-on-month core inflation

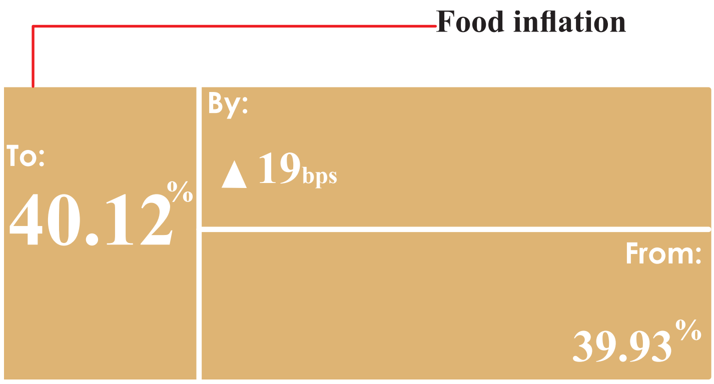
Core inflation (inflation less seasonalities) is expected to increase by 0.5% to 29.25% from 28.75% in November. This reflects the persistence of underlying price pressures across key sectors, including housing, healthcare, and transportation, further tightening household budgets.

Income constraints fuel growing customer resistance

Interestingly, early signs of high customer resistance are beginning to emerge as consumers grapple with income constraints. Retailers report slower demand for goods and services, underscoring the growing disconnect between rising prices and stagnant incomes. This indicates that external factors (e.g., cost-push inflation) are driving the price increase, rather than strong consumer demand.

Detty December is the month when merry-making Nigerians spend more than they earn.





We expect aggregate demand for consumer goods will fall in January followed by prices. Also, the January school fees effect will be another blow to the consumer's wallet.

Investor optimism for early rate cuts wanes as inflation rises further

The Central Bank of Nigeria (CBN) has increased interest rates six times since February, raising it by 875 basis points to 27.50% from 18.75% in 2023. Despite this aggressive monetary tightening, the hikes have not had a significant impact on curbing the rising inflation rate (evidence that inflation is structural), which remains well above CBN's 9-12% target for 2024. However, as inflation begins to show signs of tapering, the likelihood of an interest rate cut later this year is high. This development suggests that investors' expectations for monetary easing may be more realistic later in the year than earlier anticipated.

Outlook- MPC likely to hold rates in February

Despite the anticipated rise in December inflation, driven by seasonal aberrations, the MPC is more likely to maintain its stance in the next meeting. The MPC has rescheduled its meeting—originally slated for January 27-28, 2025—to February 17-18. This adjustment allows them to receive the January inflation numbers, which will influence their decision. If January inflation moderates, they will likely hold rates. In so doing, the CBN will be signaling to markets that interest rates have reached their threshold.

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