



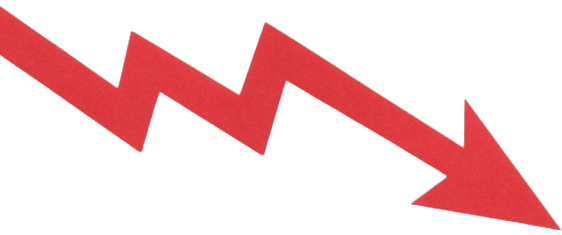
NIGERIA'S INFLATION ENIGMA

33.35%

20

25

FEBRUARY



Inflation set to decline to 33.35% in January

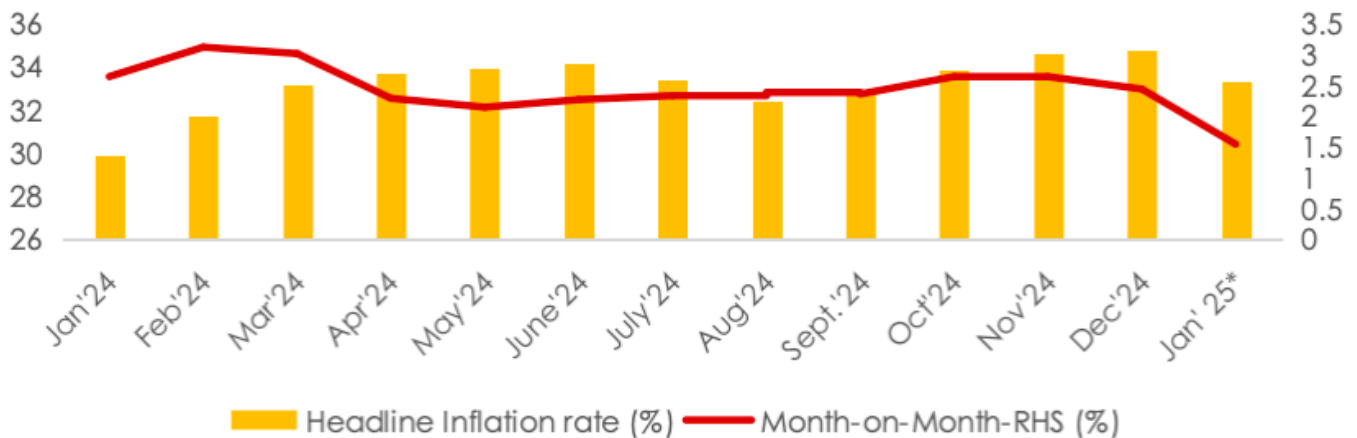
33.35%

Headline inflation forecast for Nigeria

Nigeria's inflation is now a major topic of discussion among small businesses, retailers, and policymakers, as all eyes remain on the CBN, which has made price stability a top priority. Using the old methodology, we analyzed inflation trends ahead of the CPI basket reconstitution outcome. Based on a simple regression model and empirical analysis from our Lagos market survey – headline inflation is projected to decline to 33.35% from 34.80%.

Notably, other indicators show that the trend is in the same direction. Food inflation is expected to decline sharply by 2.6% to 37.24% from 39.84%. Core inflation is estimated to taper to 27.62% down from 29.28%. This downward trajectory is underpinned by an 8% drop in petrol prices, a 2-3% Naira appreciation, and seasonal factors.

Headline Inflation (%)



¹NBS, FDC Think Tank

Inflation is easing but prices are sticky downwards

The primary driver of easing inflationary pressures in Nigeria today is the improving stability of the naira. The currency has shown signs of resilience, helping to moderate cost pressures. As a result, the prices of imported goods such as rice, beans, and wheat have steadied (keeping the prices of wheat-related products like noodles, semovita, and bread flat).

Similarly, the cost of locally produced agricultural commodities, including garri, rice, beans, and onions, is seeing some relief as logistics costs stabilize (buoyed by a decline in petrol/ diesel pump prices, and supply increases due to seasonalities. However, due to the fundamental principle of economics – prices are sticky downward, we are seeing factor prices decline but are not having a corresponding drop in commodity prices and transport fares.

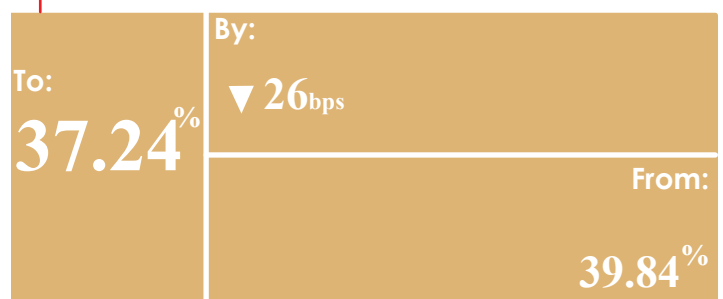
Month-on-month food and core inflation to decline in January

We estimate that month-on-month inflation, which reflects the most current economic conditions, is likely to flatten out to 1.54% (annualized at 20.17%) from 2.44%. Food inflation is expected to decrease to 2.41% from 2.66%, due to currency scarcity and consumer resentment forcing retailers to lower prices. Core inflation is also projected to ease to 2.12% from 2.24%. attributed to a stable exchange rate and reduced logistical expenses, notably with an 8% drop in petrol prices and appreciation in the exchange rate, easing imported inflation's impact. While the

Monthly inflation



Food inflation



slowdown in the headline inflation is positive, it is expected to be short-lived as Ramadan and Easter celebrations often lead to increased food prices due to higher demand – this posts some inflationary threats.

Outlook

All eyes are on two key events: first, the upcoming inflation report, and second, the MPC meeting on February 19 and 20, which will determine interest rate movements and anchor market expectations.

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