

Analyst's Note on: Nigeria's Inflation Report – February 2024

Inflationary Pressures Hound Nigeria's Economy; Reaches 28-Year High of 31.70% in February 2024...

The latest monthly inflation data published by the National Bureau of Statistics indicate that in February 2024, Nigeria's headline inflation soared to a staggering 31.70%, marking a distressing 28-year high. This upward trajectory, persisting for fourteen consecutive months, reflects a multifaceted confluence of challenges gripping the nation's economy. Chief among these are mounting insecurity disrupting vital food production regions, coupled with the cascading impact of subsidy removal on petrol and upward adjustments in exchange rates. The current rate of 31.70% was up from 29.90% in January 2024 and stays above market expectation of 31% and closer to our forecast of 32%.

The acceleration of headline inflation to levels not witnessed since April 1996 was expected to stay elevated as inflationary pressures continue to build up. The faster speed of increase suggests that inflation has become difficult and is in doubt to reach an inflection point in the near time. This is particularly so given the fact that the inflationary pressure is coming more from the food component which increased to 37.9%.

Particularly worrisome is the significant contribution of food and non-alcoholic beverages, comprising over half of the inflationary index at 51.80%,

underscoring the acute vulnerability of Nigeria's food supply chain. Other contributing factors include housing and utility items, clothing and footwear, transportation costs, educational and health amenities costs, accounting for

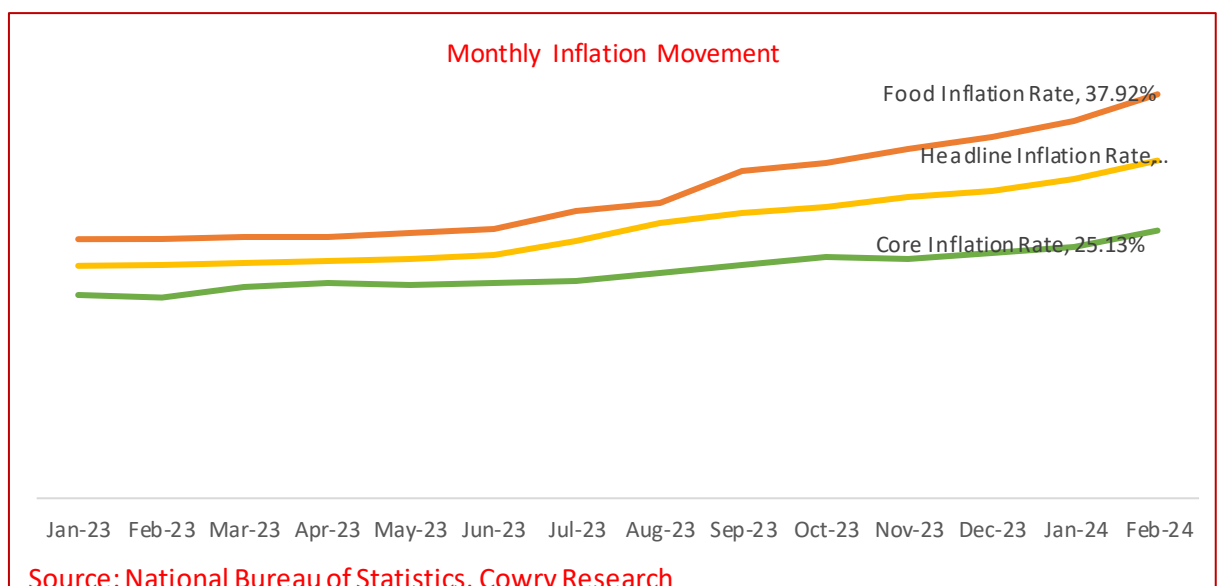
16.72%, 7.63%, 6.50%, 3.94%, and 3.0% respectively. Regardless, the continued depreciation of the local currency has continued to exert significant pressure on the core component of Nigeria's inflation basket due to the country's reliance on imported items.

Moreover, the depreciation of the naira by 59% between June 2023 when the foreign exchange market was liberalised and the mid-February 2024. This has notably escalated import costs, impacting Nigeria's economy significantly as it heavily relies on imports and also exerts immense pressure on Nigeria's inflation basket. For proper context, we can say the inflationary pressures stem from a myriad of factors, including escalated transportation costs, adverse effects of climate change on agricultural output, domestic security instabilities, geopolitical tensions such as the Russia-Ukraine conflict, and the protracted devaluation of the Nigerian Naira against the US dollar.

Furthermore, structural challenges within the food and agriculture sector have perpetuated supply constraints, exacerbating inflationary pressures. Notably, food inflation surged to 37.92% year-on-year in February 2024, the highest since August 2005, driven by increases in prices of staple commodities such as bread, cereals, potatoes, and meat.

Core inflation, which excludes the prices of volatile agricultural produces and energy stood at 25.13% in February 2024 on a year-on-year basis, highest since March 2004 (25.95%); up by 6.76% when compared to the 18.37% recorded in February 2023. The highest increases were recorded in prices of Passenger Transport by Road, Actual and Imputed Rentals for Housing, Medical Services, Pharmaceutical products, etc.

Across states of the federation, inflation rate on a Year-on-Year basis was highest in Kogi (37.98%), Oyo (36.60%), Bauchi (35.62%), while Borno (26.28%), Taraba (26.72%) and Benue (27.40%) recorded the slowest rise in Headline inflation. And on a Month-on-Month basis, however, February 2024 recorded the highest increases in Kwara (6.42%), Kebbi (4.64%), Adamawa (4.46%), while Katsina (1.93%), Cross River (1.98%) and Benue (2.33%) recorded the slowest rise on Month-on-Month inflation. For the Food basket, on a Year-on-Year basis was highest in Kogi (46.32%), Rivers (44.34%), and Kwara (43.05%), while Bauchi (31.46%), Plateau (32.56%), and Taraba (33.23%) recorded the slowest



rise and then on a Month-on -Month basis, however, February 2024 Food inflation was highest in Adamawa (5.61%), Yobe (5.60%), and Borno (5.60%), while Cross River (2.08%), Niger (2.56%), and Abuja (2.60%) recorded the slowest rise in Food inflation on Month-on-Month basis.

The continued uptick in inflationary pressures is expected to stay elevated for most part of the year even as the country reels from the impact of insecurity challenges on food supply chain. This is further compounded by the increase in electricity tariffs, stamp duties, removal of subsidy on PMS and the upward exchange rates adjustment by the CBN in order to ease the pressure on the forex market.

Meanwhile, the Monetary Policy Committee is due to meet later this month. At the last meeting in February, the committee aggressively took to a 4% hike in the policy rate to 22.75% from 18.75% in a bid to rein-in on inflation. Despite the move, inflation pressure continued its pang on the economy.

Looking ahead, we expect the underlying drivers of inflation to continue exerting upward pressure on components of Nigeria's inflation basket. As such, we anticipate the Nigeria's headline inflation will continue its upward trend to 34% in March 2024 following the pass-through effect of the naira devaluation and rising cost of living.

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