

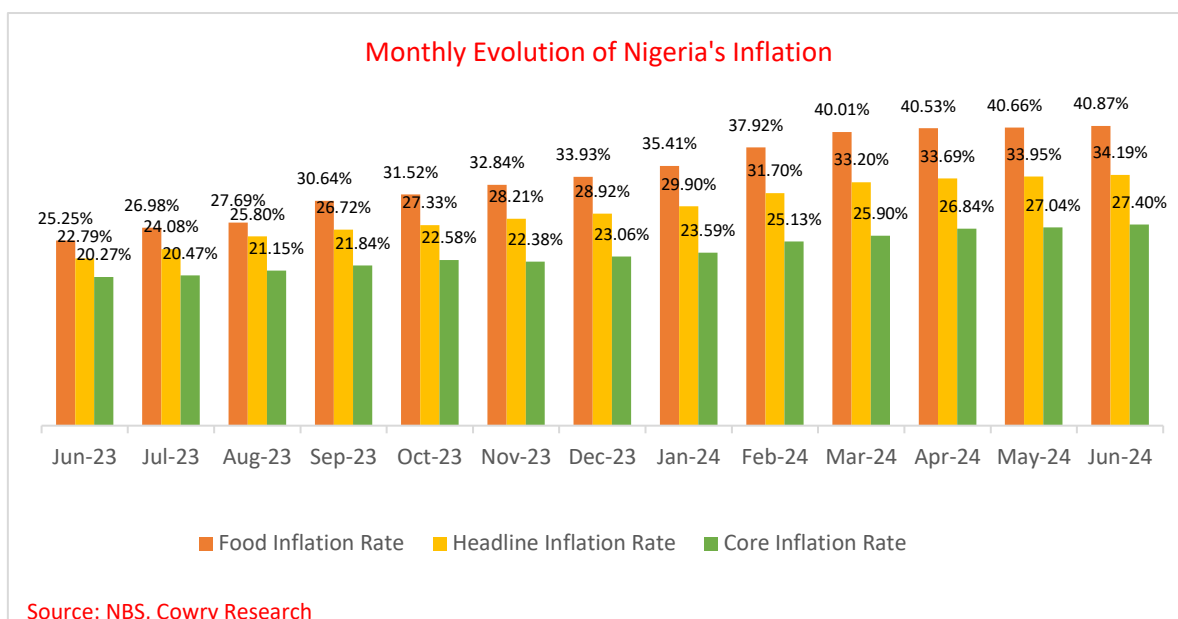
Analyst's Note on: Nigeria's Inflation Report – June 2024

Inflation Defies CBN's Tightening Measures Again; Hits 34.19% in June 2024 Amid Supply Shocks...

The latest report from the National Bureau of Statistics on Nigeria's consumer price inflation shows another rise, albeit at a slower pace, with the headline index reaching 34.19% year-on-year in June 2024. This marks the eighteenth consecutive month of acceleration and the first time since March 1996 that the inflation rate has crossed 34%, falling slightly below Cowry Research's expected 34.25% for June 2024. The inflation rate increased by 24 basis points (bps) from 33.95% in May 2024 and is 11.40 percentage points higher than the 22.79% recorded in June 2023.

The slow rate of increase is attributed to the gradual impact of tightening measures and concerted efforts by the monetary policy committee and fiscal authorities to stifle inflation, despite the removal of fuel subsidies, increases in electricity tariffs, higher PMS prices, and the pass-through effect of the weakening local currency.

Examining the drivers of the headline inflation rate, upward pressure came from the prices of housing and utilities, which rose to 30.3% from 29.6%, and beverages and tobacco, which increased to 24.1% from 23.3%. In contrast, prices eased for clothing and footwear, dropping to 16.4% from 16.6%, and recreation and culture, which declined to 9.1% from 9.5%. Transport maintained the same rate of increase at 25.6%. On a month-on-month basis, the headline inflation rate in June 2024 was 2.31%, 0.17% higher than the 2.14% recorded in May 2024, indicating that the rate of increase in the average price level in June 2024 was higher than in May 2024.



Food inflation, which constitutes a significant portion of Nigeria's inflation basket, surged to a record high of 40.87% in June 2024, compared to 40.66% in May 2024, marking the highest level since 2005. This surge is driven by rising prices of essential food items such as bread and cereals, tubers, fish, and oil, significantly hindered by supply-side shocks resulting from security challenges. In Nigeria, food prices have continued to soar due to factors like supply chain disruptions, currency depreciation, and the impact of climate change on agriculture. This has made basic staples like rice, beans, and vegetables increasingly unaffordable for the average Nigerian, stretching household budgets to their limits. On a month-on-month basis, food inflation in June 2024 was 2.55%, showing a 0.26% increase compared to the 2.28% recorded in May 2024.

Core inflation, which excludes the prices of volatile agricultural products and energy, stood at 27.40% year-on-year in June 2024, up by 7.34% from 20.06% in June 2023. The highest increases were recorded in the prices of items such as rents (actual and imputed rentals for housing), journeys by motorcycle and intercity bus (under the passenger transport by road category), accommodation services, medical consultation fees, laboratory services, X-ray photography, and pharmaceutical products. On a month-on-month basis, the core index rose by 0.05% to 2.06% in June 2024 from 2.01% in May 2024.

Looking at state profiles, the inflation rate was highest in Bauchi (43.95%), Kogi (39.91%), and Oyo (39.15%), while Borno (25.90%), Benue (27.52%), and Katsina (29.21%) recorded the slowest rise in headline inflation on a year-on-year basis. On a month-on-month basis, June 2024 recorded the highest increases in Yobe (3.79%), Abuja (3.45%), and Ondo (3.38%), while Nasarawa (0.71%), Osun (1.19%), and Kano (1.27%) recorded the slowest rise.

Food inflation on a year-on-year basis was highest in Edo (47.34%), Kogi (46.37%), and Cross River (45.28%), while Nasarawa (34.31%), Bauchi (34.78%), and Adamawa (35.96%) recorded the slowest rise in food inflation. On a month-

on-month basis, June 2024 food inflation was highest in Yobe (4.75%), Adamawa (4.74%), and Taraba (4.12%), while Nasarawa (0.14%), Kano (0.96%), and Lagos (1.25%) recorded the slowest rise.

Cowry Research notes the slow acceleration in the headline inflation over the last four months, indicating the impact of the CBN's tightening measures permeating the economy. They expect to see a moderation in Nigeria's inflation in the second half of the year, largely due to high base effects. However, some downside risks to this expectation exist, as consumer prices may face further pressure from ongoing higher minimum wage negotiations between the federal government and labour leaders, significant depreciation of the Naira, and high PMS prices due to ongoing fuel scarcity, which could negatively affect transportation costs.

Next week, the monetary policy committee of the CBN will meet to decide on various economic indicators while considering the current domestic and international economic outlook. However, the current inflationary pressure leaves the committee with little or no room for a rate tweak in favour of a loosening stance. Thus, a 25bps to 50bps hike in interest rates is anticipated. Cowry Research projects the July 2024 inflation rate to be 34.35%.

Disclaimer

This report is produced by the *Research Desk* of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.