

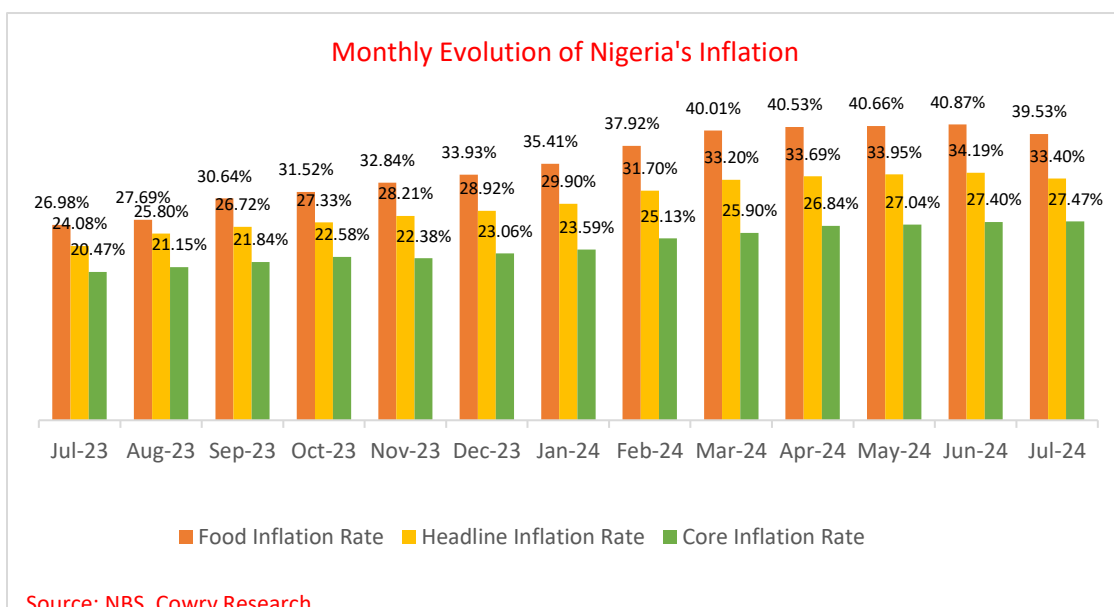
Analyst's Note on: Nigeria's Inflation Report – July 2024

Inflation Reverses Trend to 33.40% in July After 29 Months; Bows to CBN Tightening Measures...

The latest inflation report from the National Bureau of Statistics (NBS) shows a trend reversal in the headline inflation to 33.40% year on year in July 2024, slowing from a 28-year high of 34.19% in June 2024, on the back of high base effect and the impact of the CBN's interest rate hike by the CBN. The deceleration signals a drop by 0.8% points compared to June 2024. However, the rate was higher by 9.32% points compared to the 24.08% reported in July 2023.

The moderation in the headline index after 29 months of unabated acceleration since January 2022 (15.60%), reflects the impact of the inflation targeting model adopted by the CBN through its policy tightening initiative by raising interest rates to 26.75% at the last meeting, as well as efforts by the federal government to ease the high pressure which comes from rising food prices, increase in PMS prices due to subsidy removal, and further depreciation of the naira.

Furthermore, we note a moderation in the number of items contributing to the headline divisional levels such as food and non-alcoholic beverages, housing, water, electricity, gas and other fuels, clothing and footwear, health services, recreation, and other services. In the same vein, the headline inflation rate in July 2024 was 2.28%, which was 0.03% lower than the rate recorded in June



2024 (2.31%). This means that in July 2024, the rate of increase in the average price level was lower than the rate of increase in the average price level in June 2024.

The food index, which is a major driver of the headline index came with a bright spot in July, easing to 39.53% year on year from 40.87% in June 2024. This deceleration can be attributed to the ambitious efforts by the federal government to focus on a six-month import duties suspension, VAT and other tariffs on staple food items, raw materials, and direct inputs for manufacturing with the aim to enhance domestic food production. We believe the move was aimed to provide much-needed relief from the current inflationary grip, potentially reviving hope among Nigerians. This is attributed to the decreases seen in the prices of food items and tubers, educational and health services, other cereals, oil, and fat.

On the contrary, the core inflation index stood at 27.47%, rising by 0.07% points from 27.40% from the prior month as we saw increases in the cost air tickets and road transport prices, actual and imputed rents, accommodation services, health and laboratory services and passenger transportation cost. Furthermore, we believe the uptick in the core index comes on the back of elevated energy costs and higher electricity tariffs during the month.

The July 2024 inflation report reveals significant regional disparities in Nigeria's inflation rates. Year-on-year, Bauchi (46.04%), Jigawa (40.77%), and Kebbi (37.47%) recorded the highest All Items inflation rates, indicating severe inflationary pressures in these states. Conversely, Benue (27.28%), Delta (28.06%), and Borno (28.33%) experienced the slowest increases in headline inflation, suggesting relatively more stable price levels compared to other regions. Month-on-month, Abuja (3.91%), Borno (3.84%), and Enugu (3.76%) saw the highest inflationary increases, while Taraba (0.17%), Kwara (0.62%), and Ondo (0.91%) recorded the smallest month-on-month rises.

Focusing on food inflation, Sokoto (46.26%), Jigawa (46.05%), and Enugu (44.06%) had the highest year-on-year increases, highlighting the persistent challenges in food price stability in these regions. In contrast, Adamawa (33.48%), Bauchi (35.10%), and Benue (36.41%) reported the slowest year-on-year food inflation rates. On a month-on-month basis, Borno (5.07%), Sokoto (4.99%), and Enugu (4.17%) experienced the highest increases in food inflation, whereas Kwara (0.51%), Taraba (0.56%), and Ondo (0.68%) had the smallest increases, indicating some variability in food price dynamics across the country.

Cowry Research has observed a positive trend reversal in both headline and food inflation, marking a significant development after nearly 30 months of continuous inflationary pressure. This moderation, the first since January 2022, is seen as a result of coordinated efforts by Nigeria's monetary and fiscal authorities.

The Central Bank of Nigeria's (CBN) recent monetary policy tightening, including raising interest rates to 26.75%, has been instrumental in this deceleration. Additionally, government interventions aimed at easing the impact of rising food prices, such as subsidies and policy adjustments, have contributed to this shift. These measures have helped to counterbalance the inflationary effects of the removal of petrol subsidies and the continued depreciation of the naira, offering some relief to the economic pressures faced by Nigerians. Thus, we anticipate further deceleration in the headline inflation to 32.86% in August, due to harvest season effect.

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