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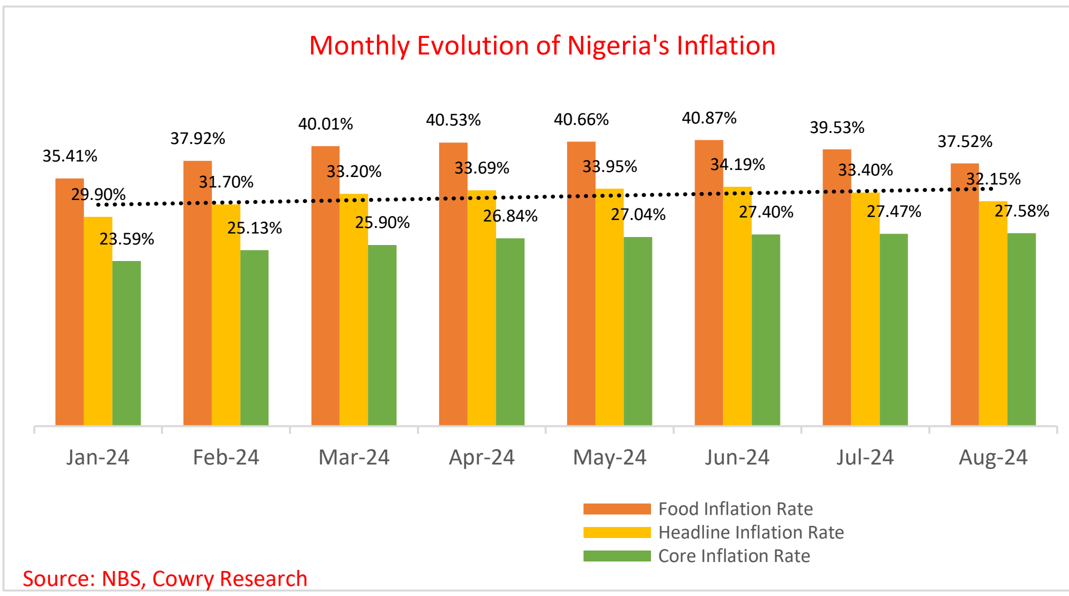
Analyst's Note on: Nigeria's Inflation Report – August 2024

Inflation Eases to 32.15% as Disinflation Gains Traction….

In August 2024, Nigeria's consumer price inflation (CPI) decelerated for the second consecutive month, settling at 32.15% year on year, down from 33.40% in July 2024, according to the latest data from the National Bureau of Statistics. This 1.25 percentage point decrease was primarily driven by the Central Bank of Nigeria's (CBN) recent interest rate hikes so far this year. However, the rate was higher by 6.35% points compared to 25.80% reported in August 2023.

The continued moderation in the headline inflation rate reflects the CBN's inflation-targeting measures through policy tightening, notably raising interest rates to 26.75% at its last Monetary Policy Committee (MPC) meeting. These efforts have been supported by fiscal measures aimed at mitigating the inflationary pressures brought about by rising food prices, the removal of petrol subsidies, and the depreciation of the naira.



On a month-on-month basis, headline inflation stood at 2.22% in August 2024, slightly lower than the 2.28% recorded in July 2024. This indicates that the pace of price increases slowed slightly compared to the previous month, offering some respite in the short-term inflationary trend.

Food inflation, the largest contributor to the headline figure, stood at 37.52% year-on-year, down from 39.53% in July 2024. This deceleration can be largely attributed to a decline in the prices of key items such as tobacco, tea, cocoa, coffee, groundnut oil, tubers, and milk. The improved agricultural output during the harvest season played a significant role in stabilizing food prices. Additionally, government initiatives, including a six-month suspension of import duties, VAT, and tariffs on staple food items and raw materials, have substantially contributed to easing food price pressures while also aiming to boost domestic food production.

However, data from the Central Bank of Nigeria (CBN) shows that imported food inflation, which continues to exert pressure on the overall inflation rate, has remained persistently high since September 2019. In the most recent reading, imported food inflation rose to 38.30% year on year in August, up from 36.91% in July. This surge in the cost of imported goods is largely driven by the negative pass-through effect on food prices due to the depreciation of the Naira against other foreign currencies. The weakened currency has made imported items significantly more expensive, further exacerbating inflationary pressures.

Amidst the disinflation trend, the core inflation index, which excludes the prices of volatile items like agricultural produces and energy, stood at 27.58% year-on-year, a marginal increase from 27.47% in July 2024. This rise was driven by higher prices in housing rents, transportation costs, accommodation services, and medical services. On a monthly basis, core inflation increased to 2.27% in August, up from 2.16% in July 2024.

In August 2024, the Year-on-Year All Items Inflation exhibited regional variations, with Bauchi (46.46%), Kebbi (37.51%), and Jigawa (37.43%) experiencing the highest rates, while Benue (25.13%), Delta (26.86%), and Imo (28.05%) recorded the slowest rise in Headline inflation. On a month-on-month basis for the same period, Kwara (4.45%), Bauchi (4.22%), and Adamawa (3.99%) saw the highest increases, contrasting with Ogun (0.21%), Abuja (0.92%), and Kogi (1.14%) which recorded the slowest rise on month-on-month inflation.

Regarding Food inflation, on a Year-on-Year basis, Sokoto (46.98%), Gombe (43.25%), and Yobe (43.21%) reported the highest food inflation rates. In contrast, Benue (32.23%), Rivers (33.01%), and Bayelsa (33.36%) recorded the slowest rise. On a month-on-month basis for Food Inflation, the highest increases were observed in Adamawa (5.46%), Kebbi (4.48%), and Borno (3.88%), whereas Ogun (0.08%), Akwa-Ibom (0.45%), and Sokoto (1.00%), experienced the slowest rise in Food inflation.

Cowry Research notes a favourable downward shift in both headline and food inflation trends, signaling a significant change in the inflation trajectory. The moderation is driven by the CBN's aggressive monetary policy, with interest rates now elevated to 26.75%, coupled with government measures aimed at stabilizing food prices. Although challenges like the removal of fuel subsidies and continued naira depreciation have exerted inflationary pressure, strategic policy interventions have helped to mitigate some of the adverse effects. Looking ahead, inflation is projected to ease further in September to 30.95%, as increased food supply from the ongoing harvest season is expected to relieve some of the economic strain caused by rising prices.

At the next Monetary Policy Committee meeting next week, it is expected that given the progress of the recent efforts at taming inflation, the committee may adopt a wait-and-see approach, to monitor price developments closely and evaluate the full effect of previous rate hikes on the economy. This cautious stance will allow the committee to assess whether further tightening is necessary or if the current policy trajectory is sufficient to maintain price stability.

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