

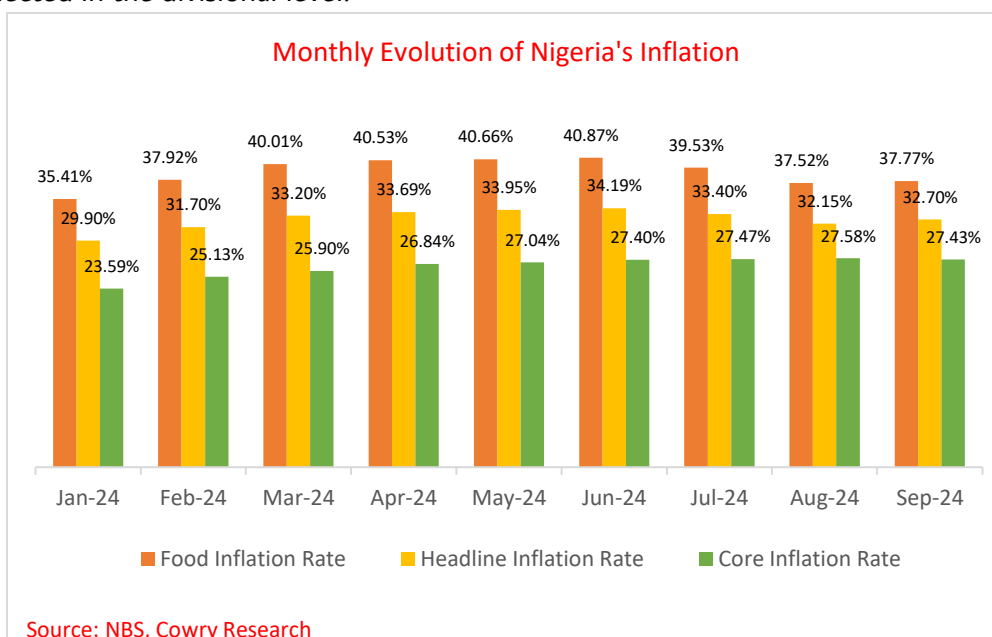
Analyst's Note on: Nigeria's Inflation Report – September 2024

Inflation Quickens to 32.70% in September Amid Fuel Price Hikes, Defies Central Bank Measures.....

The latest report from the National Bureau of Statistics (NBS) on Nigeria's consumer price inflation reveals a sharp upward reversal in the headline index, which rose to 32.70% in September 2024, up from 32.19% in August. This marks the first increase in three months, defying analysts' expectations of continued easing in price pressures, despite the Central Bank of Nigeria's aggressive monetary policy tightening.

A closer examination of the economic and market forces in September 2024 shows that the 0.55% increase in the headline index compared to the previous month highlights the effects of flooding in key food-producing regions and the rising input costs, driven by higher distribution expenses. These factors offset the benefits of increased food supply. The depreciation of the naira and the significant rise in fuel prices since early September have also contributed to increased costs across various items, reflected in the divisional level.

On a monthly basis, the inflation rate stood at 2.52%, 0.30% higher than the 2.22% recorded in the previous month. This increase was driven by higher prices for food and non-alcoholic beverages, housing, clothing and footwear, health, education, restaurants, hotels, and other items that contribute to the overall inflation rate for the month.



Food inflation, which accounts for a significant portion of Nigeria's inflation basket, continues to be the primary driver of the headline index, rising sharply to 37.77% year-on-year in September from 37.52% in August, despite the ongoing food harvest season. The rise in food prices was caused by increases in key items such as guinea corn, rice, maize grains, beans (in the bread and cereals class), yam, water yam, cassava tuber (in the potatoes, yam, and other tubers class), beer (local and foreign), tea, coffee, and vegetable oil.

Month-on-month food inflation increased by 0.27% to 2.64% in September, up from 2.37% in the previous month, due to higher prices for liquor, tobacco, vegetable and palm oil, meat, tea, coffee, milk, and eggs. The NBS's food price watch indicated price increases across all 43 food items surveyed. Imported food inflation also continued its upward trend, driven by currency depreciation and its broader effects on the economy.

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Meanwhile, core inflation, which excludes volatile items like food and energy, marginally decreased to 27.43% in September from 27.53% in August. This decline occurred despite higher energy prices resulting from the rise in petrol prices from around N600 to N900 during the month. The NBS report on Liquefied Petroleum Gas (LPG) prices revealed a 9% month-on-month increase and a 69% year-on-year rise in the average cost of refilling a 12.5kg cylinder to N15,552 in August 2024, up from N14,261 the previous month. Similarly, the Premium Motor Spirit (petrol) price watch showed an average price increase of 32% year-on-year and 8% month-on-month to N830.5 per litre in August.

In September, the highest price increases were recorded in rents (under the actual and imputed rentals for housing class), intercity bus fares, taxi fares (under the passenger transport by road class), meals at local restaurants (under the accommodation service class), laboratory services, and medical consultations (under the medical services class).

On a month-on-month basis, the core inflation rate was 2.10% in September 2024, compared to 2.27% in August, reflecting a 0.17% decline. The twelve-month average annual inflation rate was 25.64% for the twelve months ending in September 2024, 6.09% higher than the 19.55% recorded in September 2023.

Regarding regional inflation, Bauchi (44.83%), Sokoto (38.74%), and Jigawa (38.39%) recorded the highest year-on-year increases in headline inflation, while Delta (26.35%), Benue (26.90%), and Katsina (27.71%) had the slowest rises.

On a month-on-month basis, Sokoto (4.63%), Taraba (4.07%), and Anambra (3.74%) recorded the highest increases, while Kwara (1.14%), Cross River (1.78%), and Lagos (1.82%) saw the slowest month-on-month inflation.

For food inflation, Sokoto (50.47%), Gombe (44.09%), and Yobe (43.51%) recorded the highest year-on-year increases, while Kwara (32.45%), Rivers (32.80%), and Kogi (32.83%) experienced the slowest rises. On a month-on-month basis, Sokoto (5.94%), Taraba (5.76%), and Bayelsa (4.44%) had the highest food inflation, while Kwara (0.88%), Cross River (1.29%), and Kogi (1.45%) recorded the slowest month-on-month food inflation.

After two months of deceleration, Nigeria's headline inflation rate increased to 32.70% in September 2024, defying the Central Bank's monetary tightening efforts. This rise was influenced by the surge in petroleum prices and the continued depreciation of the naira, reflecting ongoing pressure points despite policy interventions aimed at easing inflationary pressures. In our view, the effectiveness of the CBN's tight monetary policy in curbing inflation remains uncertain, particularly in light of structural challenges such as inadequate infrastructure, high fuel costs, unreliable power supply, and logistical bottlenecks. These persistent issues hinder the overall effectiveness of policy measures aimed at stabilising prices.

Looking ahead to October, we anticipate a further, though moderate, increase to 33.10%, driven by the recent rise in PMS prices to around N950, and in some parts of the country, above N1,050, as well as the continued impact of flooding in key food-producing areas.

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