

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

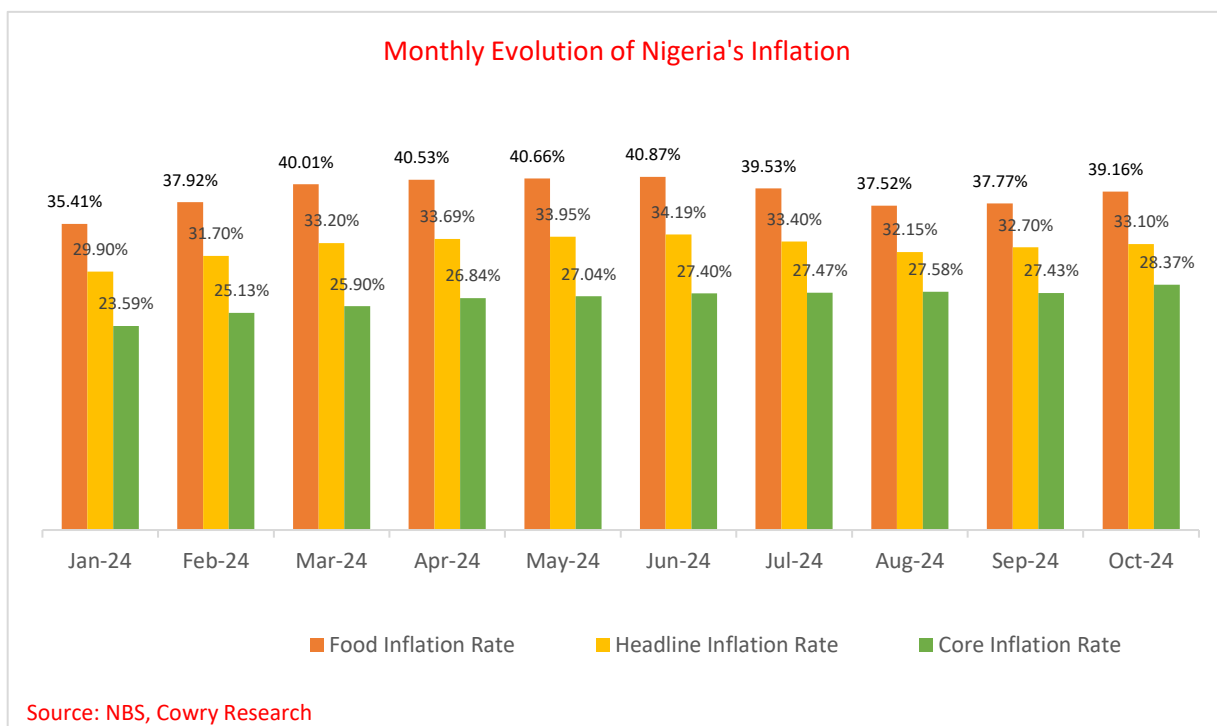
Nigeria's Inflation Hits Four-Month High at 33.88% in October Amid Economic Pressures.....

The latest Consumer Price Index (CPI) report released by the National Bureau of Statistics (NBS) shows that Nigeria's inflation rate rose for the second consecutive month in October 2024, reaching a four-month high of 33.88%, up from 32.70% in September. This increase reflects rising food prices, surging energy costs, supply chain disruptions in agriculture, and ongoing foreign exchange volatility. Despite the Central Bank of Nigeria's (CBN) interest rate hikes and the government's zero-duty import policy, inflationary pressures remain persistent.

The upward trajectory of the headline index reflects price pressures across all components of the index despite government and monetary policy interventions, such as the Central Bank of Nigeria's (CBN) rate hikes and the zero-duty import policy. This aligns with CBN's recent inflation expectation survey, which highlights households' and businesses' belief that inflation will continue to rise in the next three to six months.

On a month-on-month basis, headline inflation in October rose by 2.64%, 0.12 percentage points higher than the 2.52% recorded in September, indicating a faster increase in average price levels compared to the previous month.

Food inflation, which constitutes the largest component of the inflation basket, climbed to 39.2% from 37.8% in September. This increase was exacerbated by reduced harvests due to severe flooding and ongoing security crises in key agricultural regions. Meanwhile, transport inflation rose to 29.3%,



driven by higher petrol and gas prices following the removal of subsidies. Housing and utilities inflation also edged up to 28.8% from 28.6%, influenced by increased electricity tariffs.

On a monthly basis, food inflation stood at 2.94%, up by 0.30 percentage points from September's 2.64%, primarily driven by price increases in categories such as oil and fats (palm oil, vegetable oil), fish (mudfish, croaker, fresh fish), meat (dried beef, goat meat, mutton), and bread and cereals (plantain flour, rice).

Core inflation, which excludes volatile food and energy prices, hit an all-time high of 28.4%, compared to 27.4% in September. On a monthly basis, core inflation increased by 2.14%, slightly above September's 2.10% while the average twelve-month annual inflation rate stood at 26.12%, a significant 6.14 percentage points higher than the 19.98% recorded in October 2023.

On a state-level basis, year-on-year all-items inflation was highest in Bauchi (46.68%), Kebbi (40.02%), and Sokoto (39.65%), while Delta (27.85%), Benue (28.22%), and Katsina (29.59%) recorded the lowest inflation rates. Month-on-month, Kano (3.77%), Bauchi (3.74%), and Adamawa (3.59%) saw the highest increases, while Kwara (1.27%), Ondo (1.49%), and Lagos (1.91%) recorded the slowest.

For food inflation, year-on-year rates were highest in Sokoto (52.18%), Edo (46.55%), and Borno (45.85%), while Kwara (31.68%), Kogi (33.30%), and Rivers (33.87%) saw the slowest rises. Month-on-month food inflation was most pronounced in Adamawa (5.08%), Sokoto (4.86%), and Yobe (4.34%), with the lowest in Kwara (1.11%), Ondo (1.31%), and Kogi (1.50%).

Addressing Nigeria's inflation crisis requires not only monetary adjustments but also significant structural reforms to resolve persistent bottlenecks. Infrastructure improvements, better agricultural productivity, and currency stabilisation will be crucial in achieving long-term price stability.

Globally, inflation remains a critical concern for policymakers, prompting stringent measures to contain price surges while balancing growth considerations. In Nigeria, despite the CBN's tight monetary stance, structural challenges—including inadequate infrastructure, high energy costs, and logistical inefficiencies—continue to hinder the efficacy of anti-inflationary policies. Cowry Research anticipates that inflation will climb further in November to 34.45%, reflecting sustained pressures from the same factors as well as price pressures from season effect across the country.

The Monetary Policy Committee (MPC) is scheduled to meet in two weeks. At its last meeting in September 2024, the MPC raised the Monetary Policy Rate (MPR) by 50 basis points to 27.25%, increased the Cash Reserve Ratio (CRR) for deposit money banks to 50%, and maintained the CRR for merchant banks at 16%. Given the persistent inflationary pressures, we expect the MPC to tighten further with a potential 25 to 50 basis points increase in the MPR.

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