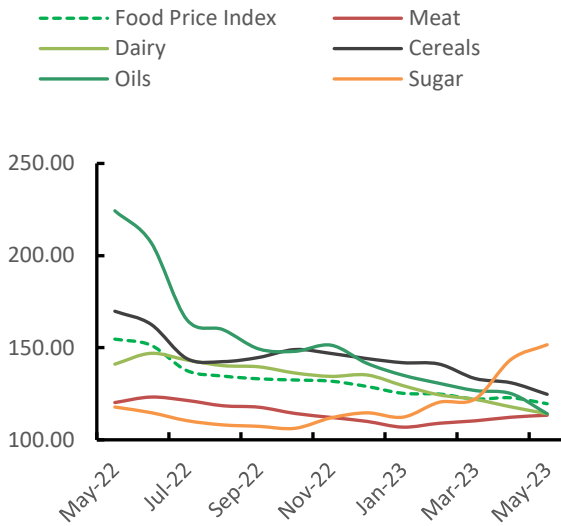


“Headline inflation for the month of May 2023 is expected at 22.42% YoY (vs 22.22% YoY reported in April 2023).”

Chart 1: Global Food Prices Indices



Source: FAO, Meristem Research

Advanced Economies: Global Disinflation Trend Sustain

Major monetary authorities across the globe remain in pursuit of price stability and have sustained their pace of rate hikes. This coupled with reduced household spending and lower energy prices (Brent crude price declined to USD72.66/bbl in May 2023 from USD79.54/bbl in April 2023) has directed headline inflation southward so far in 2023. Headline inflation in the US and UK declined to 4.90% and 8.70% in April 2023 (vs. 5.00% and 10.10% in March), respectively. Similarly, the Eurozone’s inflation rate declined to 6.10% in May (from 7.00% in April 2023). The impact of these consecutive rate hikes has also been felt in economic growth. The Eurozone officially slipped into a recession in Q1:2023 as it recorded a 0.10% decline in output, following the 0.10% decline recorded in Q4:2022.

Lower food prices have also contributed to global disinflation. According to the UN’s Food and Agricultural Organization (FAO), the food price index declined in May by 21.33% YoY and 2.60% MoM underpinned by lower cereals, dairy, and vegetable oil prices amid export rebound and expectations of higher increased production output from major suppliers like the United States.

Looking ahead, we expect inflation rates across advanced economies to sustain a decline hinged on monetary authorities’ continued commitment to ensuring price stability and lower crude oil prices compared to 2022. However, further supply cut announced by the Organization of Petroleum Exporting Countries (1.40mbpd from January 2024) and Saudi Arabia’s intention to slash output by 1.00mbpd poses an upside risk to global inflation.

Nigeria: Subsidy Removal Set to Impact Inflation

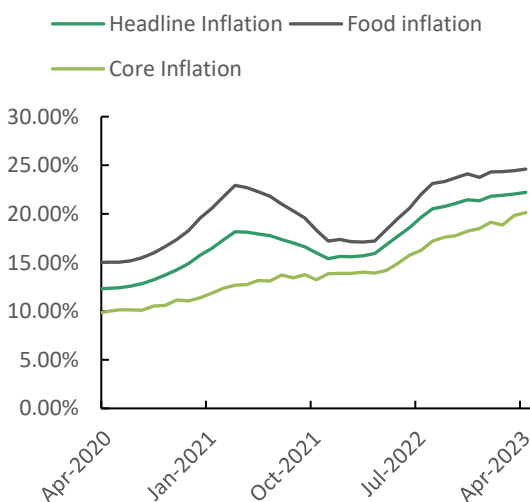
Contrary to the decline in global food prices, key food prices in the domestic economy are expected to remain elevated based on our perception of market prices. Also, gleaned insights from the National Bureau of Statistics (NBS’s) selected food price watch for April 2023, the increase in food prices for May is likely to result from the higher cost of vegetables, oils, bread, and tubers. In addition, the supply shortage of tomatoes due to the outbreak of the tomato disease as noted in April’s report persists and resulted in a 3.97% MoM increase in tomato prices according to the NBS.

The core index is also expected to increase on the back of higher gas prices, Premium Motor Spirit (PMS), and National Household Kerosene (NHK). Reported cases of fuel scarcity are likely to be catalysts underlining higher PMS prices in May. Lingering challenges with sourcing FX and the 10.56% YoY depreciation of the domestic currency against the greenback on the I&E window are also factors expected to increase the prices of import-dependent items.

Going forward, the deregulation of PMS and the intention to unify the exchange rate windows pose a significant upside risk to inflation. Fuel subsidy removal which has led to repricing of the commodity, is expected to significantly impact the core index. Also, we expect the impact of higher PMS prices to trickle to the food index due to its expected impact on transportation costs. Furthermore, we expect the proposed unification of the exchange rate to result in the devaluation of the naira on the official window. Thus, domestic prices are projected to remain high in the near to medium term.

Overall, we expect the headline inflation to increase by 20bps to 22.42% (vs. 22.22% YoY in April 2023).

Chart 2: Trend in Inflation (Apr 2020 – Apr 2023)



Source: NBS, Meristem Research

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