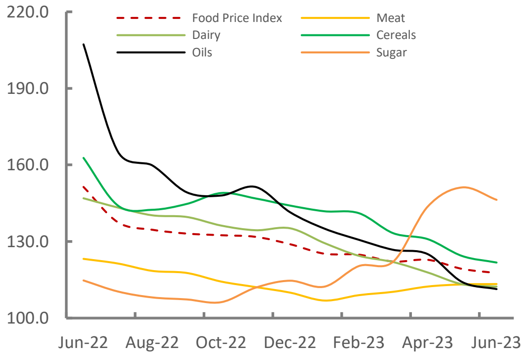
Macroeconomic Update

Inflation Expectation | June 2023

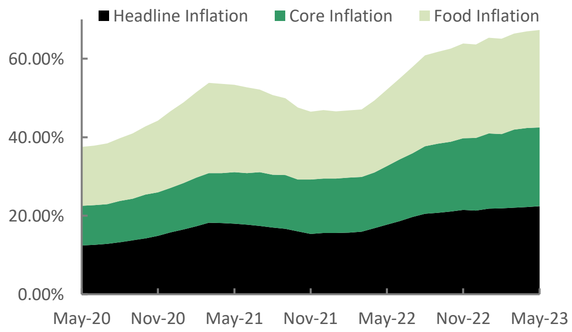
"Headline inflation for the month of June 2023 is expected at 23.83% YoY (vs 22.41% YoY reported in May 2023)."

Chart 1: Trend in Global Food Price Index



Source: FAO, Meristem Research

Chart 2: Trend in Inflation (May-20 – May-23)



Source: NBS, Meristem Research

Advanced Economies: Global Inflation Continues to Abate

Inflation in the advanced economies has sustained its downward trend, indicating the positive impact of the central bank's monetary tightening measures. In the United States, the inflation rate dropped to 3.00% in June, compared to 4.00% in May 2023, moving closer to the target range of 2%. Similarly, the Eurozone recorded a deceleration in inflation, with a rate of 5.50% in June (from 6.10% in May 2023). This disinflation trend can be attributed to lower prices in the food, transport, and energy sectors. However, it's worth noting that core inflation remained elevated in these economies. In the US, core inflation increased by 20bps, reaching 4.80%, while in the Eurozone, core inflation settled at 5.40% (rising by 10bps). The rise in core inflation was primarily driven by the higher cost of services and housing prices. Additionally, despite the decrease in job additions to 209,000 in June from 306,000 in May 2023, hourly wage rates in the US increased. Considering that inflation levels remain above the 2% target, we posit that the monetary authorities will maintain their hawkish stance to rein in inflation in both economies.

The moderation in food prices persisted in June 2023 as revealed by the Food and Agriculture Organization (FAO) report. The food price index for June decreased by 1.04% to 122.30 points compared to 124.30 points in May. This decline was supported by lower prices in sugar, vegetable oil, cereal, and dairy products. The production of wheat increased by 0.90% to 783.30 million metric tons during the period, contributing to the increased supply. Additionally, the price of vegetable oil decreased by 2.40% MoM, mainly due to lower prices of sunflower and palm oils. Looking ahead, we anticipate a further decline in food prices in the coming months based on increased supply as a result of favorable weather conditions amidst subdued demand due to tightened monetary stance.

Nigeria: Inflation remains Heedless

In contrast to what played out in the global economy, we expect food inflation in Nigeria to remain elevated in June 2023. According to the NBS, food inflation in May 2023 grew by 24.82% YoY from a 24.61% YoY increase in April, largely driven by increases in prices of food items like Palm Oil (+30.89% YoY), Yam tuber (+22.84% YoY), Bread (+30.60% YoY), and Tomato (+17.68% YoY). Our expectation of higher food prices is hinged on the recent fuel subsidy removal which should exert pressure on the transportation cost of food items, ultimately translating to higher food prices. Also, the rainy season is expected to adversely affect tomato cultivation which should lead to a supply squeeze and further increase its prices. Furthermore, we envisage that the devaluation of the currency poses an upside risk to imported food inflation. Overall, we expect food inflation to maintain its upward trajectory.

Similarly, we expect the core index to remain elevated due to the adverse impact of policies such as the removal of fuel subsidies and the changes in the operation of the foreign exchange market on price stability. Following the removal of the subsidy, PMS price rose by over 100% from an average price of NGN238.11/liter in May 2023 to an average of NGN500/liter which we anticipate will exert more pressure on core inflation. In addition, Naira's depreciation to an average of NGN625.90/USD as of June 2023 (from NGN464.67/USD in May 2023) on the I&E window poses a significant risk to domestic price stability.

Overall, we expect the headline inflation to increase by 142bps to 23.83% (vs. 22.41% YoY in May).

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