

Macroeconomic Update | Inflation Expectation

# Ahead Of Inflation Report

October 2023

# Inflation Expectation | October:2023

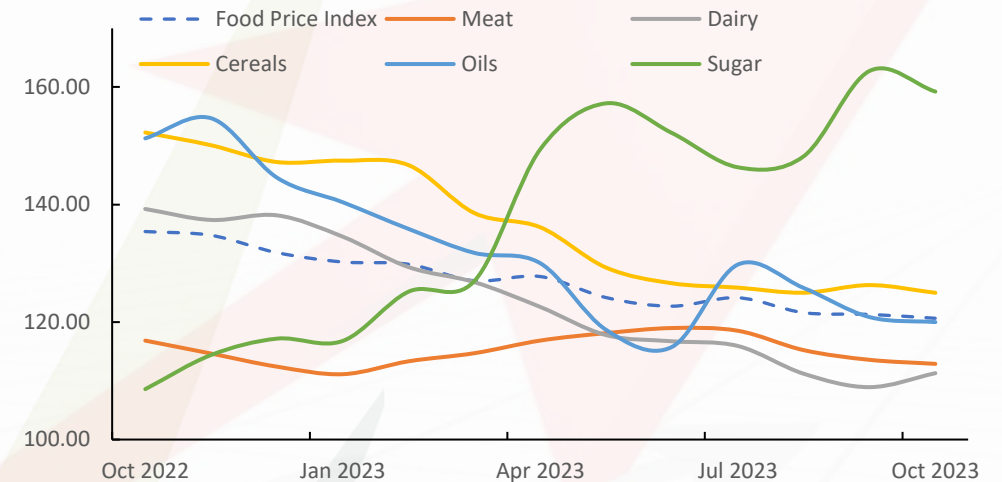
## Global Inflation: A Shifting Trend

Inflation across major economies has moderated in recent months, indicating a slowdown in the pace of price increases compared to the previous year. In the Euro Area, headline inflation hit a 27-month low of 2.90% YoY in October 2023, driven by reduced energy and food prices. Meanwhile, in the US and the UK, inflation remained steady at 3.70% YoY and 6.7% YoY, respectively, in September, attributed to declining energy costs and moderate food price increases.

For context, the FAO Food Price Index (FFPI) declined slightly to 120.62pts (-0.66pts and -14.76pts compared to September 2023 and October 2022 respectively), continuing the third consecutive month of decline since July 2023. This was majorly owing to falling prices of sugar, cereals, vegetable oils, and meat, offsetting the rebound in dairy product prices.

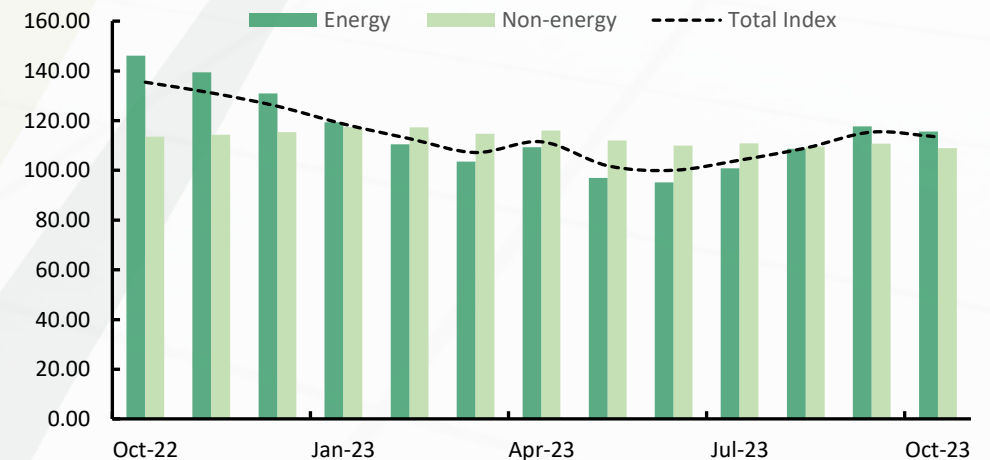
*While tension in the Middle East endures, we note that the severity of the situation and its potential impacts appear to be diminishing in the market, as crude oil prices declined to pre-war levels by the end of October 2023. Hence, barring any escalation in the ongoing altercations, we expect the pace of inflation increase to remain mild as drivers of inflation seem to be subsiding. Furthermore, as major central banks in these economies have held their rates, referencing past rate hikes that helped mitigate inflation and improve labor markets, we anticipate less restrictive monetary policy stances from these central banks.*

Chart 1: Global Food Prices Indices



Source: FAO, Meristem Research

Chart 2: World Bank Commodity Price Data (The Pink Sheet)



Source: World Bank, Meristem Research

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## Headline Inflation to Maintain its Unyielding Ascent

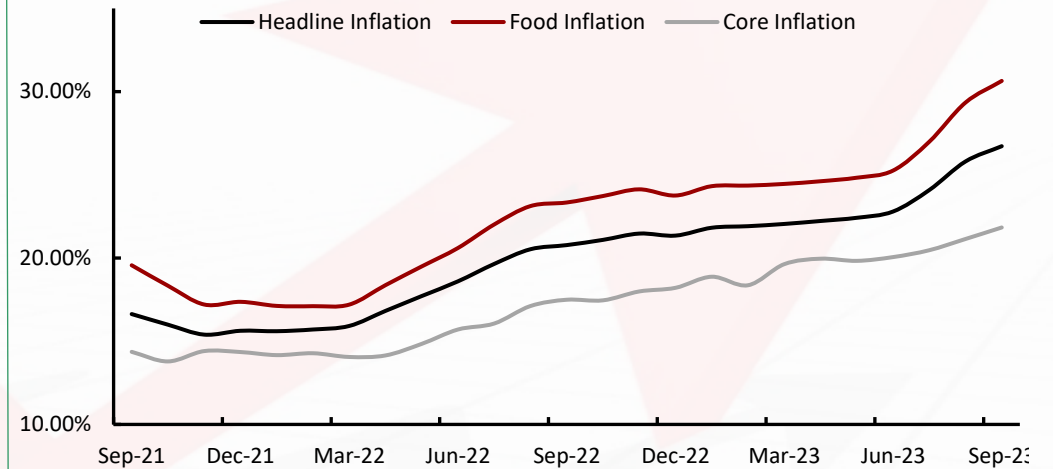
Contrary to the observed trend in global inflation, Nigeria's inflation has maintained its northward trajectory (since December 2022), feeding on the challenges plaguing the food sector, the continuous depreciation of the Naira leading to rising import bills (both for food and other items) and increasing transport costs. Our analysis of price levels revealed that the prices for essential food items (like rice, bread, yam and meat) ticked up in October as the macroeconomic landscape of the country continued to deteriorate.

*For November, while we anticipate the increased supply of food products (due to the ongoing harvesting season of essential staples like rice and yam), we do not expect a reversal in the food inflation trend as the supply chain issues plaguing the sector are still very much existent and will continue to impact food prices in the near term.*

*Furthermore, we expect core inflation to increase in November. This is premised on our anticipation of further depreciation of the Naira, potentially affecting the prices of import-dependent items like clothing and fabrics, motor vehicles and so on.*

*Therefore, we project that headline inflation will sustain its uptrend as the aforementioned factors continue to propel the overall prices of goods and services within the country.*

Chart 3: Inflation Rate (% YoY Change)



Source: NBS, Meristem Research

Thus, we expect:

**Headline Inflation at – 27.74%, compared to 26.72% in September 2023, representing a 102bps increase.**

**Food inflation at – 32.15%, compared to 30.64% in September 2023.**

**Core inflation at – 22.19%, compared to 21.84% in September 2023.**

\* Core Inflation - includes All items less farm produce and energy.

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