

Macroeconomic Update | Inflation Expectation

# Ahead of Inflation Report

February 2024

# Inflation Expectation | February:2024

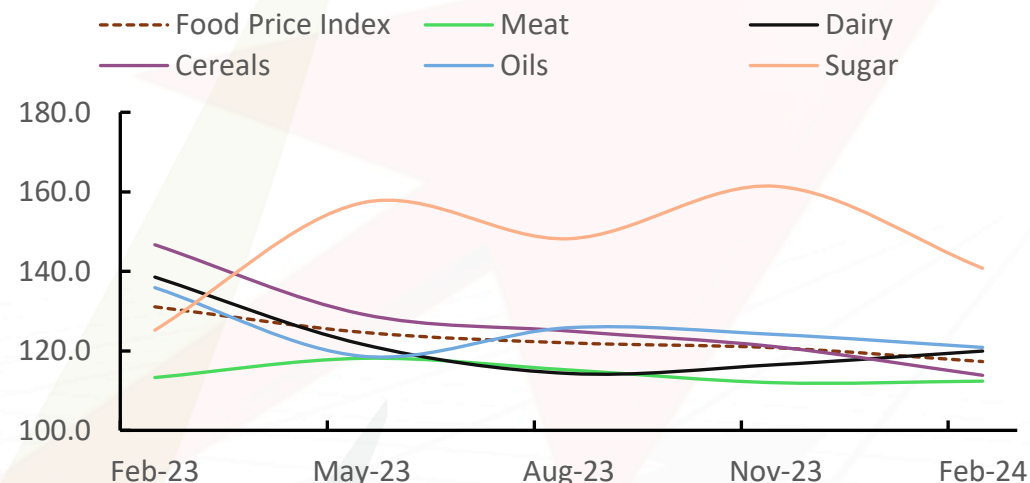
## Global Inflation Takes Diverse Turns

Inflation levels across major advanced economies took a collective downtrend in January 2024. However, February posed some challenges as inflationary pressures varied across these economies. The upturn in price levels is primarily due to a surge in oil prices following the supply disruptions of shipment caused by the Houthi rebels along the red sea trade routes (Brent crude price ticked to USD83.62/bbl in Feb 2024 from USD78.70/bbl in Jan 2024). In the United States, the Bureau of Labour Statistics reported that headline inflation rose to 3.20% YoY from 3.10% in January, propelled by upticks in housing and energy prices. On the other hand, the Eurozone's inflation decelerated but came higher than expected at 2.60% YoY (vs 2.80% in Jan 2024), owed to the higher energy prices which was offset by lower food prices.

According to the Food and Agriculture Organization (FAO), Food Price Index declined slightly to 117.30 pts in February 2024 compared to 118.20pts in January 2024. Specifically, the increases in the dairy, meat and sugar indices were outweighed by the fall in the vegetable oils and cereals indices. Furthermore, the World Bank Pink sheet estimated that the Energy index rose to 102.26pts from 101.18pts in January 2024.

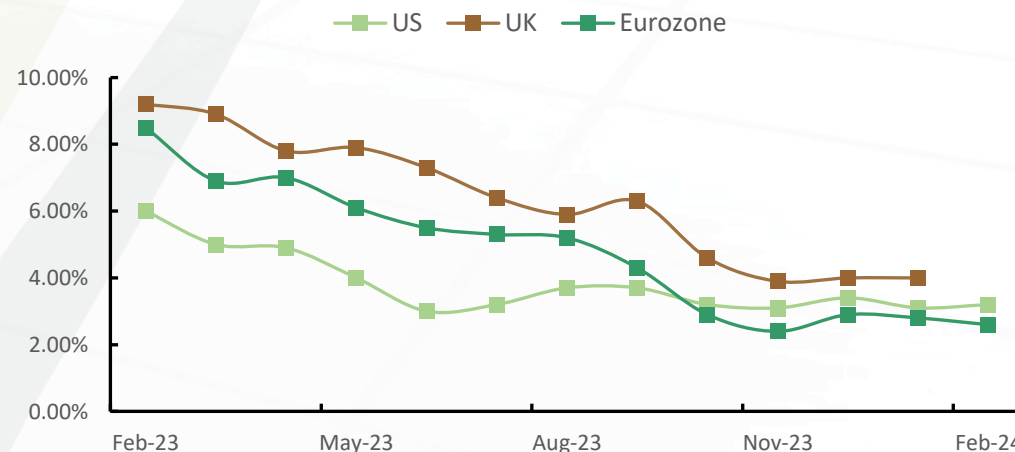
*In the near term, we anticipate a continued disinflation trend primarily due to lower food prices and Central banks' efforts to control inflation rates towards their targets. Also, the International Monetary Fund (IMF), in its Worlds Economic Outlook report, revised its 2024 projection for global inflation to 5.80% from 6.80%. However, a downside risk to our expectation is the possibility of more shocks to the oil market from prolonged supply disruptions.*

### Chart 1: Global Food Prices Indices (pts)



Source: FAO, Meristem Research

### Chart 2: Trend in Global Inflation Rates (Feb 2023 – Feb 2024)



Source: World Bank, Meristem Research

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## Inflation to Continue Unwavering Uptrend

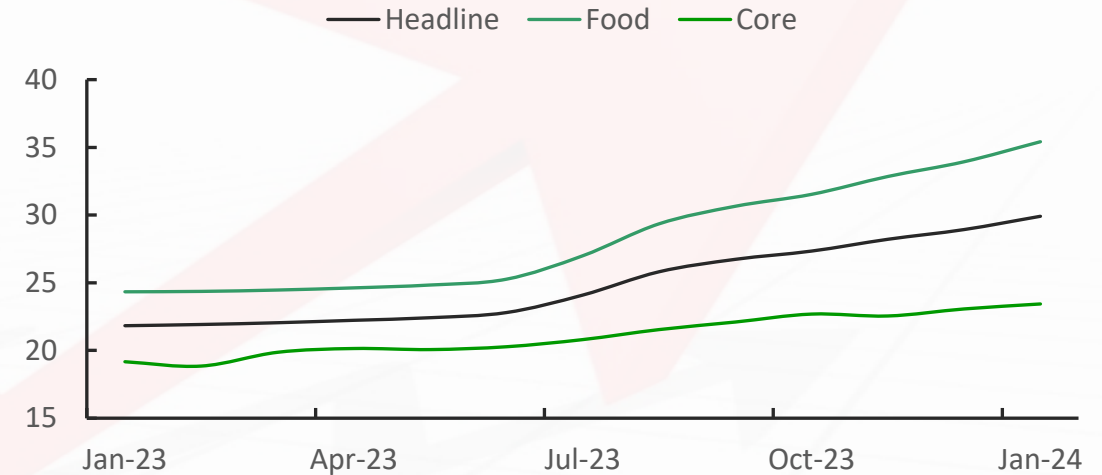
In the domestic economy, inflation has been on a persistent upward trajectory for the thirteenth consecutive month. This increase is primarily attributable to the existing challenges within the Nigerian food value chain, exacerbated by the freefall of the Naira. As of January 2024, the National Bureau of Statistics (NBS) reported an acceleration in headline, food and core inflation to 29.90% YoY, 35.41% YoY and 23.44% YoY, respectively.

*For February 2024, we expect food inflation to remain elevated due to structural challenges in the food sector. Coupled with our perception of higher market prices during the month (particularly for rice, eggs, and oils), higher logistic costs and poor road networks in the country are likely to further impact food prices.*

*Additionally, we expect core inflation to follow a similar trend in February as the Naira continued to depreciate during the period, reaching its lowest level on record (8.75% MoM and 71.04%YoY to NGN1,595.11/USD on the NAFEM window). This is poised to drive up the prices of import dependent items such as motor vehicles, clothing and fabrics etc., which typically impact the movement in the core index.*

*Ultimately, we project a sustained increase in the country's headline inflation for the month.*

Chart 3: Inflation Rate (% YoY Change)



Source: NBS, Meristem Research

Thus, we expect:

**Headline Inflation at – 30.91%, compared to 29.90% in January 2024, representing a 101bps increase.**

**Food Inflation at – 36.87%, compared to 35.41% in January 2024.**

**Core Inflation at – 23.88%, compared to 23.44% in January 2024.**

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

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