

Macroeconomic Update | Inflation Expectation

# Ahead Of Inflation Report

March 2024

# Inflation Expectation | March:2024

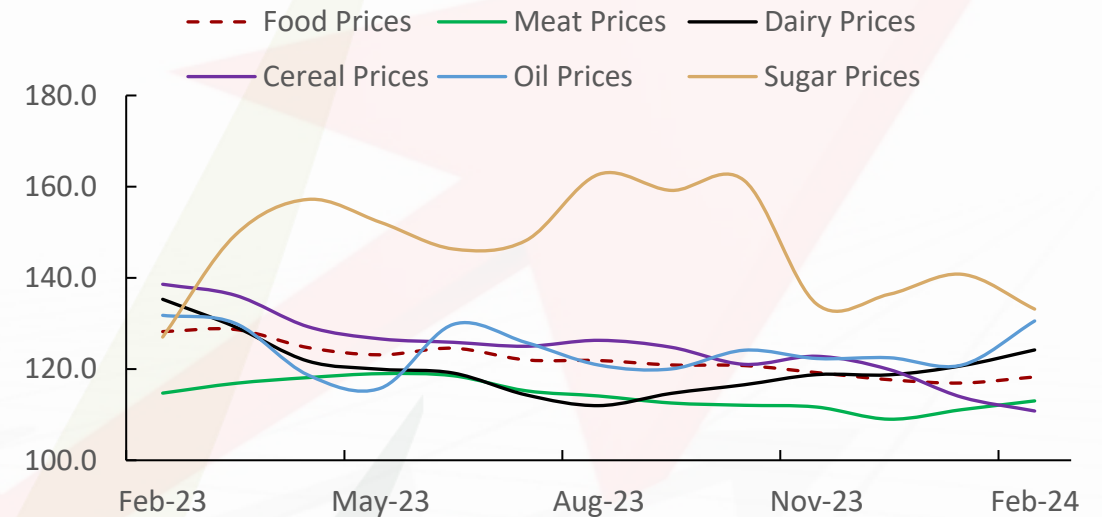
## Global Inflation Prints a Mixed Outcome

Global inflationary pressures have shown a varied trend since the start of the year. While inflation in the Eurozone and UK has been easing mainly due to lower food prices, the US has witnessed a consecutive rise in inflation in the last two months, reaching 3.50% in March 2024 from 3.20% in February. This upward trajectory is primarily driven by increases in gasoline and housing prices, as a limited number of available houses push rent higher. Meanwhile, inflation rate in the Eurozone declined to 2.40% YoY in March, attributed to decreases in food and industrial goods prices, offsetting the rise in energy costs. Similarly, inflation in the UK fell to 3.40% from 4.00% in January, driven by reductions in food prices.

The Food and Agriculture Organization (FAO) Food Price Index (FFPI) surged after seven consecutive months of decline to reach 118.3pts in March 2024 (vs 117.00pts in February 2024). This acceleration was driven by upticks in the vegetable oils, dairy, and meat indices. Additionally, the World Bank Commodity Index saw a 2.07% increase, driven by uptrend in both the Energy (+2.00%) and Non-energy (+2.23%) indices. Major contributors to the non-energy index were Beverages (+14.03%), Precious Metals (+6.82%), and Base Metals (+3.87%) indices.

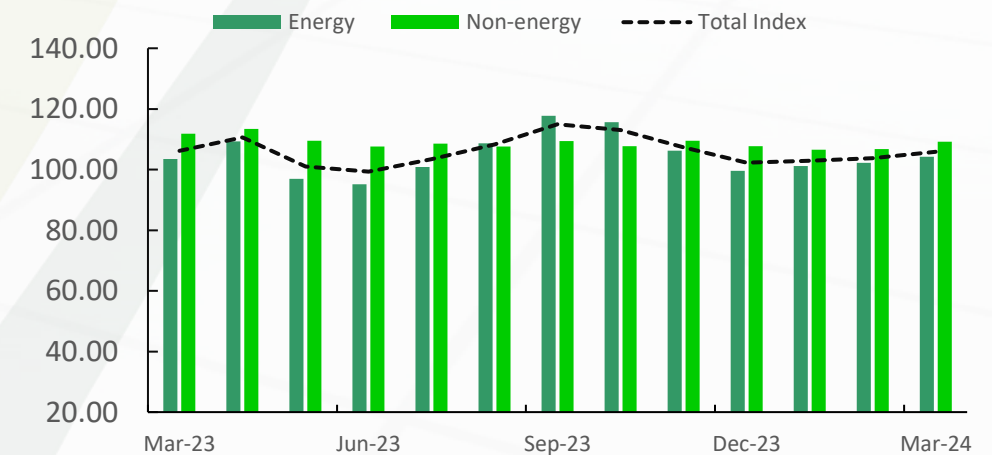
*In the near term, we anticipate a continuous mixed outcome in inflation across economies in the near term. We expect the efforts of central banks to control inflation to yield results, however, the continuous increase in crude oil prices due to heightened geopolitical tensions in the Middle East poses a significant threat to the energy costs, which could potentially reverse the downtrend in inflation.*

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



Source: FAO, Meristem Research

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



Source: World Bank, Meristem Research



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## Food Prices to Drive Inflation Northward

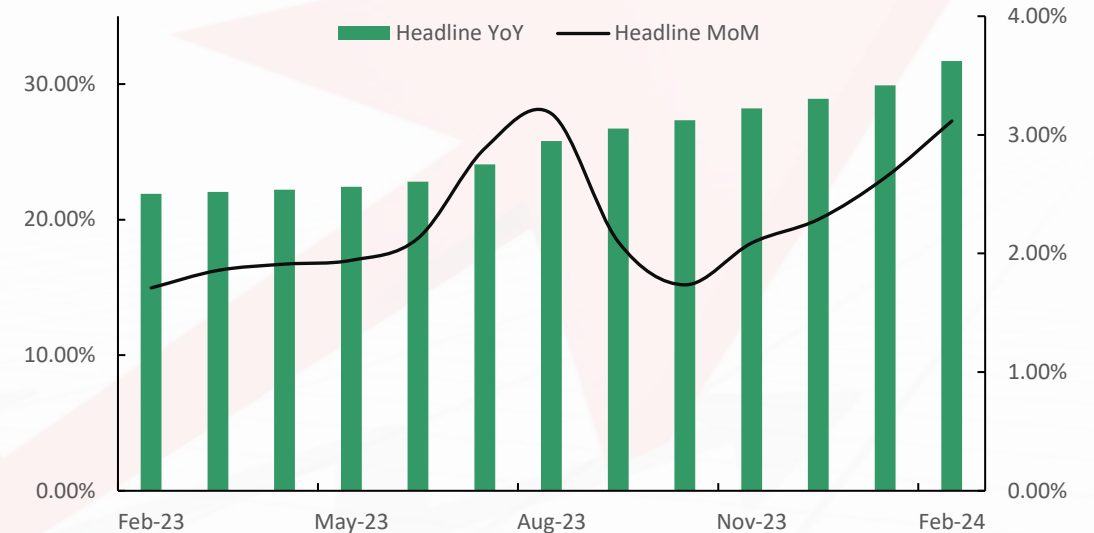
In the domestic economy, headline inflation maintained its upward trajectory as it stood at 31.70%YoY (vs 29.90% YoY in January 2024). This persistent increase can be attributed to sustained insecurity in food producing regions, other difficulties in the food sector and depreciation of the Naira. As of February 2024, food and core inflation registered at 37.92% and 25.13%, respectively.

*We anticipate food inflation to rise in March as the major drivers of inflation remain persistent coupled with reduced output due to the ongoing planting seasons for key crops such as yams, rice vegetables and other legumes. Additionally, increased purchases ahead of the Easter period, and reduced productivity of farmers due to the Ramadan fast, are expected to have further exerted pressure on food prices.*

*For core inflation, we project a YoY increase due to the depreciation of the Naira (64.50% YoY from NGN461.50/USD in March 2023) which is expected to increase the prices of imported items during the period. However, with the recent appreciation of the Naira on the NAFEM window in March 2024 (+17.21% compared to an average of NGN1523.71/USD in February 2024), we expect a MoM improvement in the core index.*

*Hence, we project a continued increase in inflation figures for March due to the sustained inflationary pressures.*

Chart 3: Headline Inflation (% YoY, MoM Change)



Source: NBS, Meristem Research

Thus, we expect:

**Headline Inflation at – 33.10%, compared to 31.70% in February 2024, representing a 140bps increase.**

**Food inflation at – 39.94%, compared to 37.92% in February 2024.**

**Core inflation at – 25.61%, compared to 25.13% in February 2024.**

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

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