

Macroeconomic Update | Inflation Expectation

Ahead Of Inflation Report

April 2024

Inflation Expectation | April:2024

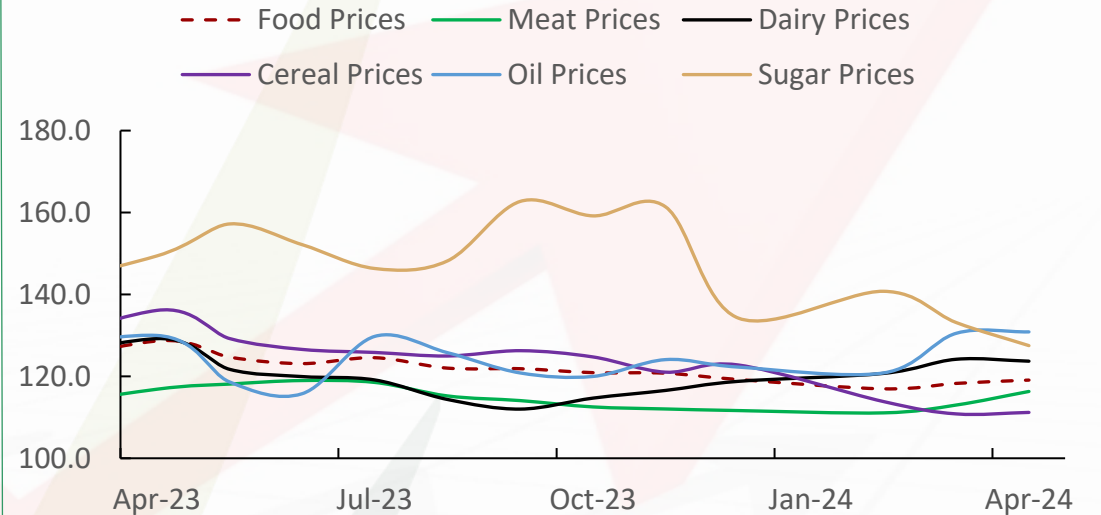
Mixed Results for Global Inflation

Global inflation trends continued its mixed run in March 2024. Inflation in the U.S. rose to 3.50% in March from 3.20% in February, marking the third consecutive month of uptick. The increase was majorly owing to higher energy (gasoline) and housing (where limited availability drove up rental prices) costs. In contrast, the Eurozone's inflation rate fell to 2.40% YoY in March, driven by lower food and industrial goods prices, which offset the uptick in energy costs. Similarly, the UK's inflation rate decreased to 3.20% in March from 3.40% in February, mainly due to reduced food prices.

In April 2024, the Food and Agriculture Organization's (FAO) Food Price Index (FFPI) rose for the second time in a row following seven months of continuous decline to reach 119.10pts, growing by 0.30% (+0.30pts) from its revised March 2024 level. This increase was driven by upticks in the meat (+1.90pts), vegetable oils (+0.3pts), and cereal indices (+0.30pts), which outweighed the declines in the sugar and dairy index. Additionally, the World Bank Commodity Index saw a 5.25% increase, driven by upticks in both the Energy (+5.24%) and Non-energy (+5.28%) Indices. This growth was led by increases in the Beverages (+26.54%), Base Metals (+9.94%), and Precious Metals (+8.57%) indices.

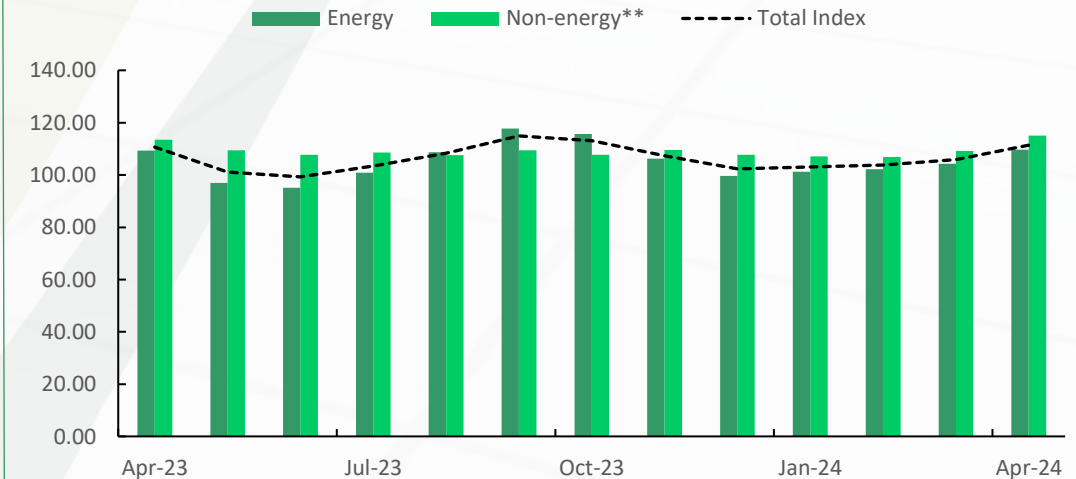
We anticipate a sustained mix trend for inflation in these economies. While we expect inflation to continue to moderate in Eurozone and UK, we foresee a further uptrend in the US' inflation as energy and rental prices remain elevated. Additionally, global tensions and geopolitical uncertainties, such as the ongoing conflict involving Israel, pose a threat to price stability and any escalation could potentially reverse the decline in energy prices.

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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Inflation's Uphill Journey to Continue Amidst Food Sector Woes

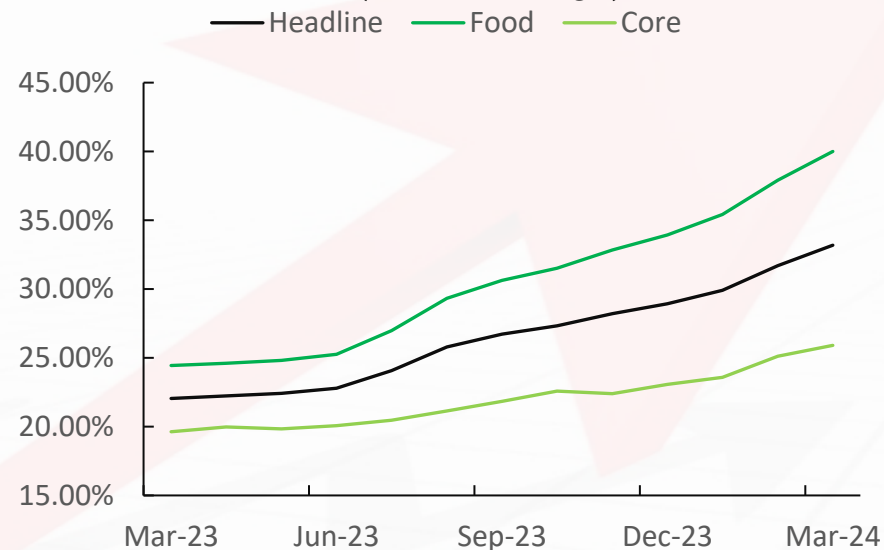
In the domestic economy, headline inflation maintained its upward course for the fifteenth consecutive month in March 2024, reaching 33.20% YoY (highest in 28 years) compared to 31.70% in February 2024. This uptrend is attributed to the continued structural issues in the domestic food sector and YoY depreciation of Naira. As at March 2024, Food and Core inflation printed at 40.01% and 25.90% respectively.

In April, we predict a continued upward trend in inflation, driven by unrelenting challenges in the food sector. Additionally, we expect the increased demand for food products (due to the Easter and Eid-al-Fitr celebrations at the onset of the month), and the ongoing planting season (for key crops like maize, yam, and tomatoes) to lead to supply constraints and subsequent price increases for food items. Moreover, the fuel scarcity (at the end of the month) led to higher transportation costs and is expected to further stoke food inflation.

Additionally, we project an increase in core inflation for the month owing to the electricity tariff hike and the depreciation of the Naira during the month. For context, Naira depreciated (6.23% MoM) on the NAFEM window, dropping to as low as NGN1390.96/USD in April 2024 from NGN1309.39 in March 2024.

Ultimately, we project a sustained increase in the country's inflation for the month due to factors mentioned above.

Chart 3: Inflation Rate (% YoY Change)



Source: NBS, Meristem Research

Thus, we expect:

Headline Inflation at – 34.43%, compared to 22.22% in April 2023, representing a 94bps increase.

Food inflation at – 41.78%, compared to 24.61% in April 2023.

Core inflation at – 26.17%, compared to 19.96% in April 2023.

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

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