

# Ahead Of Inflation Report

May 2024

# Inflation Expectation | May:2024

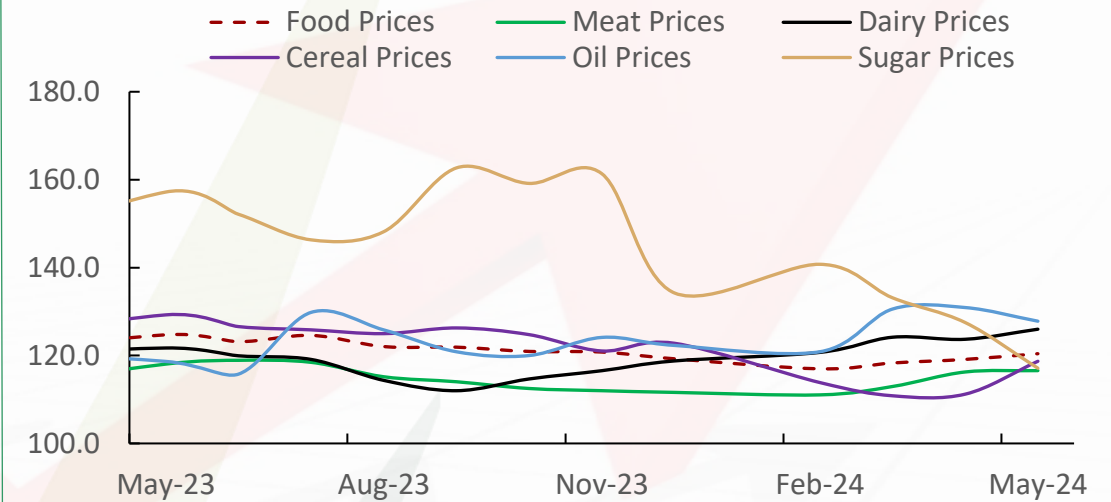
## Global Inflation: A Mixed Course To Persist

In April, the trend of uneven inflation across regions persisted, reflecting the patterns seen in March. In the US, inflation decreased to 3.30% in May from 3.40% the previous month, largely due to a slowdown in job additions. The UK also experienced a decline in inflation, dropping to 2.30% from 3.20% in March, owing to a reduction in food prices. Conversely, the Eurozone saw inflation rise to 2.60% in May, up by 20bps from the previous month, mainly due to increasing service costs, which countered the drop in food prices.

In May 2024, the Food and Agriculture Organization's (FAO) Food Price Index (FFPI) rose for the third time in a row following seven months of continuous decline to reach 120.40pts, growing by 0.90% (+0.30pts) from its revised April 2024 level. This increase was tied to a faster rise in the prices of cereals (+7.10pts) and dairy products (+2.30pts) as compared to the decline in prices of sugar (-9.50pts) and vegetable oils (-3.10pts) and meat prices (-0.20pts). On the other hand, the World Bank Commodity Index saw an 8.62% decline, attributed to decreases in both the Energy (-12.30pts) and Non-energy (-4.20pts) Indices. The downturn is allotted to lower prices of Oils and Meals (-4.88%), Base Metals (-5.72%), and Metals and Minerals (-6.42%), Grains (-4.00%) during the month.

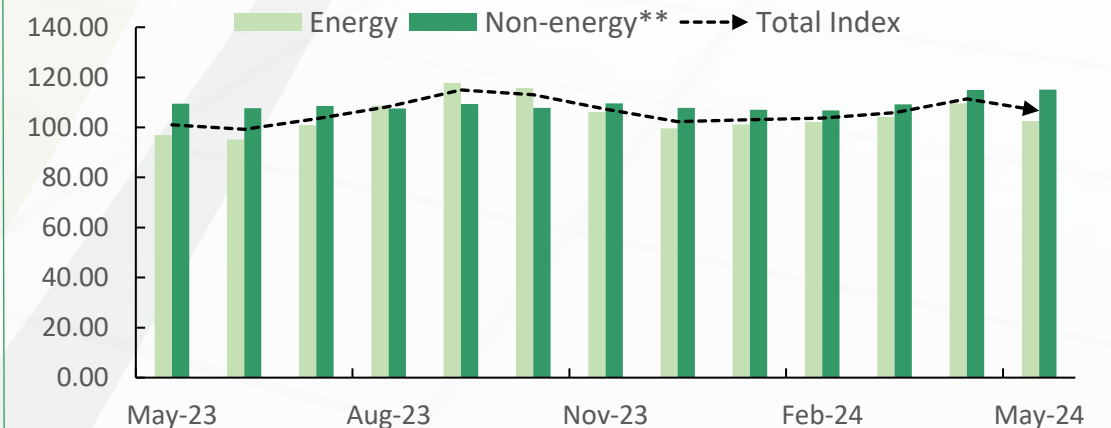
*We anticipate varying inflation trends in the upcoming period. In the US, a slower-than-expected non-farm payroll suggests an inflation slowdown, leading to our prediction of a sustained decline in inflation. Similarly, in the UK, we foresee a persistent decrease in inflation driven by a moderation in food prices. In contrast, we expect a slight increase in the Eurozone's inflation due to the ongoing rise in service inflation and the recent rate cut, which is likely to stimulate economic activity and elevate overall price levels.*

### 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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## Inflationary Grip To Tighten

On the local front, headline inflation in April rose for the sixteenth consecutive month, reaching 33.69% YoY, up from 33.20% in March 2024. Several factors contributed to this increase, including persistent deficits in the country's food sector, ongoing insecurity, the depreciation of the Naira, and the recent upward revision of electricity tariffs.

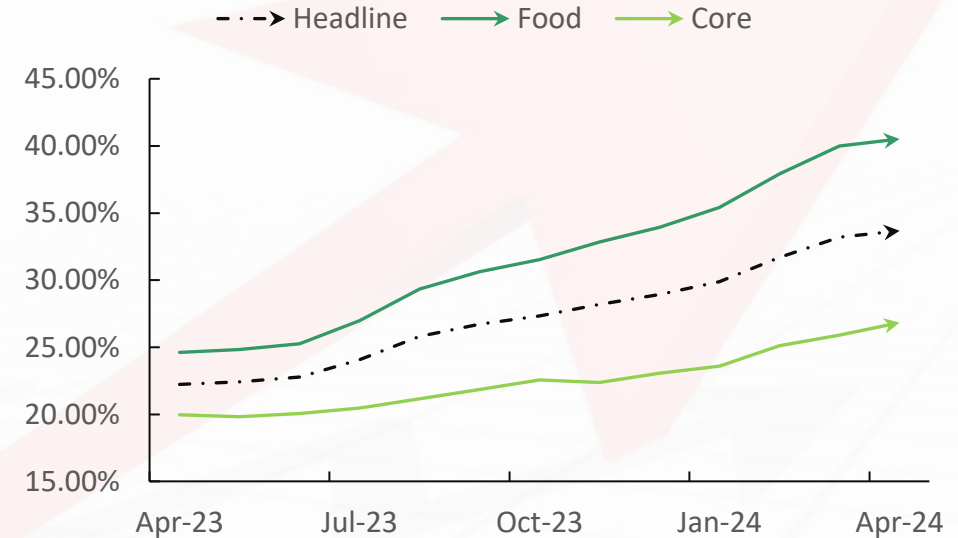
However, the monthly increases in the headline, food, and core inflation rates were more moderate compared to the previous month at 2.29%, 2.50%, and 2.20% (vs 3.02%, 3.62%, and 2.54% in March).

*We expect an increase in headline inflation for May 2024, driven by existing structural issues in the agricultural sector and the impact of seasonal variations, causing increased demand for agricultural products. The wet planting season for key crops such as yam, legumes, and tomatoes is likely to lead to lower supply, exerting upward pressure on food prices. Additionally, the "Tomato Leaf Miner" disease that affected the supply of tomatoes during the month is another factor supporting the expected uptick in food inflation.*

*Furthermore, fuelling the rise in the core index, we foresee the continuous impact of the electricity price increase and the weakening of the Naira, which depreciated by **6.83% MoM** to NGN1485.99 compared to NGN1390.96 in April 2024.*

*Overall, we expect a modest increase in inflation based on the above-stated reasons.*

Chart 3: Inflation Rate (% YoY Change)



Source: NBS, Meristem Research

Thus, we expect:

**Headline Inflation at – 33.84%, compared to 33.69% in April 2024 and 22.41% in May 2023, representing a 15bps increase.**

**Food Inflation at – 40.86%, compared to 40.53% in April 2024 and 24.82% in May 2023.**

**Core Inflation at – 27.32%, compared to 26.84% in April 2024 and 19.83% in May 2023.**

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

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