

Macroeconomic Update | Inflation Expectation

Ahead Of Inflation Report

June 2024

Inflation Expectation | June:2024

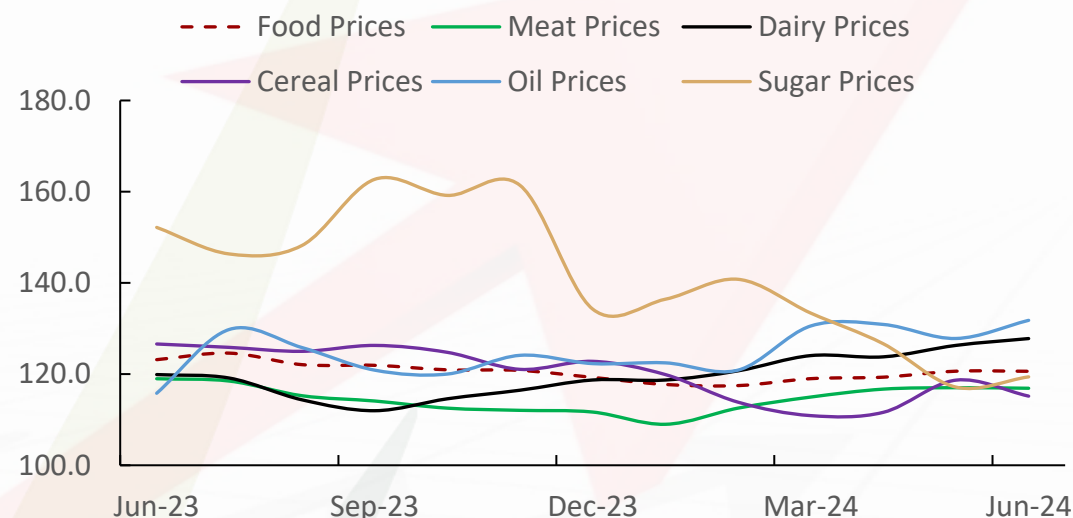
Sustained Downtrend Across Global Economies

Inflation in global economies continued its downward trend in June 2024. In the US, inflation declined for the third consecutive month, reaching 3.00% in June, down from 3.30% in May 2024. Similarly, in the Eurozone, inflation decreased to 2.40% in June from 2.60% in May 2024, following a slight increase in the preceding month. Additionally, the UK saw its inflation rate gradually decrease to its target rate (2.00%) in May, compared to 4.00% at the beginning of the year. We attribute this southward movement to falling food prices and lower gas prices due to improved supply conditions and reduced fuel demand during the period.

Following three consecutive months of increases, the Food and Agriculture Organization's (FAO) Food Price Index (FFPI) held steady at 120.60pts in June 2024. This stability was driven by declines in Cereals (-2.96%) and a slight moderation in Meat prices (+0.10%), alongside slower growth in prices for Oils (+3.12%) and Dairy (+1.18%). Conversely, the World Bank Commodity Index registered a slight uptick of 0.28%, primarily due to higher prices in Energy (+1.17%), Beverages (+1.17%), and Fertilizers (+8.94%), while the non-energy index saw a decline of 1.30%.

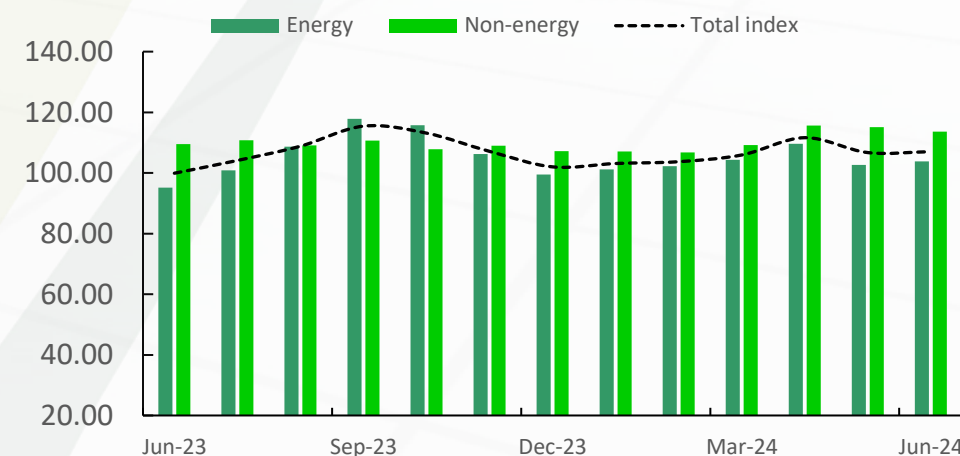
In the near term, we anticipate a continuous moderation in inflation globally as central banks' measures to curb inflation yield results. Factors such as improved food supplies, ease in labour market trends, and declining energy costs are expected to contribute to this slowing trend, creating conditions conducive to potential rate cuts in major economies.

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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Inflation to Continue Uphill Climb

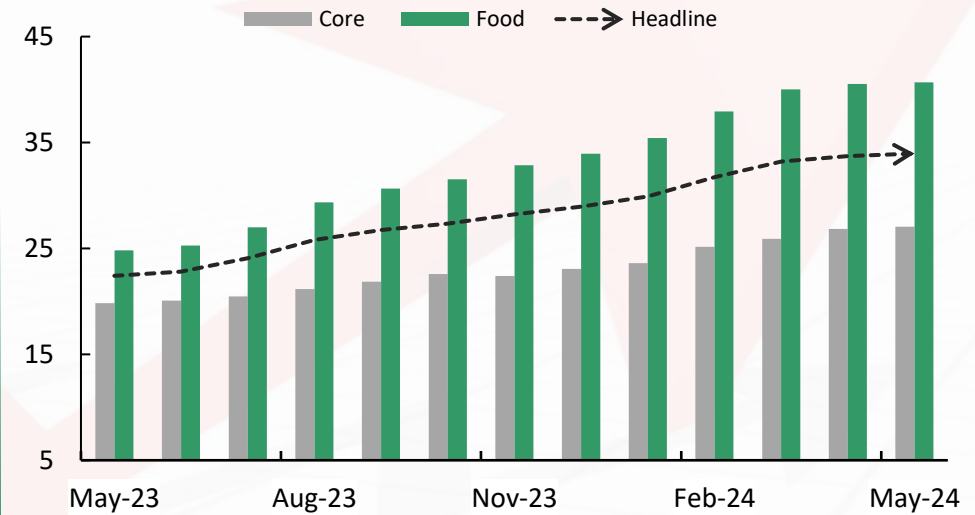
In the domestic economy, headline inflation continued its upward trajectory, reaching 33.95% YoY in May, compared to 33.65% YoY in April 2024. This persistent rise is attributed to the ongoing structural challenges in agriculture, including insecurity in food-producing regions, high transportation costs, and the continuous depreciation of the Naira. In May 2024, food inflation and core inflation grew at a slower pace, hitting 40.66% and 27.04%, respectively, owing to a modest increase in the prices of some food items.

We expect the uptrend in food inflation to persist in June 2024, driven by lingering challenges in the food sector. Other factors, like the infestation of tomato leaf miner pests, have decreased the supply of essential food items. This reduction has led to higher prices for staples like tomatoes and yams during the month. Additionally, increased demand during the Eid-el-Kabir celebration and rising importation costs are also expected to contribute to the elevated food prices in June 2024.

We expect the core inflation index to rise further, driven by higher transportation costs and the depreciation of the Naira (1.94% in June). However, given the relatively stable Naira exchange rate on the NAFEM window during the period (compared to a 5.61% depreciation in May 2024), we anticipate a month-on-month moderation in the core index.

Ultimately, we project a rise in headline inflation hinged on the inflation-stoking factors mentioned above.

Chart 3: Inflation Rate (% YoY Change)



Source: NBS, Meristem Research

Thus, we expect:

Headline Inflation at – 34.01%, compared to 33.95% in May 2024, representing a 6bps increase.

Food inflation at – 40.74%, compared to 40.66% in May 2024.

Core inflation at – 27.30%, compared to 27.04% in May 2024.

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

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