

Nigeria | Macroeconomics

Inflation Report

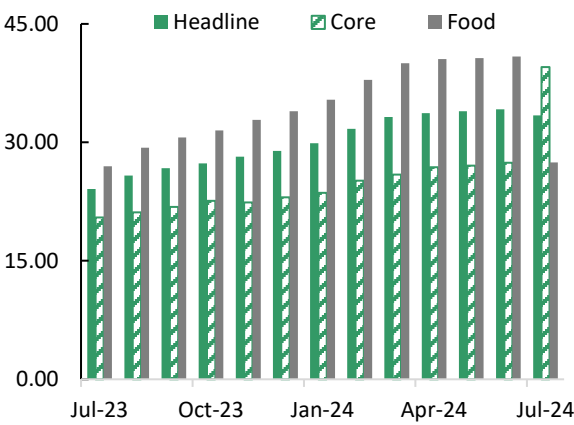
July 2024

Inflation Report for July 2024

Key Summary Statistics

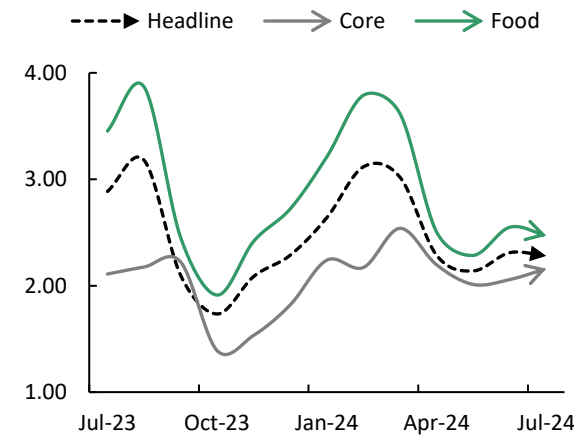
Category	Jul-2024	Jun-2024	Jul-2023
Headline Inflation	33.40%	34.19%	24.08%
Food Inflation	39.53%	40.87%	26.98%
Core Inflation	27.47%	27.40%	20.47%
Imported Food Inflation	36.91%	36.38%	19.94%

Chart 1: Trend in Headline, Food, and Core Inflation (YoY % Change)



Source: NBS, Meristem Research

Chart 2: Monthly Inflation Trend (MoM % Change)



Source: NBS, Meristem Research

The National Bureau of Statistics (NBS) reported that Nigeria's July headline inflation declined by 79bps to 33.40% YoY from 34.19% YoY in June (2bps below our forecast of 33.42%), marking the first disinflation since December 2022. This downtrend was primarily driven by a reduction in food inflation, which eased to 39.53% YoY. The decline in the food index is linked to a drop in the average prices of Tin Milk, Date Palm fruit, Garri, Fish, Watermelon, and Meat. However, core inflation increased by 18bps to 27.47% YoY. On a monthly basis, both headline and food inflation also reversed their upward trend, easing to 2.28% and 2.47%, respectively, compared to 2.31% and 2.55% in June, while core inflation continued its northward movement to 2.16% (vs 2.06% in the prior month).

Food Index Tapers for the First Time in 19 Months

Food inflation slowed to 39.53% YoY in July 2024, down from 40.87% recorded in June, marking the first decline since December 2022. This moderation was largely driven by an increased supply of key staples, which resulted in lower prices for items such as yam, rice, and tomatoes, easing food price pressures.

Similarly, the index reversed its upward trend on a month-on-month basis, inching down to 2.47% from 2.55% in June 2024. The slowdown in the farm produce index at 3.30% MoM vs 3.90% in June, further supports this. Additionally, despite the increased volatility of the exchange rate during the month, the imported food inflation eased to 2.51% MoM, down from 2.92% in June.

In the coming months, we anticipate a continued decline in the food index, driven by a combination of factors. The recent initiatives, including the 150-day duty-free import window for essential food items like maize, wheat, and rice (effective August), the all-year-round planting initiative, and the nationwide distribution of trucks of fertilizers, are expected to yield positive results, easing food prices and inflationary pressures. Additionally, the upcoming harvest season for key crops such as beans, yam, soybeans, and ginger will likely boost food supply, leading to lower prices. Also, the high base effect from the corresponding period in 2023 will further support this downward trend.

Increased Naira Volatility Drives Core Index Northward

Contrary to the headline and food index, the core inflation, which excludes volatile items (food and energy prices), increased by 18bps to 27.47% YoY and 2.16% MoM, compared to 27.40% and 2.06% in June 2024. The upward movement is largely attributed to the heightened volatility in the country's foreign exchange market during the period, as the Naira weakened by 6.87% MoM to NGN1,608.73/USD in July (compared to the 1.94% MoM in June 2024). This led to higher prices in various categories, including Clothing and footwear (1.81% vs 1.38%), Furnishing and household equipment (1.82% vs 1.45%), Health (1.87% vs 1.42%), and Communication (0.11% vs 0.09%).

In the near term, we expect recent developments in the country's energy sector, such as the USD500mn loan from the African Development Bank (AFDB) and the USD500mn investment from Japan (which could improve power supply and enhance the nation's energy infrastructure), to positively impact core inflation. Furthermore, our expectation of a relatively stable Naira, supported by the Central Bank of Nigeria's (CBN) re-introduction of the Retail Dutch Auction system, could lead to moderation in core inflation in the near to mid-term.

Contact Information

Investment Research

praiseihansekhien@meristemng.com
research@meristemng.com

(+234 817 007 1512)

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: research@meristemng.com

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

IMPORTANT INFORMATION: DISCLAIMER

Meristem Securities Limited ("Meristem") equity reports and its attendant recommendations are prepared based on publicly available information and are meant for general information purposes only and it may not be reproduced or distributed to any other person. All reasonable care has been taken to ensure that the information contained herein is not misleading or untrue at the time of publication; Meristem can neither guarantee its accuracy nor completeness as they are an expression of our analysts' views and opinions.

Meristem and any of its associated or subsidiary companies or the employees thereof cannot be held responsible for any loss suffered by relying on the said information as this information as earlier stated, is based on publicly available information, analysts' estimates and opinions, and is meant for general information purposes and should not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell securities or any financial instruments. The value of any investment is subject to fluctuations, i.e., may fall and rise. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of investment to increase or diminish. Hence investors may not get back the full value of their original investment. Meristem Securities is registered with the Securities and Exchange (SEC) and is also a member of The Nigerian Stock Exchange (NSE). Meristem Securities' registered office is at 20A Gerrard Road, Ikoyi, Lagos, Nigeria. Website: www.meristemng.com; Email: research@meristemng.com. © Meristem Securities Limited 2024.