

Macroeconomic Update | Inflation Expectation

Ahead Of Inflation Report

August 2024

Inflation Expectation | August:2024

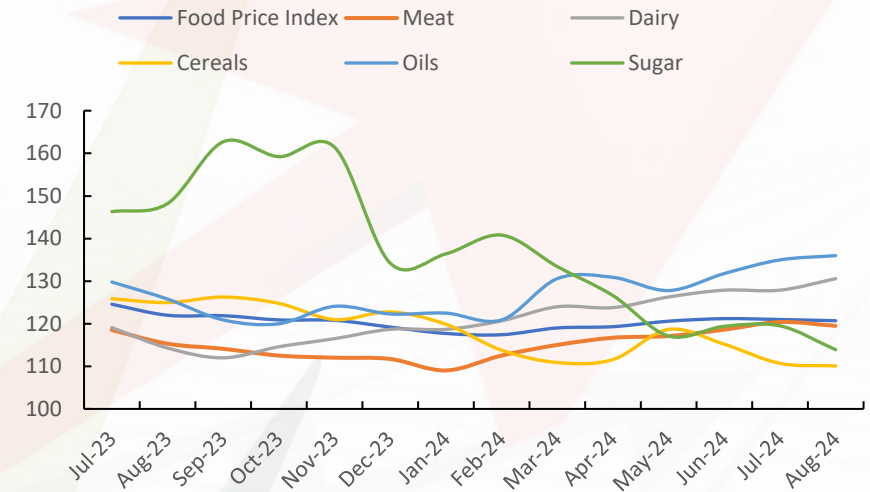
Mixed Inflation Trend across Advanced Economies

The inflationary trend was mixed across major advanced economies in recent months. While inflation continued to ease in some economies, others registered upticks. In the Eurozone, inflation fell to 2.20% in August 2024 from 2.60% in July, owing to a sharp decline in energy costs and the high base effect. Similarly, inflation in the US fell to 2.90% in July 2024 from 3.00%, primarily due to declining commodity prices, lower energy costs, and a slowdown in job growth. However, the UK's inflation increased to 2.20% in July 2024 from 2.00% in June, driven by higher housing and household services costs.

In August 2024, the Food and Agriculture Organization's (FAO) Food Price Index (FFPI) continued its downtrend, settling at 120.70pts, compared to 121.00pts in July 2024. This decline was largely influenced by the decrease in the Meat (0.90% MoM), Cereals (0.60% MoM), and Sugar (5.70% MoM) indices which outpaced the uptick in the Vegetable oils (+1.00% MoM) and dairy products (+2.80% MoM) indices. Similarly, the World Bank Commodity Index declined by 2.75% MoM to 104.70pts from 107.60pts in July on the back of decreases in the energy (3.20% MoM) and non-energy (1.86% MoM) indices.

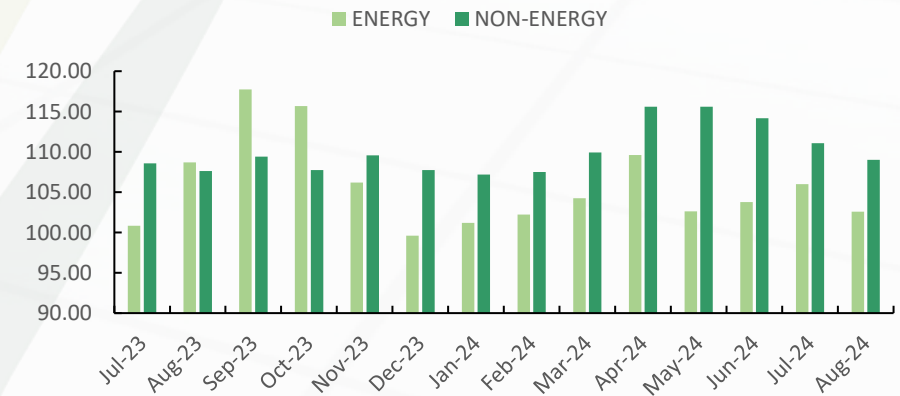
Looking ahead, we anticipate a continued disinflation trend across some advanced economies like the US and the Eurozone, hinged on lower commodity prices, moderation of wage & labor costs, and falling energy costs. On the other hand, we opine that inflationary pressures for the UK persist in the short term. This is hinged on stronger-than-expected demand and elevated service costs. Hence, we anticipate a temporary reversal in the previously witnessed disinflation trend.

Chart 1: Global Food Prices Indices (pts)



Source: FAO, Meristem Research

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



Source: World Bank, Meristem Research

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Moderating Food Prices and High Base Effect Set to Temper Inflation

In the domestic economy, the headline inflation rate decreased by 79 bps to 33.40% YoY in July 2024, down from 34.19% YoY in June (to mark the first disinflation observed since December 2022). This downturn is primarily attributed to a decrease in the food index which fell to 39.53% YoY, down from 40.87% YoY recorded in June (also marking the first decline since December 2022).

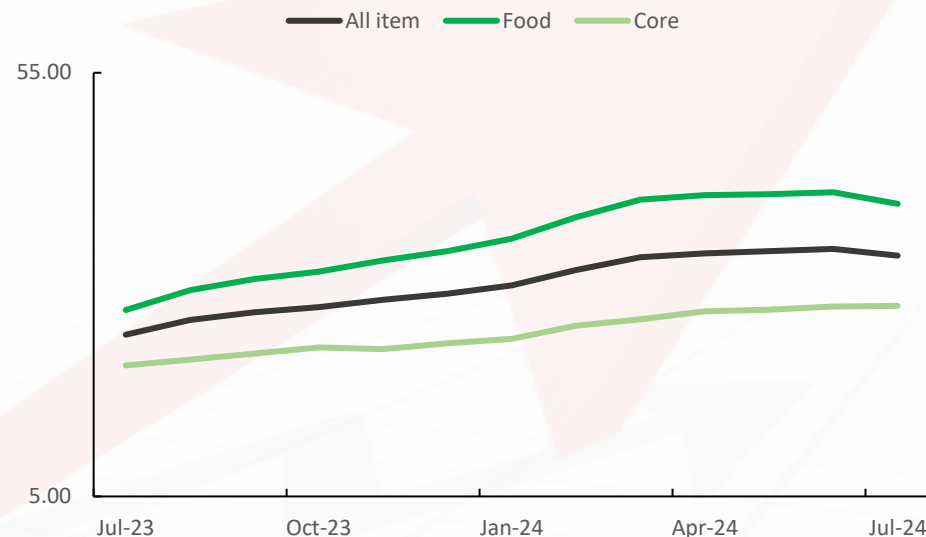
We attribute the deceleration in food inflation to the increased supply of key staple foods, which led to lower prices for items such as rice, tomatoes, and yam. However, the core inflation increased by 18bps to 27.47% YoY, owing largely to the depreciation of the Naira during the month (6.87% MoM in July 2024 vs. 9.23% in June).

We anticipate a moderation in headline inflation in August 2024, driven primarily by the high base effect from August 2023. Additionally, food inflation is anticipated to decline, hinged on the continued supply of the staple food mentioned earlier.

In the same vein, we anticipate a slight fall in the core index for August 2024, also tied to the high base effect from the prior period. Furthermore, the relative stability of the Naira during the month (the naira depreciated by 0.90% MoM compared to 6.87% MoM in July) supports this outlook.

Overall, we anticipate a further decline in the August 2024 inflation rate driven by the aforementioned factors.

Chart 3: Inflation Rate (% YoY Change)



Source: NBS, Meristem Research

Thus, we expect:

Headline Inflation at – 32.40%, compared to 33.40% in July 2024, representing a 30.68bps decrease.

Food Inflation at – 37.92%, compared to 39.53% in June 2024.

Core Inflation at – 26.53 %, compared to 27.47% in June 2024.

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

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COMMODITIES PRICE MOVEMENT

Commodity	% Change (MoM)	Direction
Rice (50kg)	9.00%	↑
Fish (carton)	14.30%	↑
Beans (50kg)	13.30%	↑
Egg	25.60%	↑
Tomatoes (Basket)	-10.00%	↓
Garri (Bag)	-6.70%	↓
Plantain	7.70%	↑
Yam (Tuber)	30.00%	↑
Noodles (carton)	4.00%	↑
Flour (50kg)	5.10%	↑

CONTACT INFORMATION

Investment Research

praiseihansekhien@meristemng.com (+234 817 007 1512)

research@meristemng.com

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