

Macroeconomic Update | Inflation Expectation

Ahead Of Inflation Report

October 2024

Inflation Expectation | October:2024

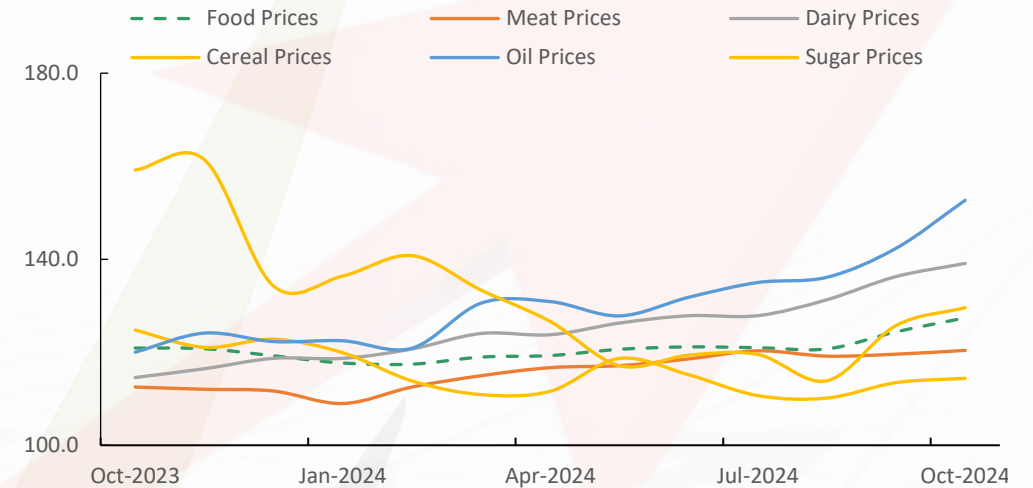
Target Achieved? Inflation Falls Below Goals in UK and Eurozone

Inflation in advanced economies continued its downward trend in September 2024, with some countries' rates falling below target thresholds. Notably, inflation in the Eurozone and UK fell to 1.80% YoY and 1.70% YoY, respectively, driven by stabilized energy prices and reduced service inflation, especially in the UK. Meanwhile, U.S. inflation declined to 2.40% YoY (lowest since March 2021) owing to lower energy prices despite persistent food and service inflation.

The rise in food prices is reflected in the Food and Agriculture Organization (FAO) Food Price Index (FFPI), which reached an 18-month high of 127.35 points in October 2024—a 1.98% increase from 124.39 points in September. This increase was primarily driven by gains in the vegetable oil index (+7.27%), sugar index (+2.62%), dairy index (+1.87%), and cereals index (+0.79%). Likewise, the World Bank Commodity Index rose by 2.31%, supported by increases in both the Energy Index (+2.44%) and Non-energy Index (+2.08%).

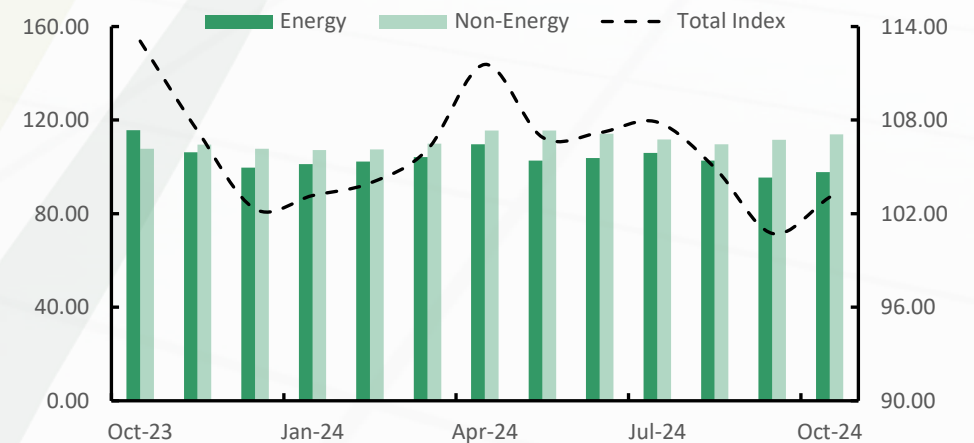
We expect the disinflation trend to continue, driven by easing energy and service prices. However, seasonal demand may challenge this outlook, potentially leading to sustained increases in food prices. In the U.S., persistent services and food inflation could hinder efforts to reduce inflationary pressures, while proposed expansionary fiscal policies in the UK may present an upward risk to inflation in that region.

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 Reversal: Domestic Pressures Push Headline Inflation Up

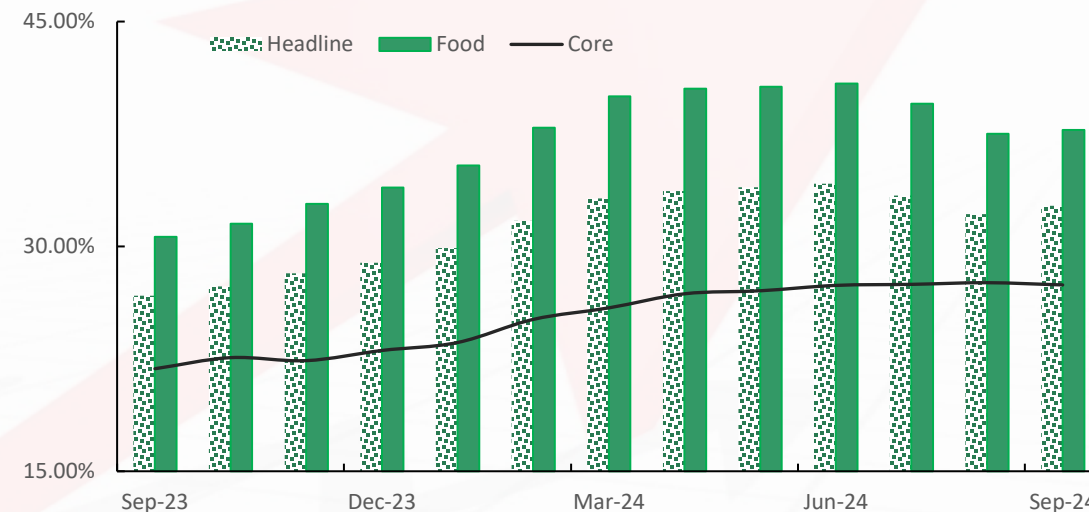
Headline inflation reversed its previous decline in September 2024, climbing to 32.70% from 32.15% in August after two months of disinflation. As of September 2024, food inflation rose to 37.77%, while core inflation stood at 27.43%.

In October, inflationary pressures remained strong, driven by persistent legacy issues in the country's food sector and the lingering effects of the September flash floods. This led to a decrease in crop yields, undermining expectations of a bumper harvest and pushing food prices higher during the month. Additionally, the rise in transportation costs (fueled by an approximate 15% increase in PMS prices during the month), further impacted food prices. Moreover, the continued depreciation of the Naira, which raised the costs of import-dependent goods such as clothes, footwear, furnishings & household equipment, among others, added to the overall inflationary pressures. For context, the Naira weakened further on the NAFEM window, averaging NGN1635.11/USD in October 2024, compared to NGN1589.86 in September.

Thus, we expect food inflation to maintain its upward trend in October, driven by the factors outlined above. Furthermore, we anticipate a rise in core inflation for October, driven by rising fuel prices and ongoing naira depreciation.

Overall, we project a sustained increase in the country's inflation in October 2024 due to these combined factors.

Chart 3: Inflation Rate (% YoY Change)



Source: NBS, Meristem Research

Thus, we expect:

Headline Inflation at – 33.48%, compared to 32.70% in September 2024, representing a 78bps increase.

Food inflation at – 38.50%, compared to 37.77% in September 2024, representing a 73bps decrease.

Core inflation at – 28.64%, compared to 27.43% in September 2024, representing a 121bps increase.

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

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