

Macroeconomic Update | Inflation Expectation

# Ahead Of Inflation Report

January 2025

# Inflation Expectation | January:2025

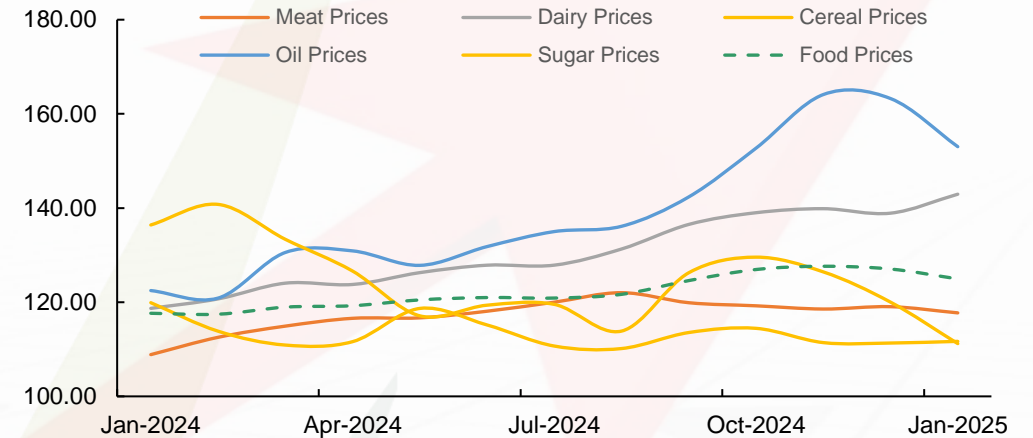
## Global Inflation Watch: Price Pressures To Resurface?

In 2024, inflationary pressures in major global economies moderated, supported by lower energy and food prices, easing geopolitical tensions, and improvements in supply chain efficiency. In the UK, inflation eased to 2.50% YoY in December 2024 from 2.60% YoY in November, driven by lower hospitality sector prices and a slowdown in food and non-alcoholic beverage costs. However, price pressures resurfaced in other regions during the period. The Eurozone's inflation rose to 2.70% YoY in December 2024 from 2.50% YoY in November. Similarly, inflation in the US increased for the fourth consecutive month to 3.00% YoY in January 2025 from 2.90% YoY in December. These upticks were largely driven by rising energy, transportation and shelter costs.

Substantiating this increase, the World Bank Commodity Index rose by 4.66% in January, driven by upturns in both the Energy (+7.23%) and the Non-Energy Index (+0.38%). However, the Food and Agriculture Organization (FAO) Food Price Index (FFPI) declined by 2.08pts to 124.94pts in January 2025 from 127.03pts in December 2024, largely owing to lower sugar (-6.78%) and vegetable oil (-5.59%) prices.

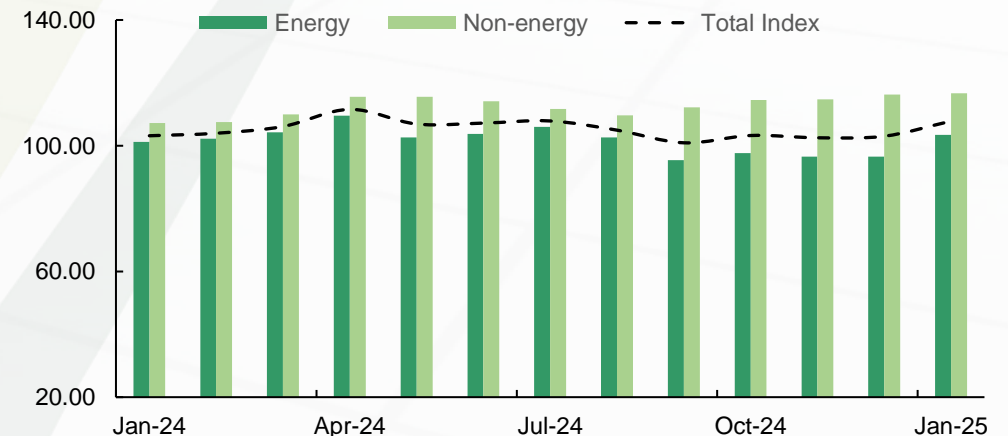
*We expect price pressures to persist across advanced economies. This is hinged on ongoing expansionary policies across major economies which could stoke inflationary pressures in these economies. Additionally, the imposition of tariffs by the Trump administration could exacerbate inflationary pressures in the US. and its trading partners.*

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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## FX Gains to Anchor Inflation Moderation in January 2024

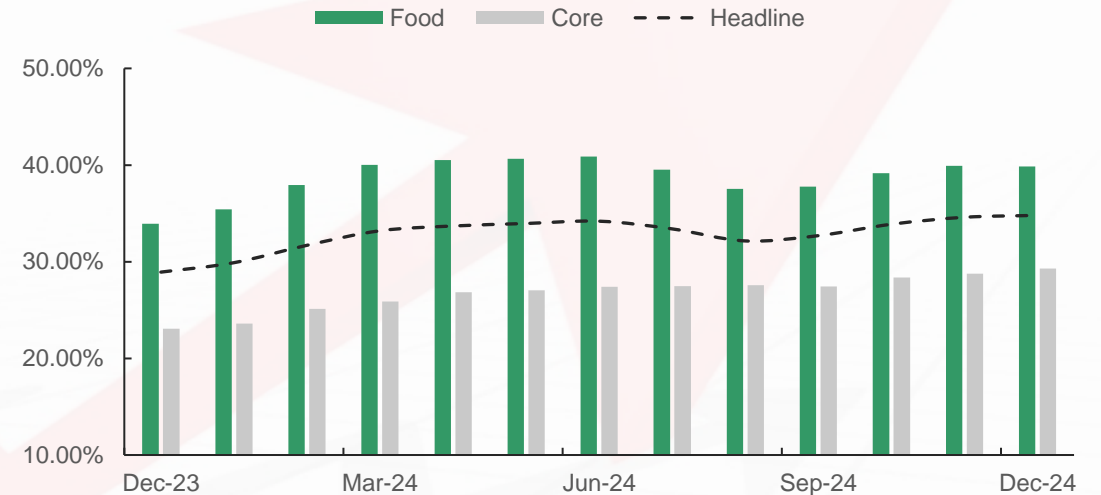
In the domestic economy, inflation maintained its upward trajectory in December 2024, rising to 34.80% YoY from 34.60% YoY in November. The uptrend is largely attributable to an uptick in core inflation to 29.28% YoY (vs. 26.64% YoY in November 2024). Meanwhile, food inflation moderated slightly to 39.84% YoY, from 39.93% YoY in the prior month.

While domestic inflationary pressures persisted in January 2025, price levels showed minimal escalation during the month. The effects of the PMS subsidy removal had largely diminished, leading to stable fuel and transportation costs during the month.

Additionally, an improved supply of food items such as maize and soybeans, which began in December and continued into January, helped moderate the prices of these commodities. This trend was partly driven by the appreciation of the Naira during this period, which reduced the cost of importing these goods and boosted supply levels. Moreover, the stronger Naira eased import costs for other import-dependent items, further contributing to price stability across the economy. For context, the Naira appreciated by 0.91% MoM in the official window, averaging NGN1,543.29/USD compared to NGN1,557.33/USD in December 2024.

*Thus, we expect headline inflation to moderate slightly in January 2025, driven by the factors listed above.*

Chart 3: Inflation Rate (% YoY Change)



Source: NBS, Meristem Research

Thus, we expect:

**Headline Inflation at – 34.53%, compared to 34.80% in December 2024, representing a 27bps decrease.**

**Food inflation at – 39.24%, compared to 39.84% in December 2024, representing a 60bps decrease.**

**Core inflation at – 29.67%, compared to 28.40% in December 2024, representing a 127bps increase.**

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

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