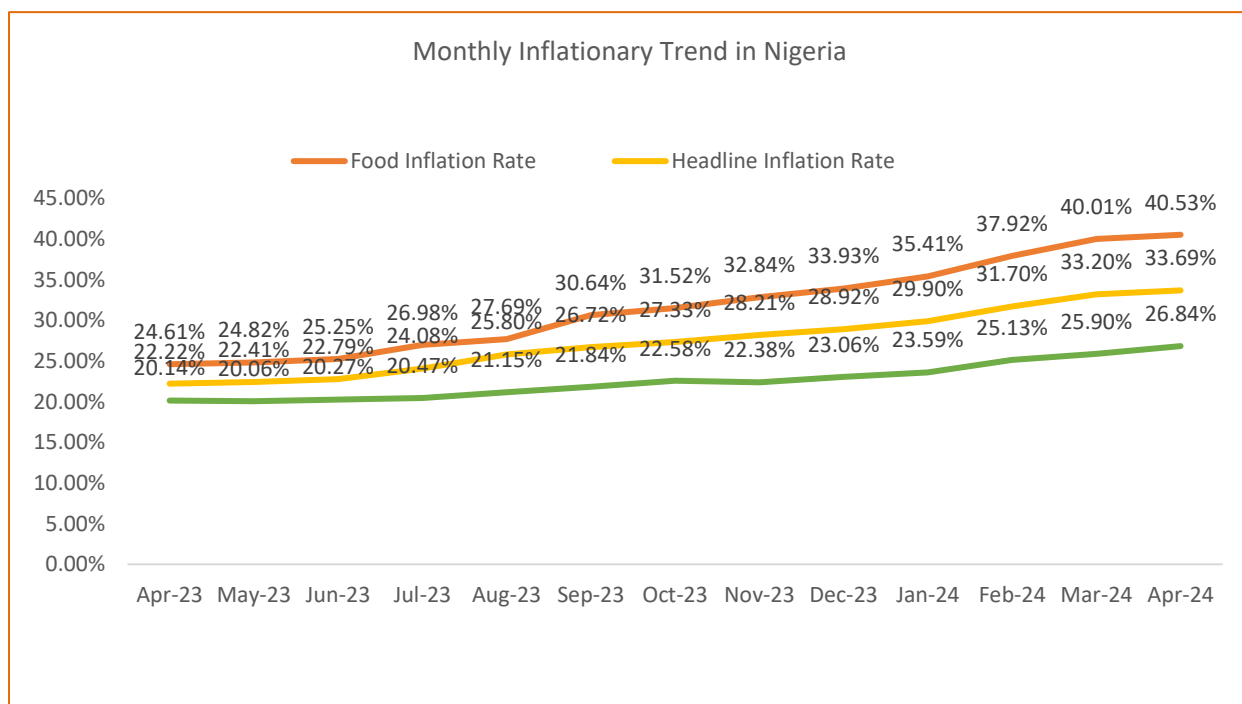


Analyst's Note on: Nigeria's Inflation Report – April 2024

Nigeria's CPI Surges to Fresh Levels of 33.69% in April; Gives CBN Little Thicket for Rates Ruse...

Nigeria's consumer price inflation (CPI) continued its monthly acceleration for the sixteenth consecutive month, reaching a 28-year high of 33.69% in April 2024, up from 33.20% the previous month. This increase is partly attributed to the renewed weakness in the naira, the removal of fuel subsidies, and the hike in electricity tariffs, according to the latest inflation report published by the National Bureau of Statistics (NBS) on Wednesday.

The sluggish movement was anticipated as the incremental rise in April's headline inflation rate showed a 0.49 percentage point increase from March 2024; beating our expected 34.65% and expectations of the market at above 34% but marking an 11.47



percentage point increase compared to April 2023's rate of 22.22%. This increase in the headline index was driven by various items within the inflation basket, including food, housing, transportation, and miscellaneous categories.

Food inflation remains a significant driver of the headline index, hitting 40.53% year-on-year in April. This surge is due to rising prices of essential food items such as millet flour, garri, bread, wheat flour, semovita, yam tuber, water yam, cocoyam, coconut oil, palm kernel oil, vegetable oil, dried fish, beef, frozen chicken, and various fruits and beverages. Despite this annual increase, food inflation moderated by 1.11 percentage points to 2.5% in April, down from 3.62% in March, due to the decreases seen in the rate of price increases for items like yam, water yam, Irish potatoes, beer, local beer, Milo, Bournvita, Nescafe, groundnut oil, palm oil, eggs, milk, soft drinks, spirits, and various fruits.

Elsewhere, the core inflation, which excludes the prices of volatile agricultural produce and energy, stood at 26.84% year-on-year in April 2024, up by 6.87 percentage points from 19.96% in April 2023. The highest increases in core inflation were observed in prices for housing rentals, motorcycle journeys, bus journeys within cities, medical consultation fees, X-ray services, and accommodation services. Meanwhile, on a month-on-month basis, the core Inflation rate was 2.20% in April 2024, printing at 2.54% in March 2024, and indicating a decrease of 0.34%.

Across the states, headline inflation was highest in Kogi (40.84%), Bauchi (39.91%), and Oyo (38.37%), while Borno (26.09%), Benue (27.53%), and Taraba (28.69%) recorded the slowest year-on-year rises. On a month-on-month basis, Lagos (4.52%), Ondo (3.35%), and Edo (3.27%) experienced the highest increases, whereas Kano (0.30%), Ebonyi (0.97%), and Adamawa (1.25%) had the slowest rises.

Also, for the food index, it was highest in highest in Kogi (48.62%), Kwara (46.73%), Ondo (45.87%), while Adamawa (33.61%), Bauchi (33.85%) and Nasarawa (34.03%), recorded the slowest rise on year-on-year basis.

On a month-on-month basis, however, food inflation was highest in Lagos (4.74%), Edo (4.06%), and Yobe (3.99%), while Kano (0.47%), Adamawa (0.98%) and Zamfara (1.50%) recorded the slowest rise.

In our view, we believe that the persistent rise in food prices can be attributed to ongoing security concerns in food-growing regions across the country, the logistics challenges of making these farm-produces available and infrastructure deficits. The pass-through effect of currency depreciation on domestic food prices also contributes significantly to the soaring food prices as consumer pockets continue to get squeezed in the face of rising prices.

Next week, the Monetary Policy Committee (MPC) of the CBN will meet to discuss macroeconomic indicators and further measures to combat inflation. Meanwhile, in its last two meetings of 2024, the committee raised the interest rate by 6% to 24.75%, maintaining a hawkish stance to address inflationary pressures and adjusting other policy parameters to tighten monetary conditions in the economy. However, the slow year-on-year increase in headline indicators within the last two months and the month-on-month trend reversal suggest that previous rate hikes and policy changes by the CBN are beginning to take effect on the economy.

We anticipate a further slow rise in headline inflation to around 34% in May 2024. In the meantime, the CBN is expected to proceed cautiously with rate hikes at the next MPC meeting, potentially increasing rates by 75 to 100 basis points as part of its ongoing efforts to tighten monetary policy and control all inflation indicators.

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