

HEADLINE INFLATION ADVANCES TO 31.70%

...Inflation Rate Rises Persistently

March 18, 2024

Economic Report

Highlights

Headline Inflation continues to surge to an unprecedented levels, reaching 31.70% in February 2024 according to NBS. This represents a year-on-year growth of 1.80% from January 2024 rate (29.90%). On a month-on-month basis, inflation rate rose by 3.12% in February 2024 (January 2.64%).

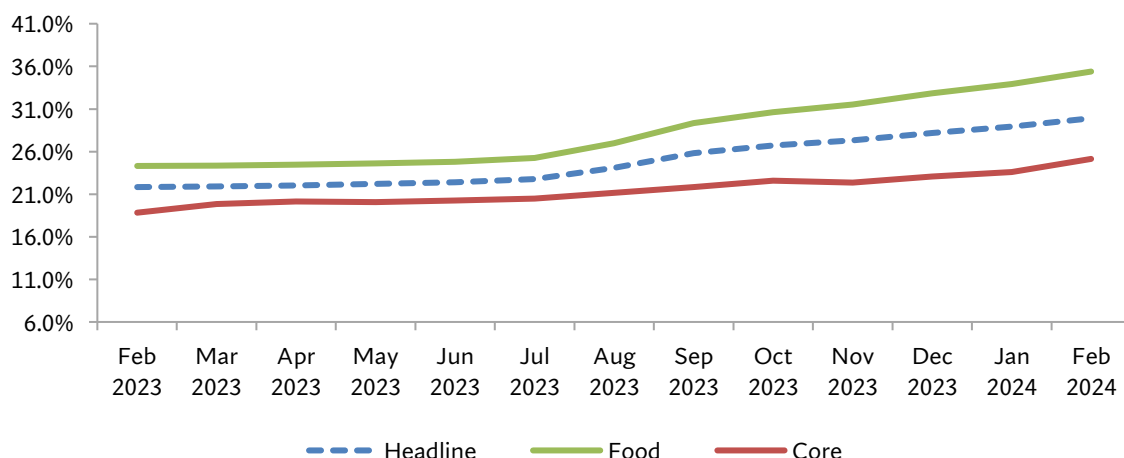
On a year-on-year basis, Food Inflation rose by 37.92% (January 2024: 35.41%), while Core Inflation (which includes all items less farm produce and energy) similarly surged to 25.13% (January 2024: 23.59%).

These incremental trend is primarily driven by the direct and indirect knock-on effect of Naira depreciation, prolonged insecurity affecting food production, and elevated energy cost impacting production and transportation costs.

On a month-on-month basis, the Food Inflation maintained its upward trajectory, increasing by 3.79% (January 2024: 3.21%), whereas Core Inflation moderated to 2.17% (January 2024: 2.24%).

We attribute the month-on-month decline in Core inflation to the slower pace of Naira depreciation. In February 2024, the Naira depreciated by 8.75% (N1,595/\$ from N1,455/\$ at the beginning of the month), a notable moderation from January 2024's 37.68% (N1,455/\$ from N907/\$). This moderation can be credited to effective measures taken by the monetary authorities to stabilize the Naira and bolster investors confidence in the economy.

One-Year Inflation Trend



Source: National Bureau of Statistics, WSTC Research



Outlook

In the last MPC meeting held in February 2024, the Committee hiked rate by 400 basis points, attributing inflationary pressures as a key factor in the decision-making process. However, we opine that beyond addressing excess liquidity in the financial system, the surge in prices, particularly in agricultural commodities, fueled by underlying structural weaknesses is poised to sustain inflationary pressures.

Notably, the CBN recently distributed fertilisers to farmers. While this is aimed to alleviate the challenges stemming from escalating fertiliser costs, we do not foresee a substantial improvement in food inflation, given that the prevailing issues such as inadequate storage facilities, dilapidated infrastructure and insecurity in the food producing regions.

Furthermore, in our previous [report](#), we highlighted the effects of the closure of the Nigeria's land border with Niger Republic, particularly within the agricultural sector in Nigeria's northern states. With the border reopening, we expect improved supply of livestock commodities.

On Core Inflation, we anticipate a persistent elevated year-on-year rise. However, we have seen the Naira stabilise in recent weeks, hence, we expect the month-on-month decline to persist.

Policy Expectation

In the next MPC meeting which is scheduled to hold on March 25 & 26 2024, we anticipate that the Committee will maintain their aggressive stance as they continue the inflation targeting strategy. Despite successive hikes, the impact is yet to be seen as Headline Inflation rallied above 30% cross mark due to the lag in the transmission mechanism and other legacy issues.

On the other hand, the rate hike is expected to sustain the influx of investors (local and foreign) towards the fixed income space to capture improved yield and that could lead to a waning interest in the equities market.

**Other Highlights**

Indexes	Year-on-Year Change			Month-on-Month Change		
	Feb-24	Jan-24	Bps	Feb-24	Jan-24	Bps
	%	%		%	%	
All-items Price Index	31.70	29.90	1.80	3.12	2.64	0.48
Food Index	37.92	35.41	2.51	3.79	3.21	0.58
Core Index	25.13	23.59	1.54	2.17	2.24	-0.07
Urban All-items Index	33.66	31.95	1.71	3.17	2.72	0.45
Rural All-items Index	29.99	28.10	1.89	3.07	2.57	0.50

Source: National Bureau of Statistics, WSTC Research



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- Hold Rating: estimated change in price is between -10% and 19% of current market price.
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WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng

Website: www.wstc.com.ng

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