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**Economic Research**

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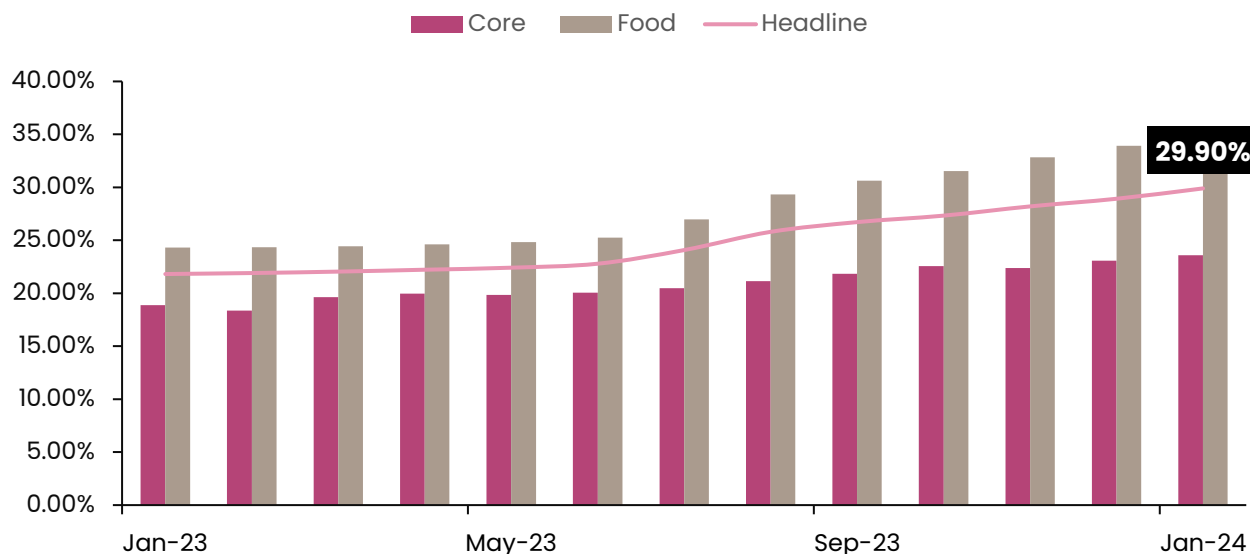
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## January 2024 CPI Report: Uptrend Continues

### Headline Inflation skyrocket to 29.90% in January 2024

Yesterday, according to the Consumer Price Index (CPI) report released by the National Bureau of Statistics (NBS), the Headline inflation for January 2024 increased by 98bps, reaching 29.90% Year-on-Year (YoY) compared to the 28.92% YoY recorded in December 2023. The sustained elevation in headline inflation is attributed to increases in the two major sub-components: Food inflation rose by 148bps to 35.41% YoY, and Core inflation increased by 52bps to 23.59% YoY. On a Month-on-Month (MoM) basis, Headline inflation experienced a 35bps jump, reaching 2.64% MoM as opposed to 2.29% MoM in December 2023. This surge is also propelled by increases in both Food inflation (+49bps to 3.21% MoM) and Core inflation (+40bps to 2.24% MoM).

Figure 1: One-Year Trend in Food, Core and Headline Inflation



Source: NBS, ARM Research

### Food Inflation

Food inflation in Nigeria reached a 13-month high in January 2024, soaring 148bps to 35.41% (YoY) up from 33.93% YoY in December 2023. This substantial increase was driven by rises in both farm produce (+145bps to 34.85% YoY) and processed food (+149bps to 35.57% YoY). Similarly, on a month-on-month (MoM) basis, food inflation surged 49bps to 3.21% MoM (vs 2.72% MoM in December 2023), driven by increases in farm produce (+34bps to 3.01% MoM) and processed food (+54bps to 3.27% MoM). The persistent rise in food inflation is attributed to longstanding challenges: insecurity, poor infrastructure, high diesel prices, and insufficient access to foreign exchange (FX) for essential imports. These factors make it harder for farmers to get their goods to market and contribute to rising production costs. Additionally, the increased cost of raw materials and the impact of global commodity price fluctuations further inflate processed food prices. This high inflation excessively impacts vulnerable populations who spend a larger share of their income on food, potentially leading to food insecurity and malnutrition.

### Core Inflation

Core inflation saw a significant increase of 52bps to 23.59% YoY in January 2024 compared to 23.07% YoY in December 2023. This rise was driven by significant increases in: Alcoholic Beverages, Tobacco & Kola (+127bps to 17.89% YoY), Furnishings & Household Equipment Maintenance (+2bps to 16.47% YoY), Health (+72bps to 24.56% YoY) and Clothing & Footwear (+5bps to 16.83% YoY). Similarly, core inflation rose by 42bps to 2.24% on a month-on-month (MoM) basis in January (vs. 1.83% MoM in December). Notable contributors to this MoM increase were Alcoholic Beverages, Tobacco & Kola (+105bps to 2.29% MoM) and Health (+65bps to 2.17% MoM). This rise in core inflation has the potential to further strain household budgets and impact consumption across essential goods and services.

### Outlook

In February 2023, we expect inflation to remain elevated, driven by security issues in food-producing areas affecting food availability and affordability, infrastructural challenges like poor transportation networks increasing costs, and concerns about the exchange rate affecting imported food items. For 2024FY, we maintain our projections of an average inflation rate of **24.39%** for the base case, **23.51%** and for the bull case **25.76%** for the bear case scenario.

In the upcoming MPC meeting later this month, we expect the committee to raise rate significantly to combat inflationary pressures in the economy. This move may curb inflation by reducing money supply and encouraging savings, although it may also have some negative impacts on economic growth.

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