

# Monthly Inflation Report

## May 2024

19th May 2024

### Economic Enigma



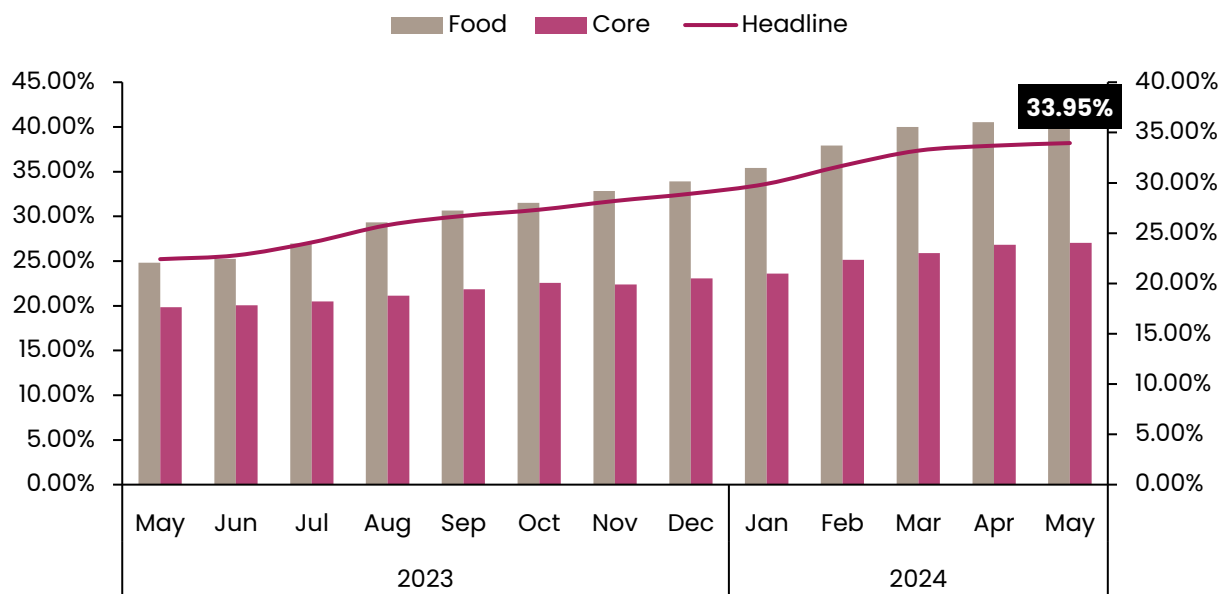
### Headline Inflation Reaches 33.95% YoY in May 2024

According to the National Bureau of Statistics (NBS), Nigeria's inflation rate reached a new 28-year high in May 2024, rising 26bps to 33.95% Year-over-Year (YoY) compared to 33.69% YoY in April 2024, marking an 18th consecutive acceleration. This upward trend was driven by increases in both major subcomponents: food (+13bps to 40.66% YoY) and core (+20bps to 27.04% YoY) inflation. Higher food prices and Naira volatility remain the major pressure points on domestic inflation.

On a Month-on-Month (MoM) basis, headline inflation continued its decline for the third (3rd) consecutive month, falling slightly by 15bps to 2.14% MoM in May 2024 compared to 2.29% MoM in April 2024. This follows a decrease in the growth pace of both food (-22bps to 2.28% MoM) and core (-18bps to 2.01% MoM) inflation in the month.

The underlying causes of inflation, which include macroeconomic headwinds such as exchange rate volatility, as well as the insecurity in food producing regions, remain deeply rooted. Climate change is another major barrier to food production that requires constant attention because farmers are not always able to adapt to harsh weather.

**Chart I: One-Year Trend in Food, Core and Headline Inflation**



Source: NBS, ARM Research

## Food Inflation

In May 2024, food inflation persisted at elevated levels, climbing by 13bps to 40.66% YoY, up from 40.53% YoY in April 2024. This increase was fueled by the rise in the cost of imported food (+82bps to 34.83% YoY), driven by the weaker naira against the US dollar; farm produce (+31bps to 39.63% YoY) due to factors such as bad roads and insecurity in the food-producing regions; and processed food (+8bps to 40.96% YoY). However, there was a month-on-month decrease in food inflation, dropping by 22bps to 2.28% MoM compared to 2.50% MoM in April. This suggests a slower rate of food price increases compared to April 2024. The decline in food inflation on a MoM basis is attributed to drops in imported foods (-24bps to 2.29% MoM), processed food (-22bps to 2.09% MoM), and farm produce (-15bps to 2.27% MoM).

## Core Inflation

Core inflation surged in May 2024, increasing by 20bps to 27.04% YoY, up from 26.84% YoY in April 2024. This rise was primarily driven by significant increases in Alcoholic Beverages, Tobacco & Kola (+125bps to 23.26% YoY), Restaurants & Hotels (+80bps to 28.60% YoY), and Furnishings & Household Equipment Maintenance (+6bps to 17.72% YoY). However, on a month-on-month basis, core inflation decreased by 18bps to 2.01% MoM in May (compared to 2.54% MoM in April). This decline was attributed to a decrease in Clothing and Footwear (-35bps to 1.18% MoM), Furnishings & Household Equipment Maintenance (-28bps to 1.43% MoM), and a drop in Recreation & Culture (-29bps to 2.21% MoM). We believe that the decline in MoM inflation may also be indicative of the effectiveness of Monetary

Policy Committee's (MPC's) hawkish monetary policy stance, raising its benchmark policy rate by 750bps to 26.25% in 2024 thus far.

## **Outlook**

The slowdown in MoM inflation offers a glimmer of hope that inflation has peaked and would grow at a slower pace YoY in June 2024. This could be a turning point, signaling a potential YoY decline in the coming months, while the MoM decline is expected to persist. One factor influencing this trend could be the supply of Automotive Gas Oil (AGO), also known as diesel, by the Dangote Refinery. The supply of domestically produced diesel from Dangote refinery contributed to energy cost falling to about NGN1200/liter from the peak of NGN1600-1800/liter in 2024. A decrease in diesel prices could significantly lower production costs across various industries, potentially leading to a downward trend in consumer prices.

Looking ahead to the next MPC meeting in July 2024, the MPC may decide to hold rates on the back of peaking inflation and may be inclined to adopt a wait and see approach. However, the widening negative real rates and the CBN's commitment to attract foreign inflows suggests the apex bank is more likely to raise rates in the next meeting.

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