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Nigeria's Headline Inflation Falls to 33.40%, the First Decline in 19 Months

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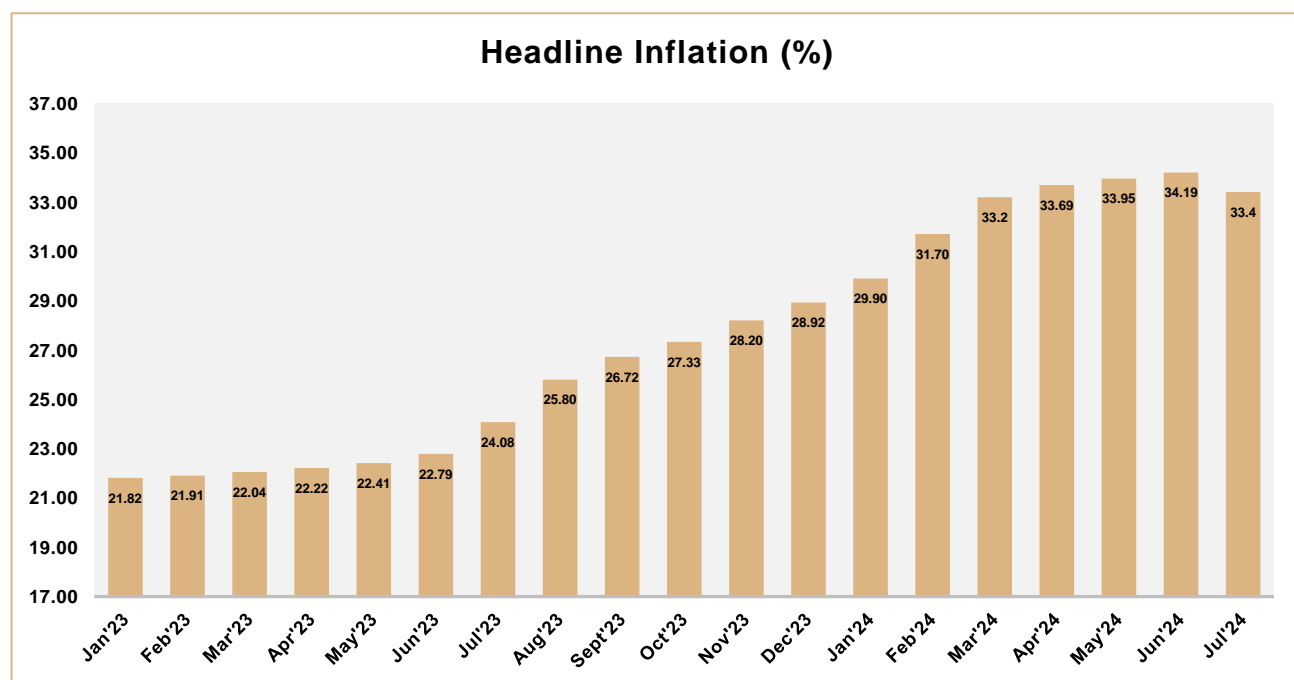
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As predicted by most analysts, Nigeria's headline inflation, which measures the year-on-year change in the general price level, declined by 0.79% to 33.4% in July from 34.19% in June. This is the first decline since December 2022. The price deceleration can be attributed largely to base effects. Notably, the two major reforms implemented by the current administration (petrol subsidy removal and floating of the Naira), took a toll on the general price level, squeezing consumer wallets, increasing business operating costs, and pushing up debt service costs for both the private and public sectors.

Similarly, month-on-month inflation eased to 2.28% in July from 2.31% in June, highlighting a reduction in consumer price pressures. However, core inflation, which excludes volatile items like food and energy costs, inched up by 0.07% to 27.47%, indicating that underlying structural challenges persist.

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Inflation Breakdown

Food inflation down 1.34% to 39.53%, supported by the harvest season

Year-on-year food inflation decreased by 1.34% to 39.53% in July, down from 40.87% in June, marking the first drop in 19 months. The monthly food index also saw a slight decline, falling by 0.08% to 2.47% from 2.55% in June. This easing of food price pressures is largely due to the harvest season. Additionally, the start of the 150-day duty-free period for importing key staples like maize, husked brown rice, wheat, and cowpeas is expected to continue this trend of moderating food prices in the coming months.

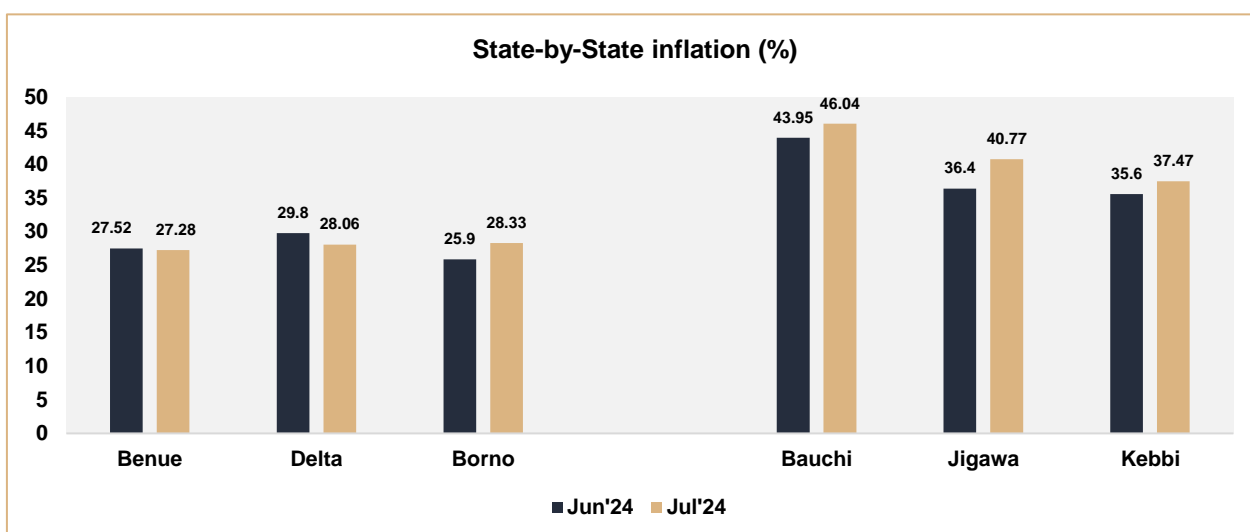
Core inflation rose marginally, reflecting persistent structural constraints

The core inflation sub-index, which excludes the more unpredictable food and energy components, edged up by 0.07%, reaching 27.47% in July from 27.4% in June. Monthly, the sub-index increased slightly by 0.1% to 2.16% from 2.06% in the previous month. This indicates ongoing structural challenges and suggests that inflation risks are still significant. However, with the reintroduction of the retail Dutch auction and the upcoming issuance of the Diaspora bond, the currency is expected to remain relatively stable in the short term, potentially easing pricing pressures.



State-by-state Analysis

The states with the lowest inflation rates were Benue (27.28%), Delta (28.06%), and Borno (28.33%), with Benue benefiting from its role as the country's food basket, which supports food supply and helps curb prices. On the other hand, the highest inflation rates were reported in Bauchi (46.04%), Jigawa (40.77%), and Kebbi (37.47%).



Inflation outlook for August

Headline inflation is expected to decrease further in August, aided by the ongoing harvest season and the 150-day suspension of tariffs on key staples. The Naira is also projected to remain relatively stable in the near term, contributing to continued price moderation. This development is likely to be welcomed by the MPC. As a result, we expect the committee to hold off on further interest rate hikes and maintain the current stance at the September meeting.

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