



July 16, 2024

Berkshire Market Briefs

Headline Inflation Crosses the 34% Mark in June

The National Bureau of Statistics released the June CPI and inflation data yesterday as planned. In line with expectations, headline inflation continued its upward trend, rising for the 18th consecutive month to 34.19%—the highest level since March 1996—from 33.95% in May. Prices increased across all categories, with food inflation climbing to 40.87% from 40.66% and core inflation rising to 27.40% from 27.04% in May. More importantly, month-on-month inflation increased by 0.17% to 2.31% following three consecutive months of decline. This reversal indicates that inflation risks remain high, and pricing pressures could persist longer. The imminent minimum wage increase, electricity tariff hike and higher PMS price are major upside risks.

The cheery news however is that the harvest season, which is starting in the third quarter would boost commodity supply and moderate prices. This would be further supported by the Federal Government's 150-day tariff suspension on some staples like rice, maize, wheat and cowpeas.

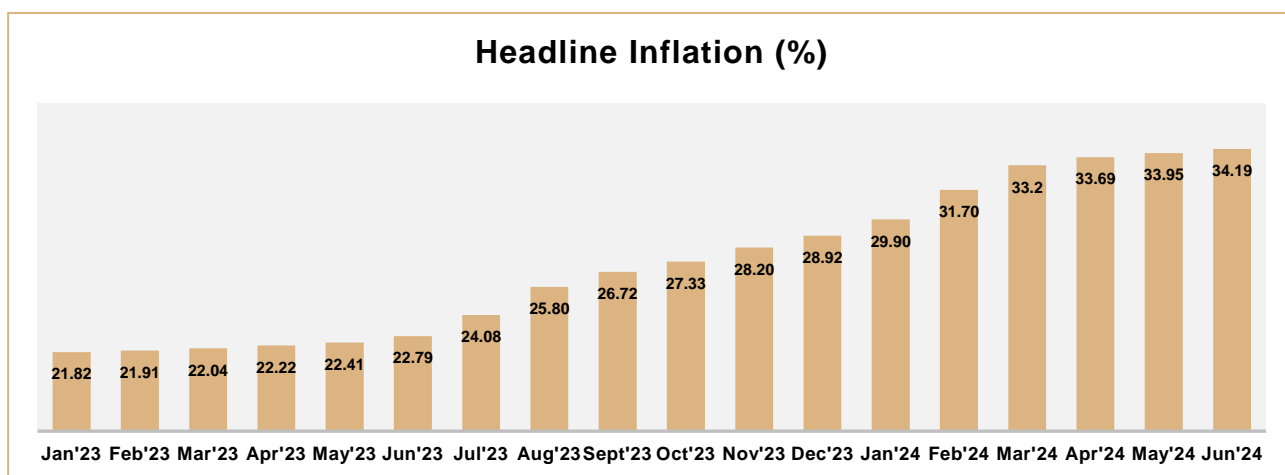
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Inflation Breakdown

Food Inflation Climbs to 40.87% as Planting Season Peaks

Both the annual and monthly food inflation sub-indices increased in June. The annual sub-index rose by 0.21% to 40.87%, the 18th consecutive monthly increase while the monthly sub-index edged higher by 0.27% to 2.55%. This was largely due to seasonality (planting season), worsening insecurity, higher logistics costs, and infrastructural deficits. Nigeria is now the 3rd country with the highest food inflation rate in Africa, behind South Sudan (186%) and Zimbabwe (105%).

The commodities that recorded the highest price increases were Millet Whole grain, Garri, Guinea corn, Yam, Water Yam, Coco Yam, Groundnut Oil, Palm Oil, Catfish Dried, Dried Fish-Sardine, and Mudfish.

Looking ahead, we expect food inflation to peak and begin to decline in the third quarter, supported by the harvest season, the Federal Government's suspension of duties on the importation of key staples like maize, husked brown rice, wheat and cowpeas. However, there is a need to increase efforts towards achieving a sustained level of food security in the medium to long term.

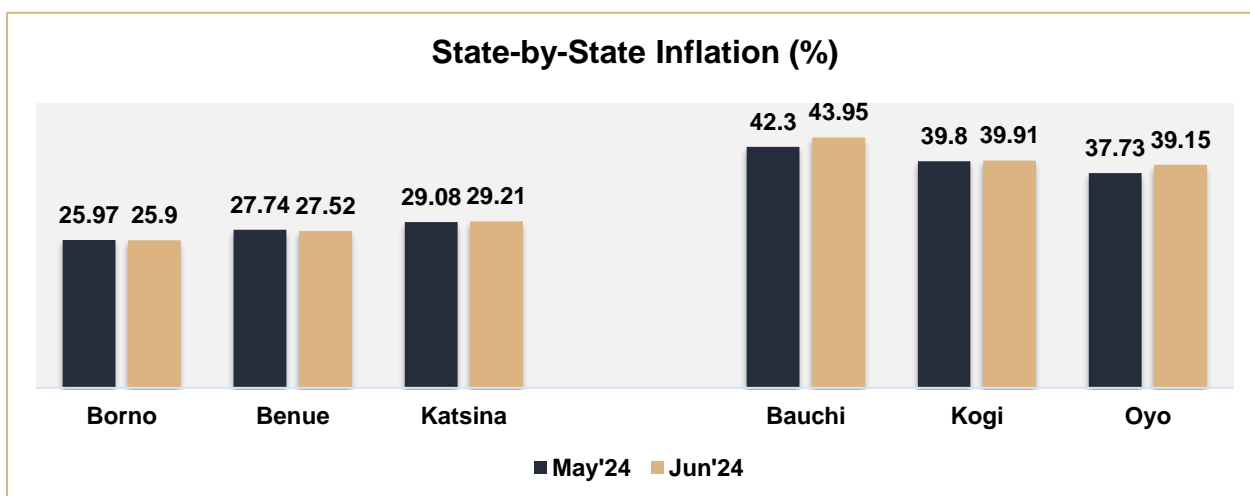
Core Inflation Rose by 0.36% to 27.40%

Similar to the food inflation trend, both the annual and monthly core inflation rates (inflation less volatile items like food and energy), increased in June. The annual index rose by 0.36% to 27.40% while the month sub-index increased by 0.05% to 2.06%. This highlights the impact of lingering structural challenges on pricing pressures.



State-by-state Analysis

In June, Borno, Benue, and Katsina recorded the lowest inflation rates among states, while Bauchi, Kogi, and Oyo had the highest rates.



Policy Impact

The Monetary Policy Committee (MPC) will meet again next week (July 22/23). With the persistent uptick in headline inflation and the reversal in month-on-month downward inflation trend, the committee will be faced with a dilemma of whether to maintain status quo or raise the monetary policy rate by 50-100 basis points. While increasing interest rates again might continue to strangle businesses in Nigeria, it will reduce capital flight, especially at a time when central banks in advanced economies are considering a cut in interest rates.

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