



April 16, 2024

Berkshire Market Briefs

Nigeria's Inflation Climbs to a 28-year (33.2%) Despite the CBN's Monetary Tightening

Author:

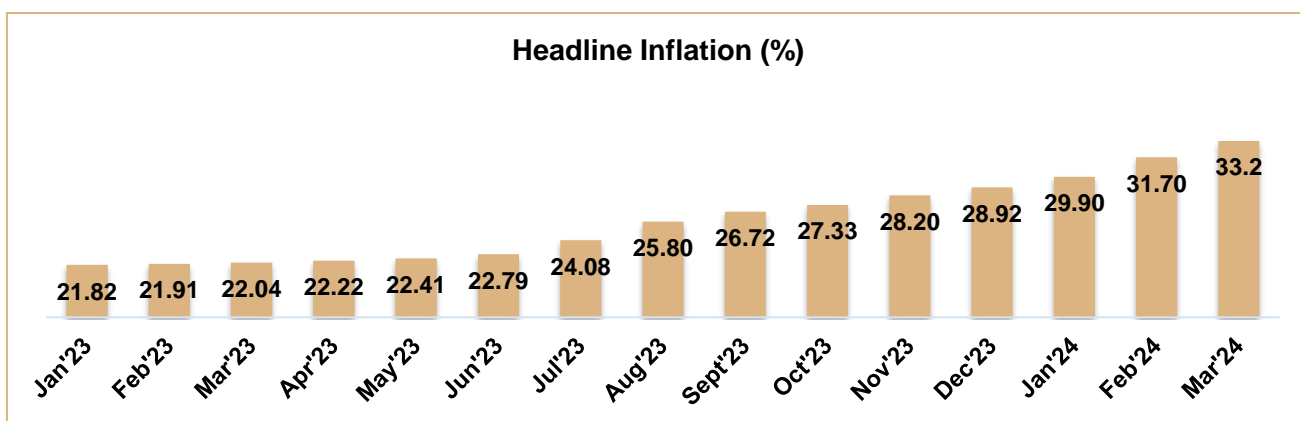
Michael Ajayi

+234 813 603 0000

www.berkshirerfinancecompany.com

The National Bureau of Statistics released its CPI and inflation report for the month of March yesterday. As expected, Nigeria's headline inflation sustained its upward trend, rising at a faster pace than analysts had anticipated. It climbed to a 28-year high of 33.2%, up 1.5% from 31.7% in February. The jump in consumer price inflation raises questions as to whether the CBN's hawkish monetary policy is effective in taming inflation. It's worth noting that there is typically a time lag between the implementation of policies and their impact on the economy, known as "effect lag." One primary reason for this delay is the reluctance of commodity prices to decrease, as market participants usually adjust prices only when they perceive stability in the Naira, taking into consideration the replacement costs.

Follow us on:



Inflation Breakdown

Month-on-Month Inflation Down 0.10% to 3.02%

Following four consecutive months of steady growth, the monthly inflation sub-index experienced a decrease of 0.10% in March, reaching 3.02%. This indicates that the strengthening of the currency is starting to show positive results, with further evidence expected in the upcoming months. As a result, it is expected that headline inflation will peak in the second quarter of 2024 and gradually decline in the latter half of the year.

Food Inflation Climbs to 40.01%

In March, Nigeria's annual food inflation rate surpassed the 40% mark, reaching an unprecedented high of 40.01%, up from 37.92% in February. This rise can be attributed in part to the ongoing security challenges, particularly in the North, as well as increased logistics and distribution costs. Of notable concern are several commodities, including Garri, Millet, Akpu, Yam tubers, Water yam, Dried fish, Sardines, Dried mudfish, Palm oil, Vegetable oil, Beef, Coconuts, Watermelon, Lipton tea, Bournvita, and Milo, which experienced significant price hikes.

The continuous surge in food prices has eroded the purchasing power of Nigerians, rendering it challenging for many households to afford their daily meals. According to the National Bureau of Statistics, the Cost of a Healthy Diet—defined as the most affordable combination of locally available items meeting globally recognized dietary guidelines—rose by 9.32% to N938 in February, up from N858 in January.

Core Inflation Climbs to 25.9% in March

Core inflation, excluding volatile items such as agricultural products and energy prices, saw upticks in both its yearly and monthly measurements. On an annual basis, it grew by 0.77% to 25.9%, and monthly, it rose by 0.37% to 2.54%. The upward movement in prices was observed in road transportation fares, rental rates, medical expenses, and pharmaceutical prices.

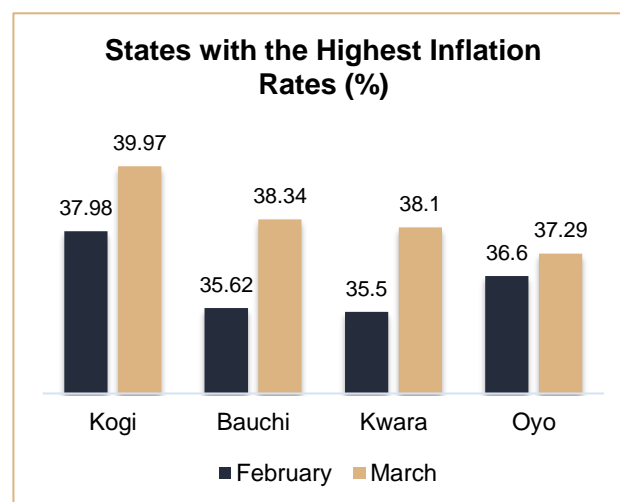
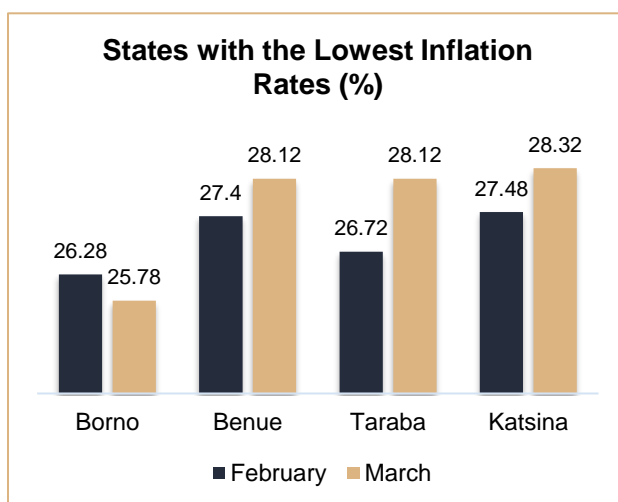


Rural-Urban Inflation

The year-on-year urban and rural inflation rates rose to 35.18% and 31.45% in March from 33.66% and 29.99% in February respectively. Meanwhile, monthly, the urban inflation rate was flat at 3.17% while the rural inflation rate declined by 0.2% to 2.87%. The urban-rural inflation gap inched up by 0.06% to 3.73% in March from 3.67% in February.

State-by-State Analysis

In March, Borno recorded the lowest inflation rate (25.78%), followed by Benue/Taraba (28.12%) and Katsina (28.32%). This is not surprising as Benue is the food basket of the nation. However, the states with the highest inflation rates were Kogi (39.97%), Bauchi (38.34%), Kwara (38.10%), and Oyo (37.29%).



MPC to Hold its Fire at the Next Meeting

The next MPC meeting is scheduled for May 20/21. One of the major considerations at the meeting will be the heightened inflationary pressures. Before the meeting, we expect the release of the April inflation data, with forecasts suggesting a further increase, albeit at a reduced rate, as commodity prices start to respond more to the strengthening of the currency. Consequently, the committee will probably opt to maintain the current monetary policy stance.

Follow us on:

