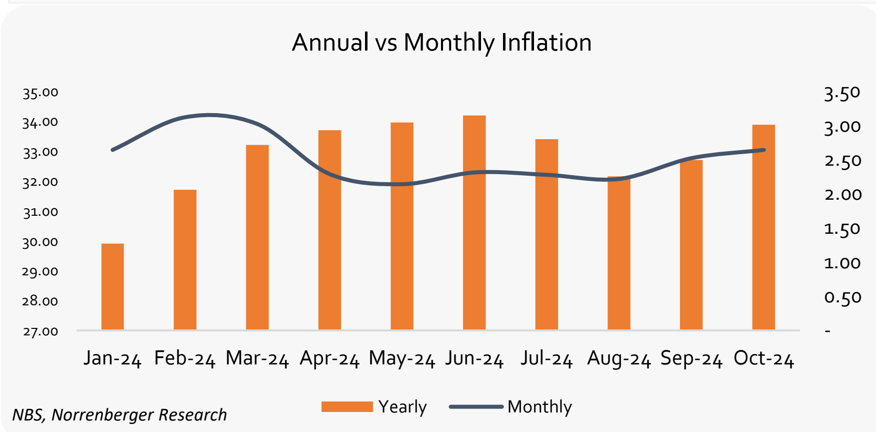
HEADLINE INFLATION JUMPS TO 33.88%

Nigeria's inflation rate continued its upward trend in October 2024, reaching 33.88%, compared to 32.7% in the previous month, as reported by the National Bureau of Statistics (NBS). The increase was driven by rising costs in both the core and food components of the Consumer Price Index.

On a month-on-month basis, inflation climbed to 2.64%, marking its highest level in seven months. This persistent inflationary pressure comes despite the Central Bank of Nigeria's aggressive monetary tightening, which included a record 850-basis-points (bps) year-to-date hike in the benchmark interest rate to 27.25%.

Breakdown of the report showed that food inflation rose by 139bps to 39.16% while core inflation, which excludes the prices of volatile agricultural and energy items increased by 94bps to 28.37%, reflecting a more aggressive increase in the food component of the index.



NBS, Norrenberger Research

Food Inflation	39.16%
Core Inflation	28.37%
Urban Inflation	36.38%
Rural Inflation	31.59%

- In terms of specific items, bread, cereals, tubers, cocoa beverages, beer, vegetable and palm oil were the major drivers of food inflation in the review period.
- In the core inflation category, the highest price increases were observed in accommodation, transportation, and salon.

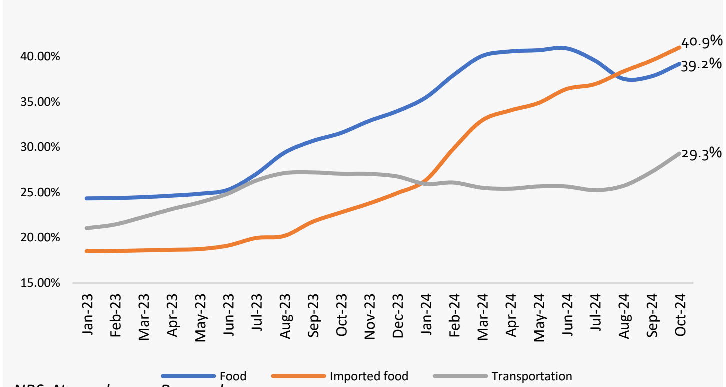
The persistent rise in Nigeria's inflation rate has exacerbated economic hardship, driving a significant portion of the population into severe poverty. According to World Bank estimates, the proportion of Nigerians living below the national poverty line has surged from 40.1% in 2018 to a staggering 56.0% in 2024.

This alarming increase highlights the deepening economic challenges facing the country, as soaring prices erode household incomes and diminish purchasing power, underscoring the urgency for robust policy measures to address inflationary pressures and implement inclusive growth strategies to alleviate poverty and improve living standards.

COMBINED IMPACT OF FX, FUEL HIKE AND LOCAL DISRUPTIONS DRIVE INFLATION

Nigeria's headline inflation, which saw two consecutive months of moderation in July and August 2024, resumed an upward movement since September.

This reversal is attributed to the compounded effects of three major factors: a significant hike in petrol price, disruptions in local food supply chains, and heightened foreign exchange volatility.



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These factors have collectively amplified cost pressures across the economy, undermining earlier signs of stability and posing challenges to households and businesses alike.

Transportation inflation surged by over 200bps, rising from 27.21% in September to 29.26% in October 2024. This sharp increase was primarily driven by the recent hike in petrol prices, which now range between N1,025 and N1,150 per litre, depending on the region. The higher fuel costs have intensified pressures on transportation-related expenses across the country.

Similarly, imported food inflation accelerated to 40.96% from 39.51% in the previous month, reflecting the impact of the persistent depreciation of the naira. In October, the naira weakened by 8% at the Nigerian Autonomous Foreign Exchange Market (NAFEM), closing at N1,675.49/$, and by 3% in the parallel market, where it ended the month at N1,750/$. The declining exchange rate has exacerbated import costs, further straining consumer purchasing power and contributing to overall inflationary pressures.

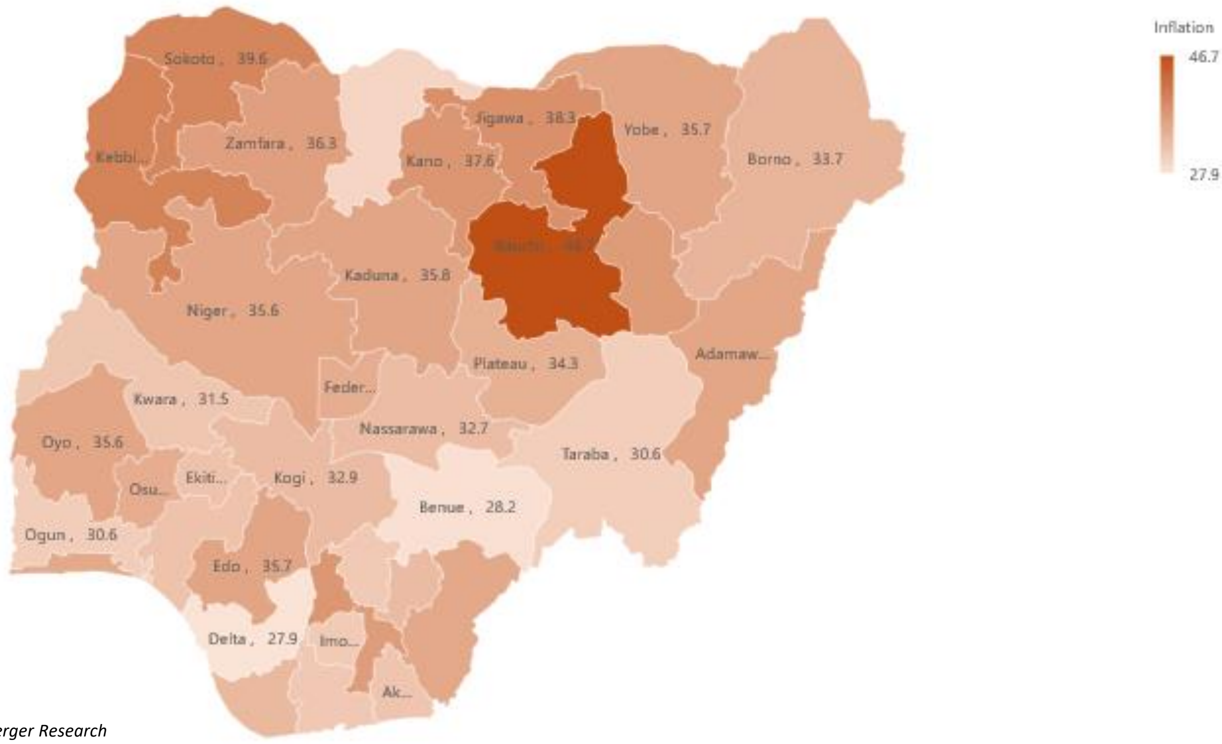
MONEY SUPPLY ON THE RISE DESPITE INTEREST RATE HIKES

The Central Bank of Nigeria (CBN) has implemented a cumulative 850-basis-point hike in the Monetary Policy Rate (MPR) between January and September 2024, aiming to curb demand-side inflation and attract foreign portfolio investments. While these measures have yielded some success in attracting capital inflows, inflationary pressures have persisted, compounded by an unprecedented surge in the money supply.

As of September 2024, CBN data shows that broad money supply (M3) grew by 1.23% month-on-month and 37.5% year-to-date, reaching N108.95 trillion. Currency in circulation also increased by 18% year-to-date to N4.31 trillion. However, a closer look reveals that 93.2% of the currency in circulation remains outside the banking system, which undermines the effectiveness of monetary tightening in addressing inflation.

Additionally, structural challenges and inflationary government policies have exacerbated the situation. Key contributors include the removal of the petrol subsidy, foreign exchange devaluation, and a general increase in energy prices. These structural and policy-driven factors highlight the complexity of Nigeria's inflationary environment, underscoring the need for a more holistic approach that combines monetary policy with structural reforms to address the root causes of inflation.

INFLATION RATE BY STATES IN OCTOBER 2024



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Inflation across Nigerian states revealed notable regional disparities, with northern states experiencing significantly higher levels of inflation compared to their southern counterparts. Bauchi State recorded the highest inflation rate in the country at 46.7%, underscoring severe cost pressures in the region. It was followed by Kebbi (40.0%), Sokoto (39.6%), Jigawa (38.3%), and Kano (37.5%), reflecting widespread economic challenges across the northern states.

In contrast, the southern states exhibited comparatively lower inflation rates. Delta State reported the lowest inflation rate at 27.9%, followed closely by Benue at 28.2%. Meanwhile, Katsina, Taraba, and Ogun states reported relatively moderate inflation levels of 29.6%, 30.6%, and 30.6%, respectively.

IMPLICATION AND OUTLOOK

Inflation is expected to maintain its upward trajectory in the short to medium term, underpinned by persistently high petrol prices, continued disruptions in local food supply chains, and the lingering effects of naira devaluation. Additionally, the traditional surge in consumer demand during the festive season in December is likely to exert further inflationary pressure, particularly on food and transportation costs.

The Central Bank of Nigeria (CBN) is scheduled to hold its final Monetary Policy Committee (MPC) meeting for the year later in November. Given the current elevated inflationary environment, the MPC is faced with a limited set of options. The likelihood of a further hike in the Monetary Policy Rate (MPR) or maintaining the current level of 27.25% remains high.

However, we anticipate a cautious 25-basis-point increase in the MPR, aimed at signalling the CBN's continued commitment to combating inflation while balancing the need to avoid excessive dampening of economic growth.

Consequently, we expect yields on fixed income instruments to remain elevated, while there could be some capital outflows from the equity market towards high-yielding fixed income instruments.