HEADLINE INFLATION INCREASES TO 34.80%

....Festive Demands Mask Gains in Naira Appreciation

January 17, 2025 *Economic Report*

Highlights

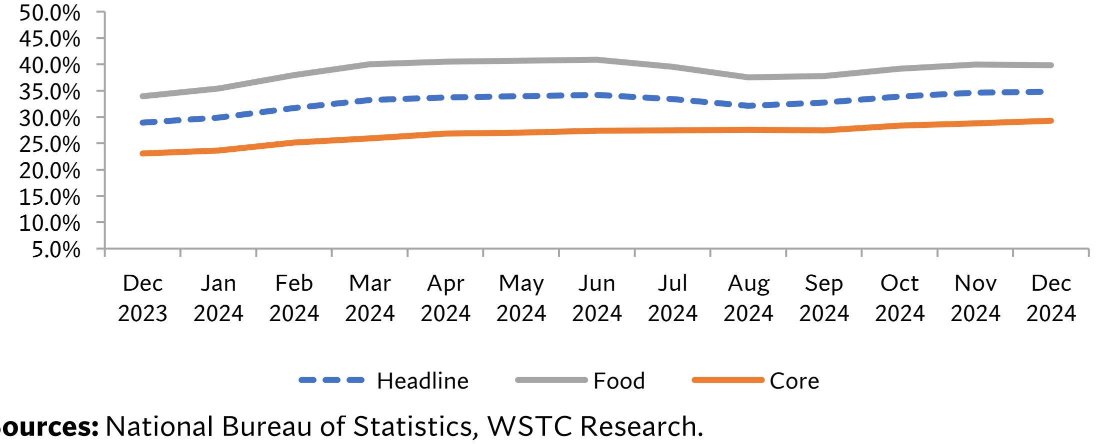
Headline Inflation sustained its upward trajectory for the fourth consecutive month on a year-on-year basis, ending 2024 at a record high. December 2024 numbers printed at 34.80%, a 20 basis-points increase from 34.60% reported in November 2024. However, on a month-on-month basis, there was a slight decline in the rate, with December's Inflation printing at 2.44%, down from the 2.64% recorded in November 2024.

Contrary to our projections of higher Food Inflation driven by seasonal demand toward the end of the year, Food Inflation demonstrated a slight moderation both on a year-on-year and month-on-month basis. Food Inflation declined by 9 basis points year-on-year to 39.84%, from 39.93% in November 2024, and by 32 basis points to 2.66% from 2.98% in November 2024 on a month-on-month basis. Our analysis revealed that imported food declined both on a year-on-year (December 2024: 41.29% vs November 2024: 42.29%) and month-on-month basis (December 2024: 1.69%% vs November 2024: 3.27%), reflecting the impact of the positive movement observed in the foreign exchange market. For context, in December 2024, the Naira appreciated by 9% in the official market. Additionally, we believe that consumers engaged in front-loaded purchases in November 2024, which contributed to the moderation in demand pressures.

Despite the Naira appreciation, Core Inflation printed higher both on a year-on-year and a month-on-month basis. NBS data indicated a year-on-year increase of 53 basis points, bringing the Core Inflation rate to 29.28%, compared to 28.75% in November 2024. On a month-on-month basis, there was a 41 basis points rise, with December 2024 recording an inflation rate of 2.24% in contrast to November's 1.83%. This overall increase can be attributed to heightened demand for goods and services that are highly demanded during the festive period, such as transport services on the back of significant rise in inter-state travel and a material uptick in ride-hailing services for intra-state movement, among other services, eliminating any positive effect of the Naira appreciation.

Overall, Headline Inflation averaged **33.18%** in 2024 (2023: 24.52%).

One-Year Inflation Trend



Sources: National Bureau of Statistics, WSTC Research.

CPI Rebasing

The Nigerian Bureau of Statistics (NBS) recently announced the rebasing of inflation indexes to better align price references and weights with current economic realities. The new base year for price references is 2024, while the weight reference period has been updated to 2023. This adjustment reflects significant economic shifts and aims to ensure inflation rates accurately capture prevailing market dynamics.

The restructuring includes a recalibration of weights across all components of Headline Inflation, notably adding the Insurance and Financial Services division to Inflation basket. As a result, the weight of the Food Index has been reduced, while the Transportation division now carries a higher weight, reflecting its growing importance in consumer spending patterns.

Table

Division	Old (%)	New (%)	Change (%)
Food and Non-Alcoholic Beverages	51.8	40.1	-11.7
Restaurant and Accommodation Services	1.2	12.9	11.7
Transport	6.5	10.7	4.2
Housing Water Electricity Gas and other fuels	16.7	8.4	-8.3
Education Services	3.9	6.2	2.3
Health	3.0	6.1	3.1
Clothing and footwear	7.7	5.0	-2.7
Personal Care, Social Protection and Miscellaneous Goods and Services	1.7	3.3	1.6
Information and Communication	0.7	3.3	2.6
Furnishing, Household Equipment and Routine Household Maintenance	5.0	3.0	-2.0
Insurance and Financial Services	N/A	0.5	0.5
Alcoholic Beverages	1.1	0.4	-0.7
Recreation, Sport and Culture	0.7	0.3	-0.4

Sources: National Bureau of Statistics, WSTC Research.

Outlook

For January 2025, we anticipate the persistent insecurity in the northern regions and elevated logistics costs driven by high fuel prices will maintain pressure on food inflation. However, the recent reweighting of the Food Index—now assigned a reduced weight in the overall inflation basket—indicates that fluctuations in food prices will have an impact on Headline Inflation.

Conversely, with the transportation sector receiving an increased weighting, the inflationary effects stemming from increasing logistics expenses could become more pronounced. Nonetheless, as seasonal demand from year-end festivities wanes and the Naira stabilises, we expect to observe a sub-optimal pressure on Core inflation.

Taking these factors into account, we project the Headline Inflation rate for January 2025 to print at 34.51%.

Other Highlights

Indexes	Year-on-Year Change			Month-on-Month Change		
	Dec-24	Nov-24		Dec-24	Nov-24	
	%	%	Bps	%	%	bps
All-items Price Index	34.80	34.60	0.20	2.44	2.64	-0.20
Food Index	39.84	39.93	-0.09	2.66	2.98	-0.32
Core Index	29.28	28.75	0.53	2.24	1.83	0.41
Urban All-items Index	37.29	37.10	0.19	2.56	2.77	-0.21
Rural All-items Index	32.47	32.27	0.20	2.32	2.51	-0.19

Source: National Bureau of Statistics, WSTC Research

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