



Inflation Flash note: From Paychecks to Bills

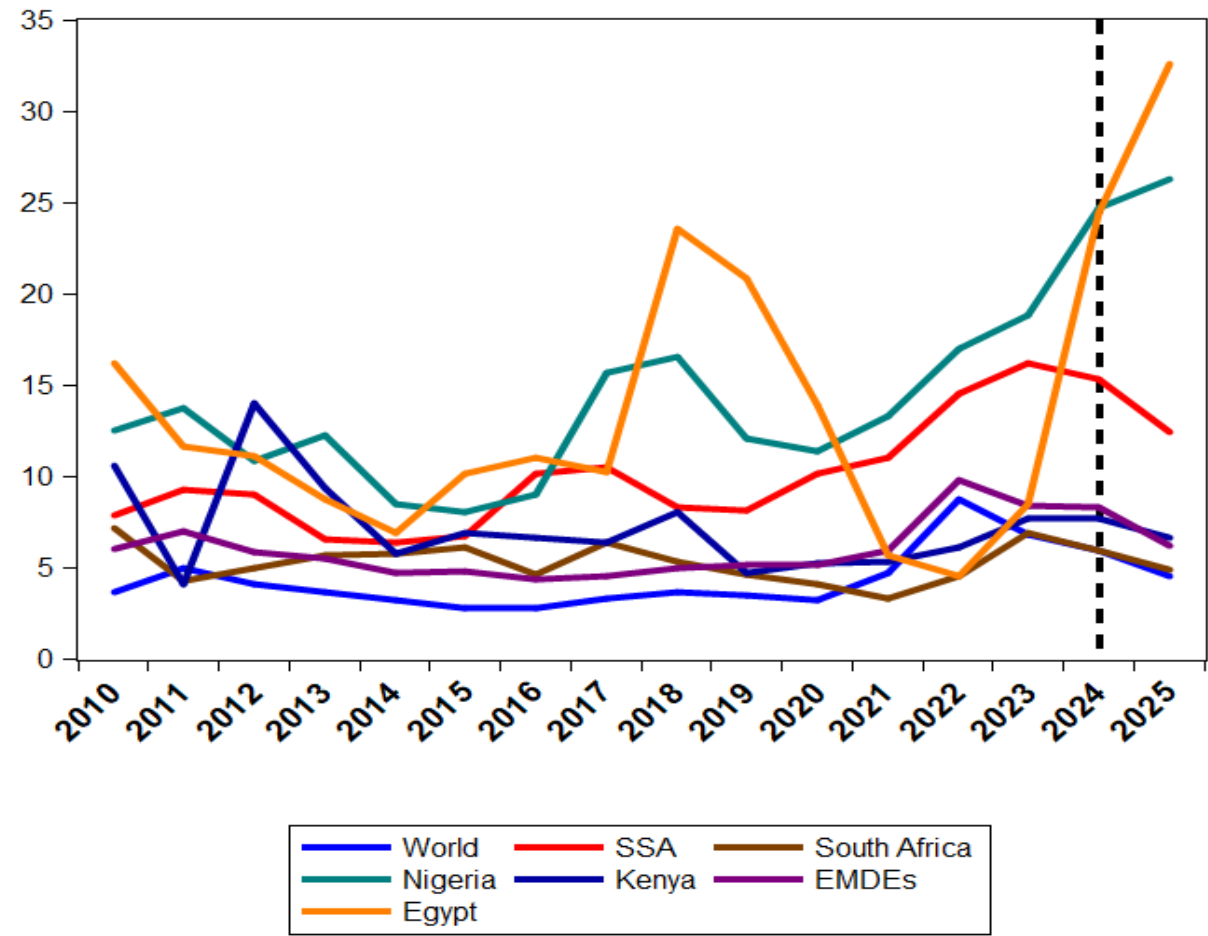
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July, 2024

Global Inflation Snapshot

Globally, there is a sense of relief as inflation appears to be gradually moving toward target levels. Central banks worldwide are adjusting their previously tight monetary policies, which were a response to disruptions in the supply chain caused by the COVID-19 pandemic and geopolitical tensions, including the Russian-Ukraine War. The sustained inflationary pressures resulting from these challenges led to peak inflation levels, increased energy and commodity prices, and precipitated a food crisis, among other factors. In response, central banks in both advanced and emerging economies have implemented robust measures to tighten monetary policy to address high inflation, including raising cash rates and reducing asset purchases. In the recent past, The Federal Reserve, European Central Bank, and other major central banks have all increased rates to counter the sustained rise in prices. Here at the last mile of inflation, Interest rates in the U.S. remain fixed at 5.5% for the 12th consecutive month since July 2023. The CPI declined to 3% in June from 3.3% in May 2024, a 100bps above the Fed's target of 2%. This is a clear-cut, 6 percentage points disinflation from the peak inflation rate of 9.1% recorded in June 2022. However, the Fed is still on a wait-and-see stance before embarking on rate cuts.

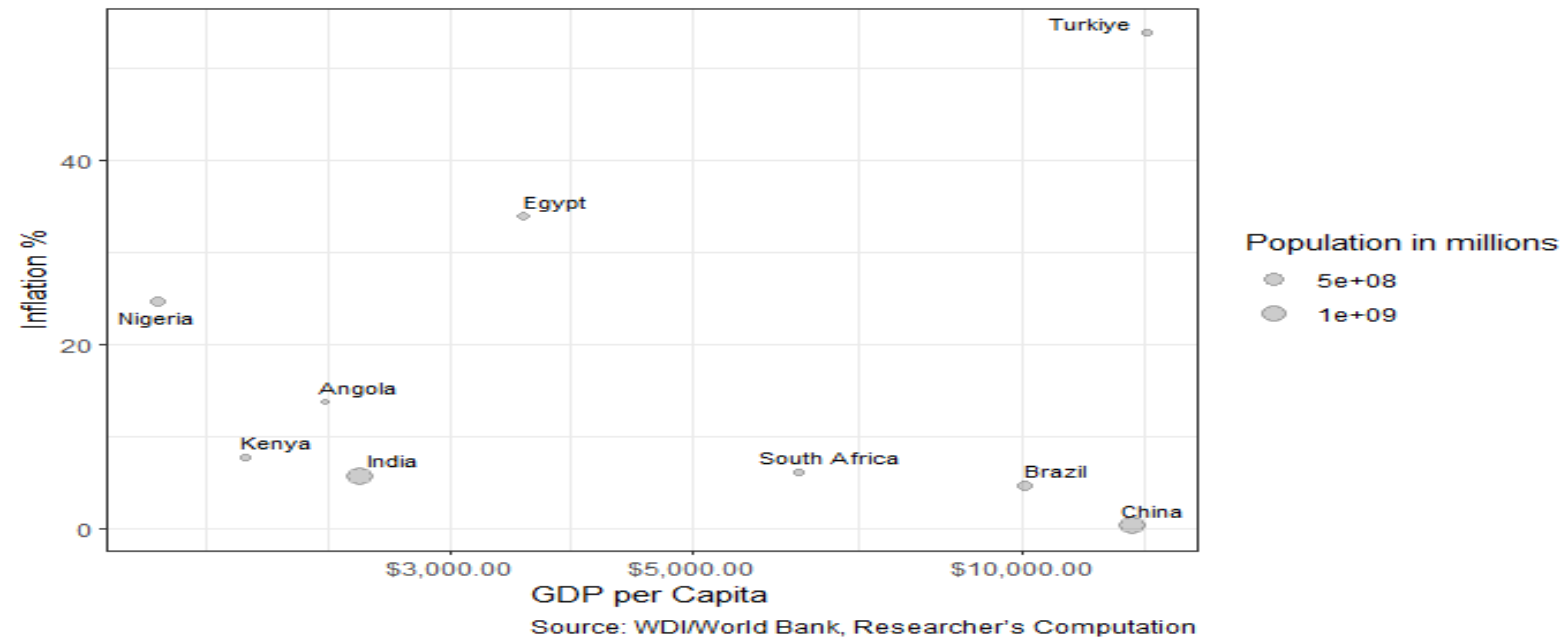
Inflation trends across Global Economies



Source: WEO/IMF, Researcher's Computation

GDP Per Capita across some emerging and frontier economies

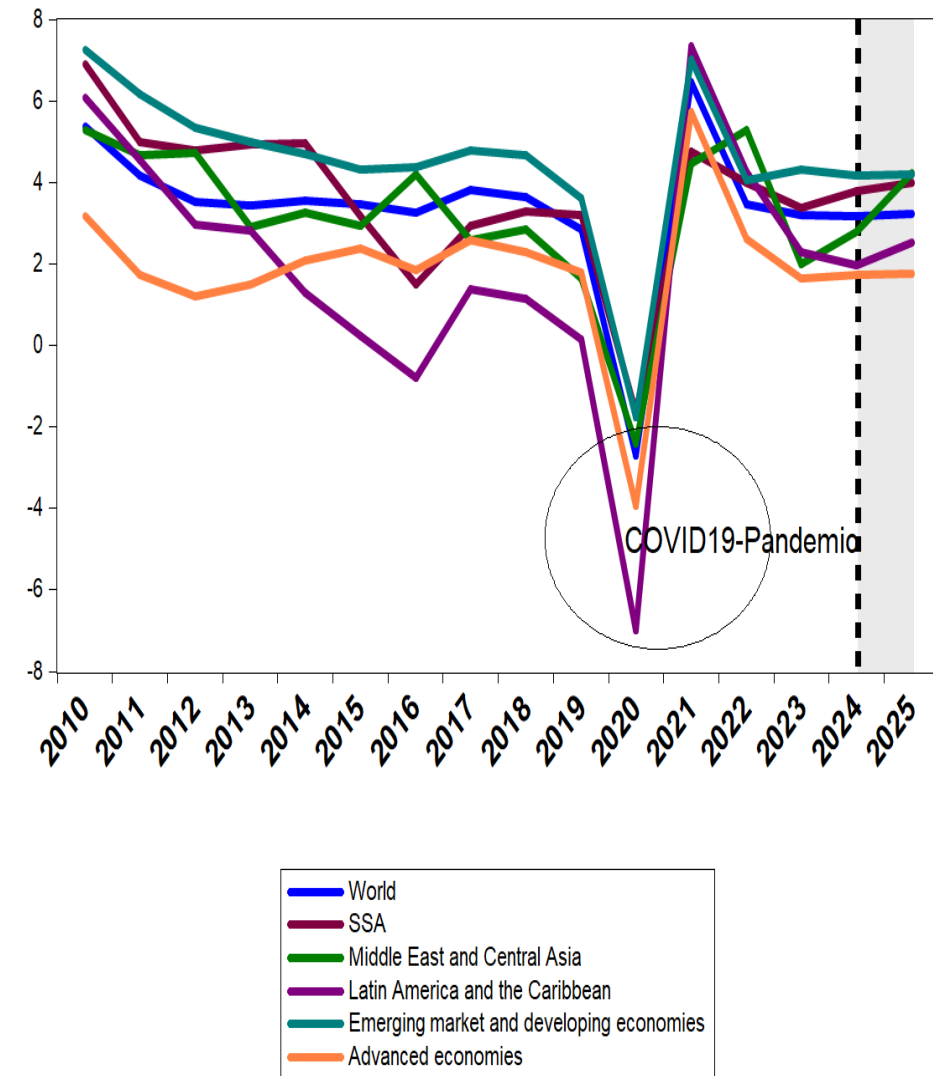
Inflation rate vs. GDP Per Capita



In prospect, as global inflation descended from its mid-2022 peak and the steady rebound continued unfolding, the anticipated trajectory for global headline inflation entails a decrease from an annual average of 6.8 percent in 2023 to 5.9 percent in 2024 and further to 4.5 percent in 2025. Advanced economies are expected to re-attain their inflation targets sooner than emerging markets and developing economies. Whilst the global growth is forecasted to stabilize on the 2023 trajectory of 3.2 percent in 2024 and 2025.

Sliding down the pyramid, in Sub-Saharan Africa (SSA), the International Monetary Fund's April 2024 World Economic Outlook report (WEO) forecasts an escalation in growth, with an estimated increase from 3.4 percent in 2023 to 3.8 percent in 2024 and further to 4.0 percent in 2025. Similarly, inflation is envisaged to decelerate to 15 percent, and 12.4 percent in 2024 and 2025 respectively from an estimated 16.2 in 2023.

RGDP % across Global Economies

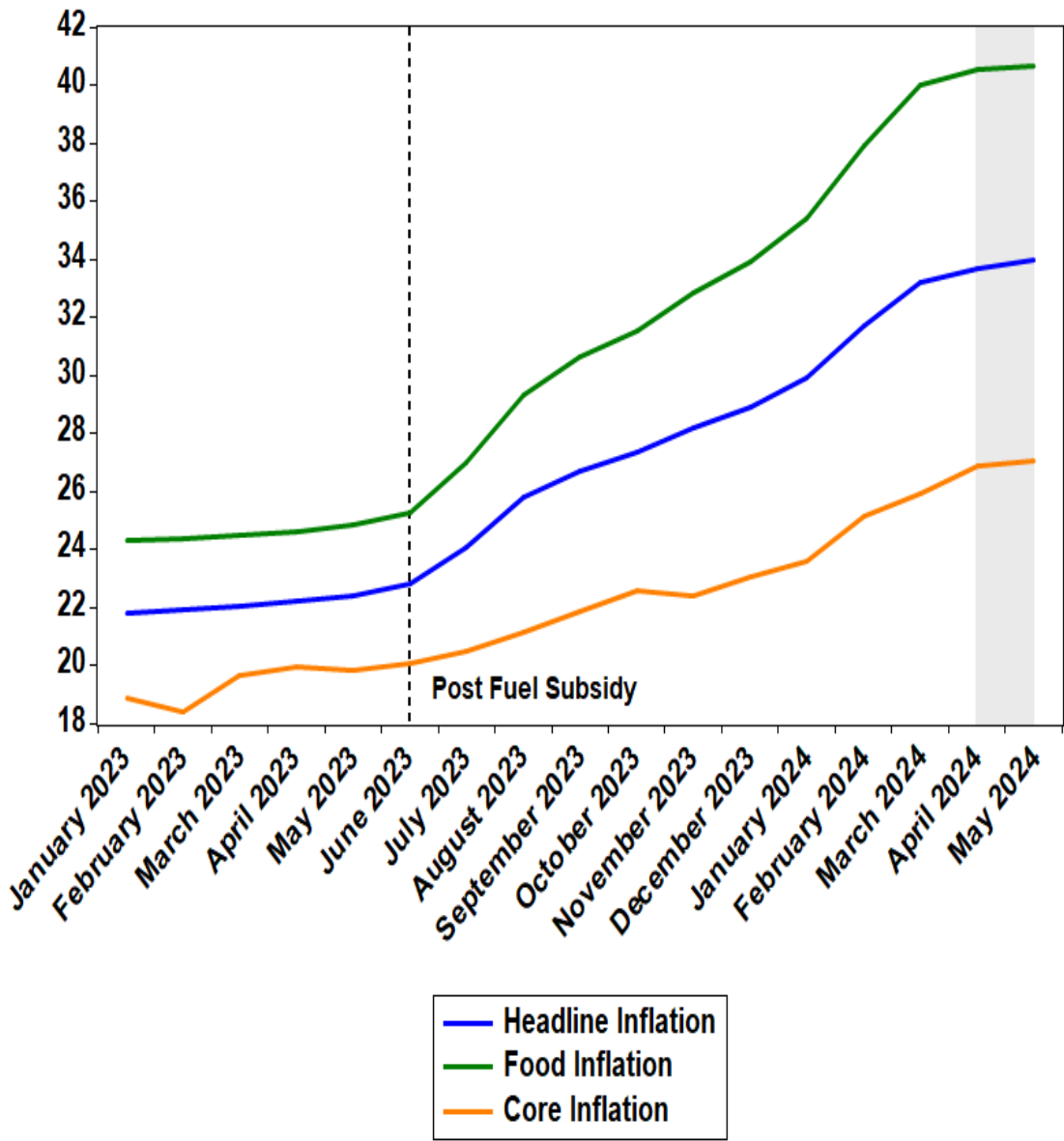


Nigeria's Inflation snapshot

The prevailing price developments in Nigeria have exhibited, how various asset classes and commodities are devoid of tenets of Efficient Market Hypotheses (EMH), on average overvalued and mispricing mechanism fuelled by adverse selection stemming from information asymmetry. This is not unconnected to the intensity of expectations and uncertainty around routine economic decision-making. This uncertainty mirrors the pace of galloping inflation, weak aggregate demand, food insecurity, shrinking manufacturing activities, and an exchange rate crisis in the country. Pending, the release of June inflation figures, May 2024, printed the headline inflation at 33.95% slightly higher than 33.69% in April 2024, and in comparison with May 2023; the Y-O-Y stood at an 11.54% increase, however, the M-O-M inflation reveals the third consecutive deceleration at 2.14% although was 0.15% lower than the rate recorded in April 2024 (2.29%).

As stated in my earlier [snapshot](#), the current trajectory of the general rise in prices is the pass-through effect from a compendium of politico-economic factors. The knock-on effect of Fuel, energy subsidy removal (electricity tariff hike), Currency redesign exercise, Sustained Naira depreciation, insecurity, flooding(Environmental), Climate Change, and adverse effects of beggar-thy-neighbor policy (border closure) have intensified poverty levels across the board. This development has triggered an elusive shift in expenditure patterns amongst households, a shift characterized by a hand-to-mouth and out-of-pocket consumer economy.

Nigeria's Inflation Trajectory



Source: NBS, Researcher's Computation

The significant inflationary pressure has spurred organized labor to demand an increase in the minimum wage to N494k, a move that the government asserts could result in an annual outlay of N9.5 trillion. The inflation-adjusted worth of ₦18k in 2014 is approximately ₦85k using current CPI value. So should the FG Settle at a Minimum Wage of N80k, a decision that could entail an approximate annual personnel wage bill of ₦1.5 trillion for the government. The demands of the labor unions are well justified given the impulsive magnitude and severity of inflation in the country. In 2014, a Nigerian worker earning the minimum wage of ₦18k could afford to purchase two units of a 50kg bag of rice at ₦7k per unit, while also being able to purchase a carton of noodles to supplement their daily dietary requirements. Nowcasting the scenario, the worker would require nothing short of ₦150k to attain the same level of purchase/utility.

Data from [Statista](#) ,suggested As of May 2024, the average price in Nigeria for a unit of frozen chicken added up to slightly over 4,829 Nigerian naira (NGN), which equalled 3.2 U.S. dollars. One kilogram of boneless beef cost 4,712 NGN (3.14 U.S dollars), whereas one piece of medium-sized chicken eggs reached nearly 151 NGN (10 cents).

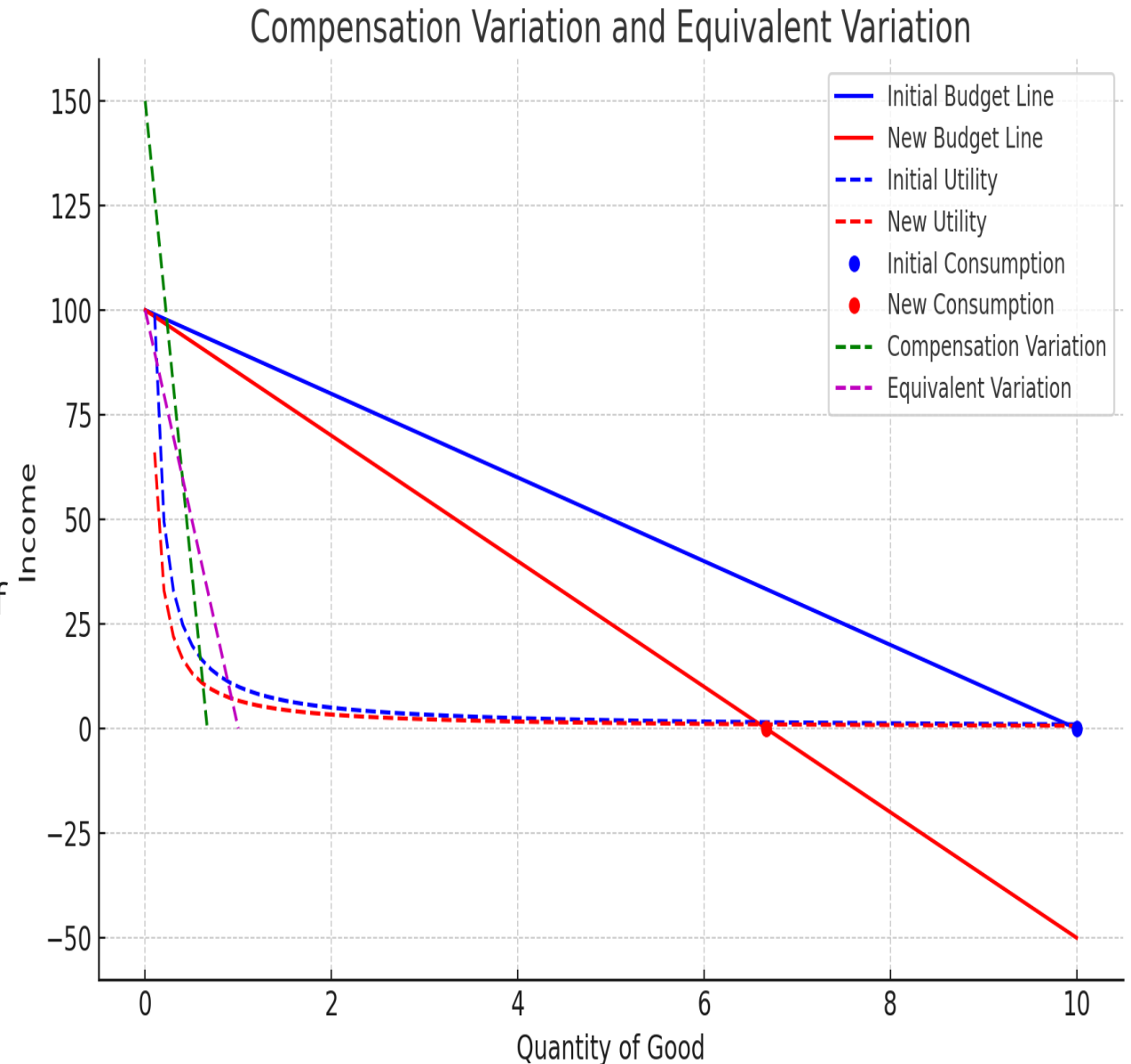
Prices of selected food items as at May, 2024

Item	Price (₦)
Frozen chicken, 1 unit	4829.13
Beef, boneless, 1kgS	4711.65
Rice, local, sold loose, 1kg	1399.34
Rice, imported, high quality, sold loose, 1kg	1771.56
Beans brown, sold loose, 1kg	1387.9
Beans, white black eye, sold loose, 1kg	1313.48
Bread sliced 500g	1141.36
Irish potato, 1kg	1413.57
Yam tuber, 1kg	1123.41
Tomato 1kg	1092.4
Onion bulb, 1kg	1009.05
Plantain 1kg	1000.41
Gari yellow, sold loose, 1kg	851.81
Gari white, sold loose, 1kg	807.35
Sweet potato, 1kg	798.53
Maize grain yellow sold loose, 1kg	797.61
Maize grain white sold loose, 1kg	725.74
Evaporated tinned milk (peak), 170g	643.11
Agric eggs (1unit)	150.85
Groundnut oil, 1 bottle	2231.82

Theoretical Insights

Compensation variation (CV) :In welfare economics, **compensating variation (CV)** is a measure of utility change introduced by John Hicks (1939). Compensating variation' refers to the amount of additional money an agent would need to reach their initial utility after a change in prices, a change in product quality, or the introduction of new taxes or policy. Compensating variation can be used to find the effect of a price change on an agent's net welfare. Essentially, CV is forward-looking from the point before the change,

Equivalent variation (EV): It measures the amount of money a consumer would pay to avoid a price change, before it happens. Stated differently, EV measures the amount of money that would have been needed to reach the new level of utility before the change occurred. whereas EV is backward-looking from the point after the change.



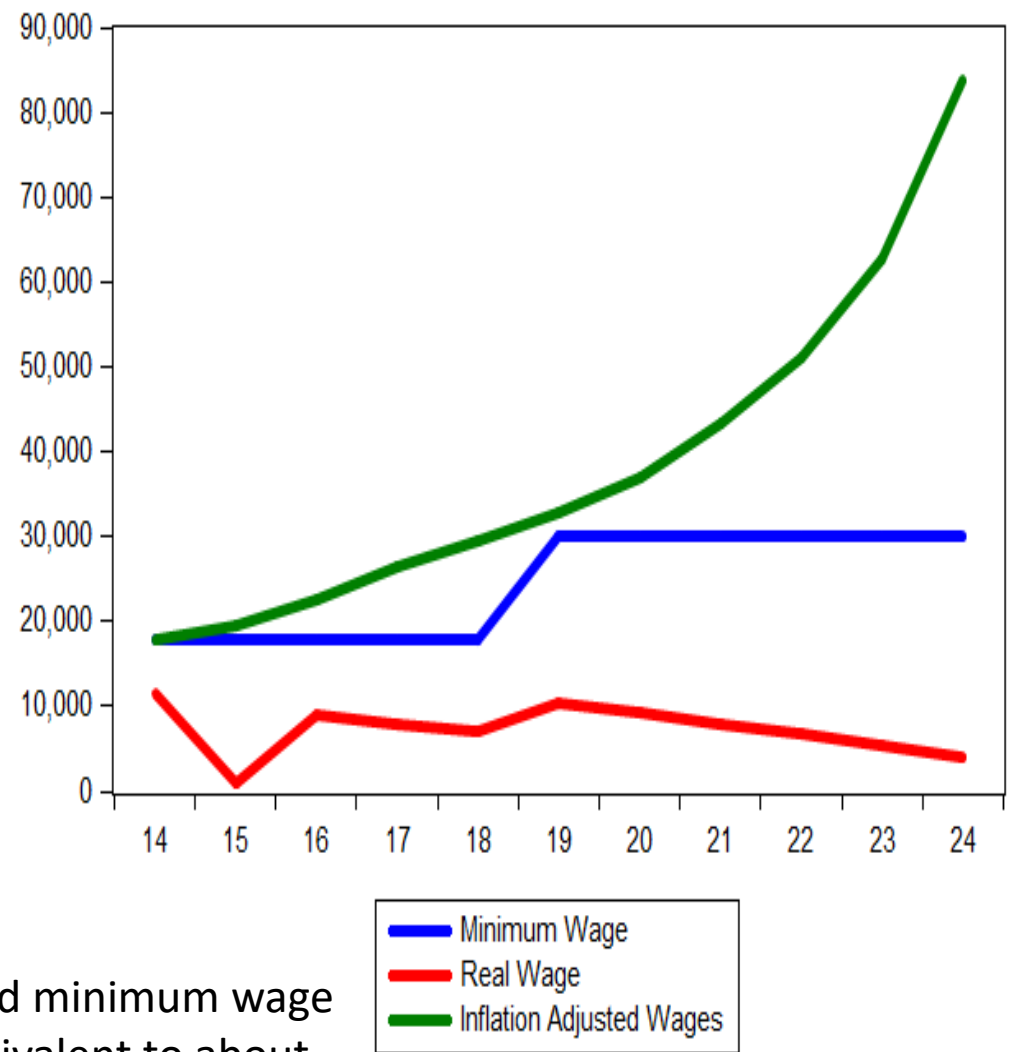
Wage Indexation

Wage indexation is the process of adjusting wages to account for changes in the cost of living, usually measured by an inflation index. The formula for wage indexation typically links wage increases to an inflation measure like the Consumer Price Index (CPI).

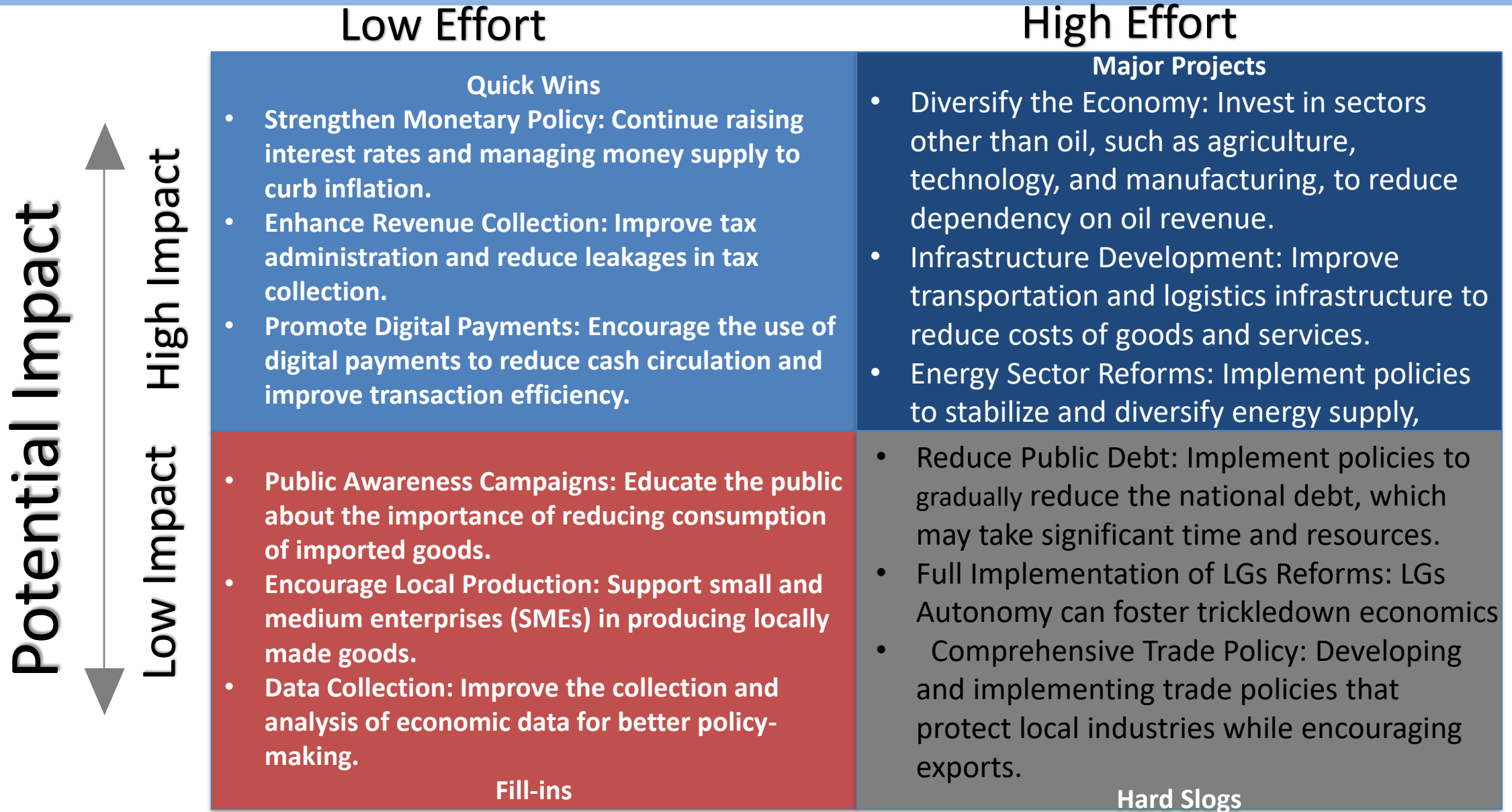
Year	CPI	Minimum Wage	Real Wage	Inflation Adjusted Minimum Wage
2014	157.4	18000	11435.4	18000.
2015	171.6	18000	1049.1	19621.
2016	198.3	18000	9077.0	22677.
2017	230.5	18000	7808.0	26363.
2018	257.3	18000	6996.0	29423.
2019	286.6	30000	10467.1	32776.
2020	322.2	30000	9312.0	36842.
2021	379.9	30000	7896.0	43449.
2022	447.2	30000	6707.9	51144.
2023	547.5	30000	5479.7	62608.
2024	733.4	30000	4090.8	83865.

Using May 2014, as a base year, Nigeria inflation adjusted minimum wage in 2024 amounts to approximately ₦84,000 which is equivalent to about \$56.

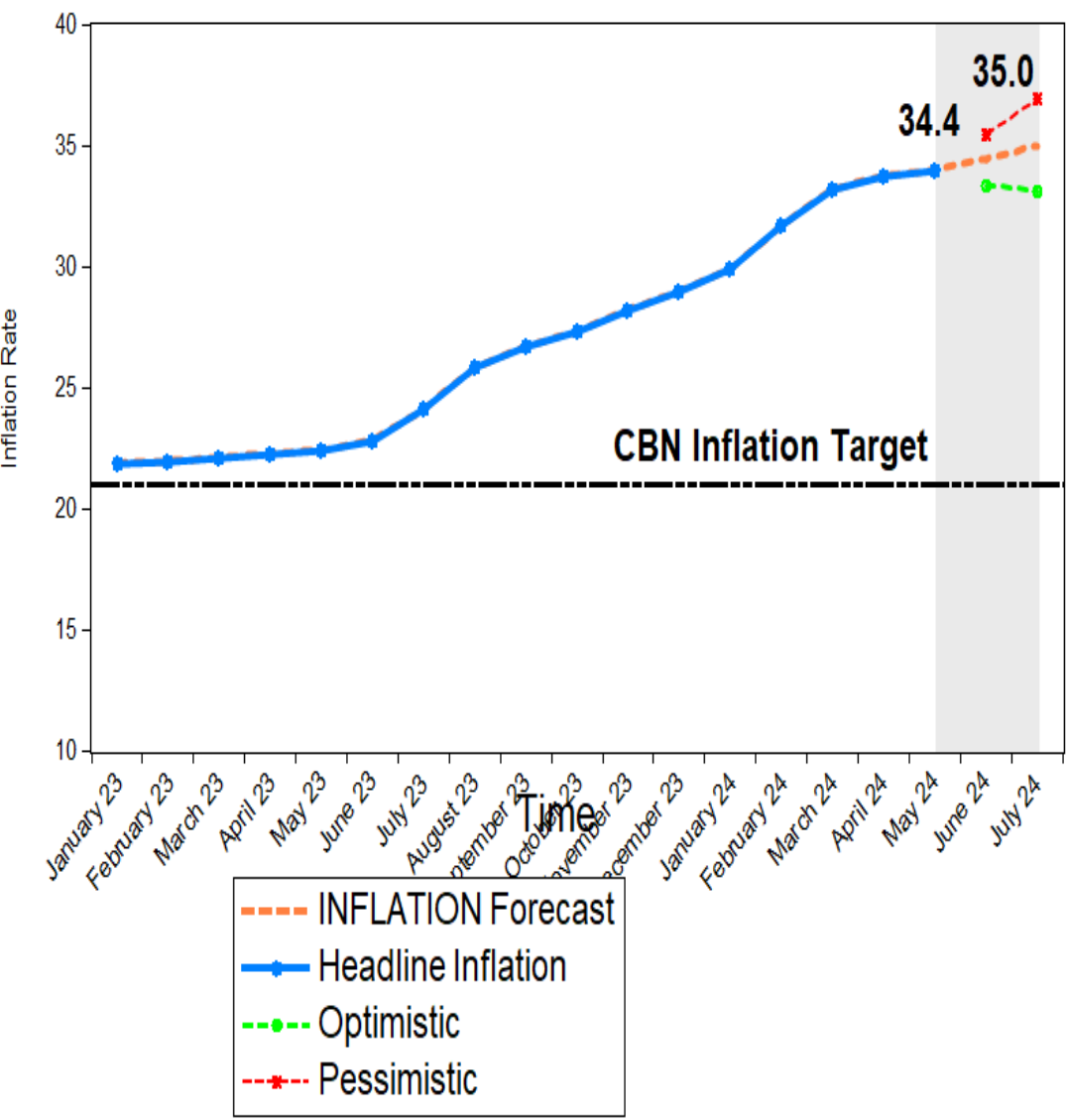
Inflation Adjusted Minimum Wage in Nigeria



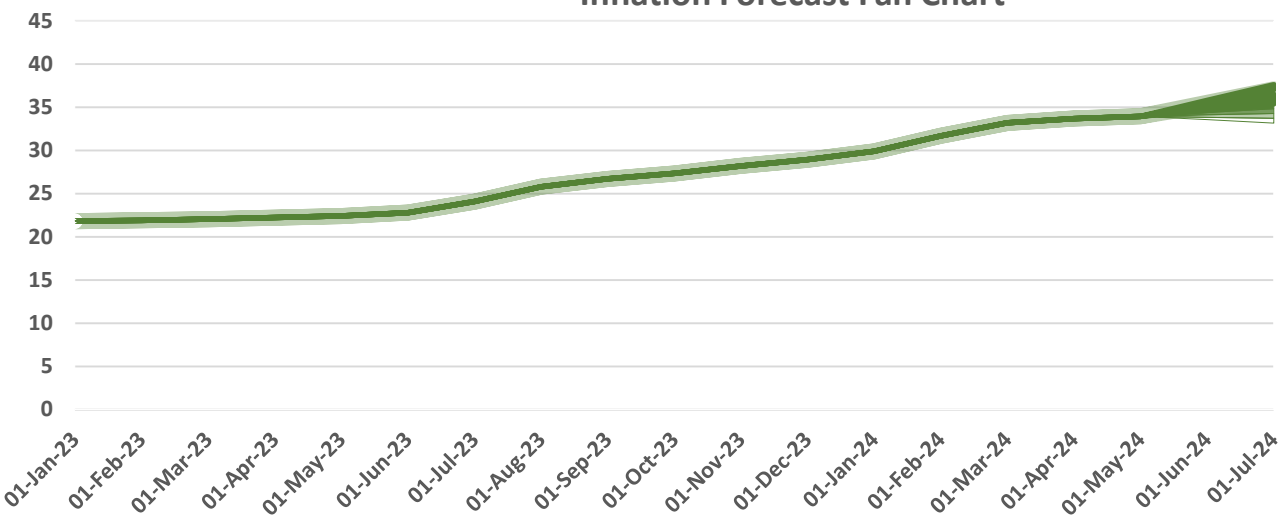
Policy Action Priority Matrix for Nigeria



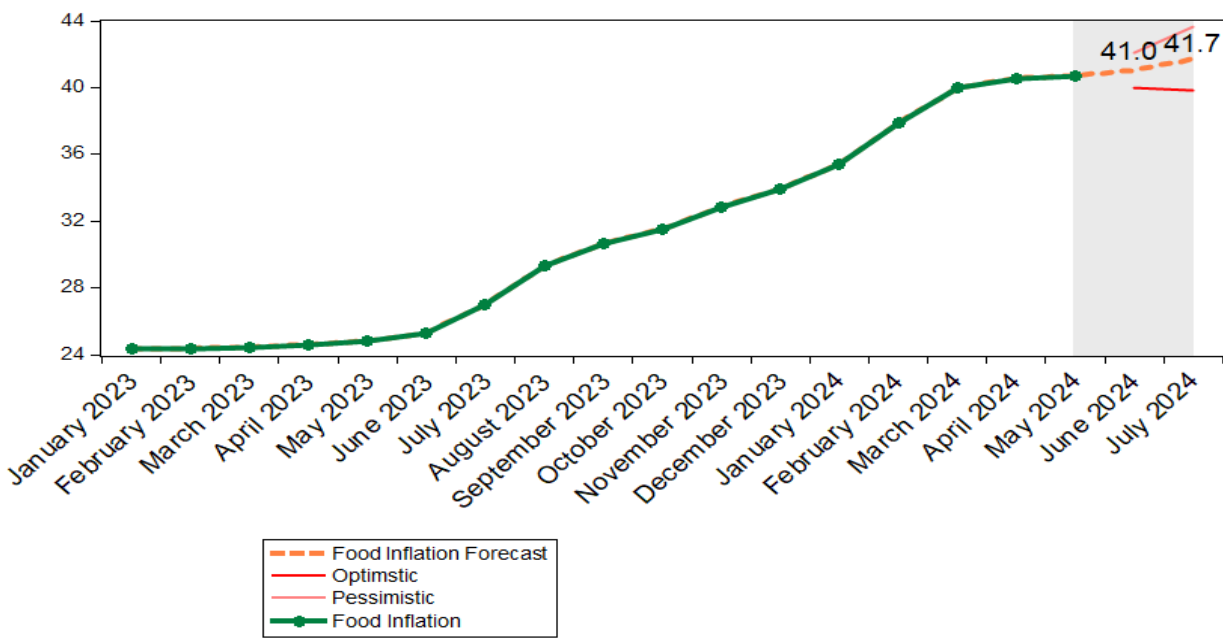
Nigeria's Inflation June 2024 Forecast



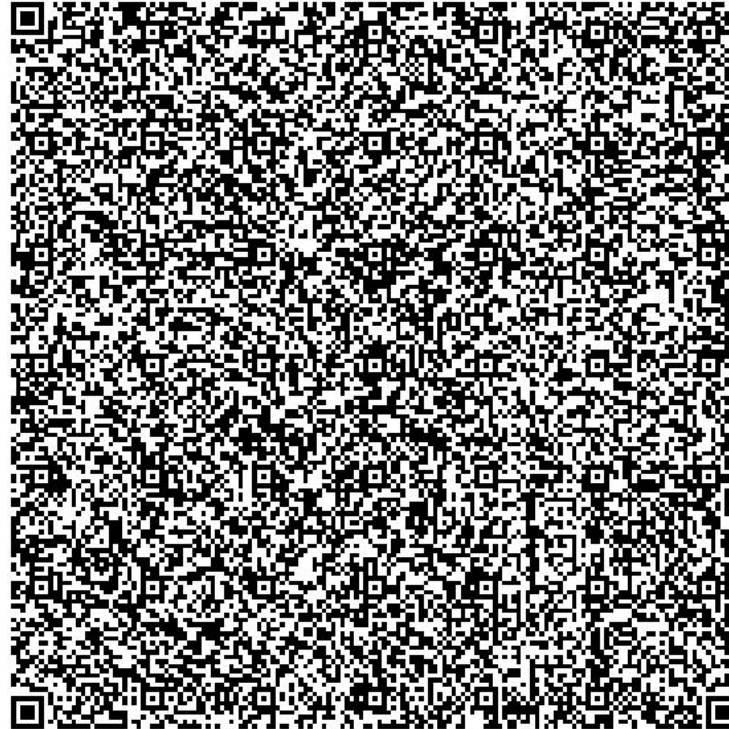
Inflation Forecast Fan Chart



Nigeria's June Food Inflation Forecast



Contact Details



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