CAPE
Economic Research & Consulting

Cape Economic Performance and Prospect Bulletin – October 2024

Highlights

- *Price pressures expected to remain heightened and remain above pandemic levels as tightening efforts continue to crystalise.*
- *Nigeria's Q3 2024 output growth expected to be lower than Q2 2024 but remain positive.*
- ***Forecast shows that inflationary pressure in Nigeria heightened marginally in September 2024, with headline inflation rising to 32.00 percent**.*

Global Economic Update

Global growth is decelerating, although, investors expect it will pick up as the impact of monetary policy easing gains traction in the first half of 2025. It is however important to note that soft landings are hard to track as the early signs of a deceleration look unfortunately similar to a slide into recession.

The easing of inflationary pressures has provided relief to both consumers and businesses, reducing cost pressures that had previously weighed on economic activity. Additionally, central banks particularly in the advanced economies and a few others in the emerging economies such as Ghana have largely commenced easing monetary policy thereby improving financial conditions by lowering borrowing costs and increasing liquidity in the financial system. Essentially, this has created a diverse scope of monetary policy as several other central banks particularly in the emerging economies continue to tighten such as Nigeria.

Recent pickup in global trade reflects demand recovery for goods and services across major economies, further contributing to the growth potency. Global growth is however not expected to reach pre-pandemic levels just yet, due to persistent headwinds such as elevated debt burden across both advanced and emerging economies, constrained fiscal policy space limiting growth propelling public spending, and interest rates still above pre-pandemic levels dampening consumer spending and investment.

In addition, geo-political tensions are heightening uncertainties, creating an unpredictable global economic environment thereby disrupting economic activity and undermining business confidence. Consequently, global output growth for 2024 is forecast at 3.2 percent, marginally up from 3.1 percent in 2023.

In advanced economies, recent U.S. economic data presented a more nuanced outlook over the past month. While hard data remained positive, with retail sales and industrial production both expanding in August, labour market indicators were more mixed. Job gains underperformed expectations, although the unemployment rate edged lower to 4.2%, and initial jobless claims reached a four-month low. This suggests that while labour markets are not yet weak, they are showing signs of softening. Despite these labour market dynamics, U.S. output is still tracking above-trend for Q3 2024. However, key challenges remain- elevated interest rates and high levels of consumer debt may eventually temper consumer spending, which has thus far been strong enough to sustain economic expansion and overall growth.

In Europe, the UK emerged as the fastest-growing G7 economy in the first half of 2024, with robust activity continuing into Q3. In contrast, Eurozone data presented a more uneven picture: business surveys indicated overall expansion, yet manufacturing output remained subdued, reflecting sectoral imbalances across the region.

Emerging markets are expected to outpace the growth of advanced economies in 2024. China's economic expansion is projected to remain positive, buoyed by increased investment despite persistent challenges in its real estate sector and weak household consumption. This outlook is bolstered by significant fiscal stimulus from the Chinese government aimed at revitalizing the real estate and construction sectors. Other emerging markets—such as India, Indonesia, Vietnam, and the Philippines—are set to be among the fastest-growing economies, driven by strong domestic consumption and substantial foreign direct investment inflows. Conversely, key Latin American economies, including Mexico and Brazil, may face slower growth due to tepid domestic and international demand, fiscal consolidation measures, and tight monetary policies aimed at curbing inflationary pressures.

Overall, the major headwinds to global output growth remain rising geopolitical tensions and the pervasive impact of restrictive monetary policies, which continue to weigh on economic momentum across both advanced and emerging economies.

Global inflationary trends remain heterogeneous, with households continuing to face significant financial strain despite the widespread adoption of hawkish monetary policies. Geopolitical tensions have intensified inflationary pressures by exerting upward pressure on commodity prices, particularly oil and grains. Furthermore, growing concerns over climate change and its adverse effects on global logistics and supply chains pose additional risks to inflation management.

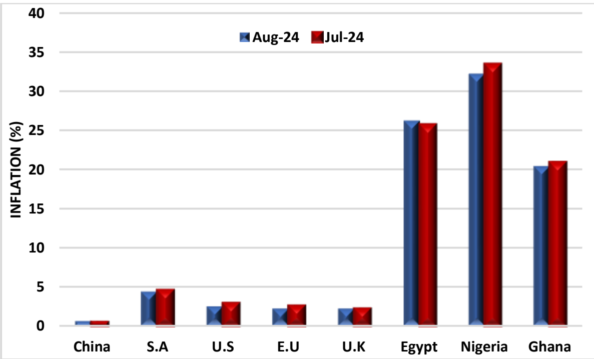
The efficacy of policy rate hikes in containing inflation differs markedly between advanced and emerging markets. Notably, there is a risk of reversing the downward inflationary trend in some advanced economies. As highlighted in our previous edition, the U.S. Federal Reserve commenced the loosening of its monetary policy in September 2024, following earlier actions by the UK and the European Union, despite persistent labour market vulnerabilities.

The U.S. Federal Reserve reduced its target rate range by a larger-than-expected 50 basis points (bps) to 4.75-5.00 percent and signalled further easing in the near term. Despite this, money markets are still pricing in a more dovish trajectory for U.S. interest rate cuts. In Europe, the European Central Bank (ECB) and the Swiss National Bank (SNB) both reduced their policy rates by 25 bps to 3.50 percent and 1.00 percent, respectively. The Bank of England held its base rate steady at 5.00 percent.

In emerging markets, the pressure to loosen monetary policy is relatively subdued, as competitiveness to attract capital inflows remains a priority. However, inflation has begun to moderate across most of these economies. The Central Bank of Nigeria tightened its policy stance further, in line with our previous projections, while the Bank of Ghana loosened its monetary policy, benefiting from a positive real interest rate environment.

This divergence in monetary policy actions reflects the differing inflation dynamics and economic conditions across global markets, underscoring the complex interplay between domestic inflation drivers, capital flows, and broader geopolitical and environmental risks.

Figure 1: Year-on-Year Inflation in Selected Economies (July 2024 – August 2024) in percent



Source: Various National Statistics Offices

We anticipate that several central banks particularly in the advanced economies would continue to loosen their stance, while the emerging economies will maintain their tight stance at least for the remainder of 2024, bearing in mind trade-off implications for the fragile output growth and financial system stability. We anticipate a gradual return to a loose stance going into 2025.

In the financial market, expectations were subdued in September 2024, given the historically weak performance of the S&P 500 during the month. Market sentiment adopted a cautious approach, with the prevailing outlook being to "plan for the worst and hope for better-than-expected outcomes." The month began with a sharp decline, as the index dropped 4.25 percent in the first week—its worst weekly performance since March 2023, when it fell 4.55 percent. However, market conditions rebounded, averting a deeper bearish trend.

The broader economic landscape remained resilient, with inflation appearing contained. The Federal Reserve eased monetary policy, delivering a 50-basis point rate cut, with additional reductions of 25 basis points anticipated later in the year. Concerns over the yen carry trade also dissipated, easing financial market tensions. Q2 2024 earnings exceeded expectations, marking a new record, despite a minor 0.3 percent shortfall in sales. Looking ahead, further earnings records are projected for Q3 and Q4 2024. China contributed positively towards the end of the month, implementing measures to support its real estate sector and boost consumer spending—an essential factor for maintaining low-cost U.S. supplies.

Investor sentiment remained optimistic, with market participants largely ignoring potential downside risks. As a result, the S&P 500® was up 2.02 percent in September, bringing its year-to-date return to 20.81 percent. The Dow Jones Industrial Average® increased 1.85 percent for the month and was up 12.31 percent year-to-date. The S&P MidCap 400® returned 0.98 percent for the month, bringing its year-to-date return to 12.24 percent. The S&P SmallCap 600® moved up 0.67 percent in September and was up 7.88 percent year-to-date.

Easing inflation, coupled with the Federal Reserve’s commitment to initiate rate cuts in September, triggered a robust rally in bond markets, driving the 10-year U.S. Treasury yield down to 3.92 percent by month-end. Expectations of policy easing also led the 2-year U.S. Treasury yield to converge at 3.92 percent, resulting in a flat yield curve at the close of the month. After an initial widening during the equity market sell-off earlier in the month, both investment-grade and high-yield credit spreads retraced and settled near historical lows.

In the currency market, several major currencies appreciated further against the U.S. dollar. The anticipation of monetary easing by the Federal Reserve had already begun to exert downward pressure on the U.S. dollar prior to the actual rate cuts. However, any additional depreciation of the dollar is expected to be constrained by the relatively strong economic growth and higher interest rates in the United States compared to other economies.

In the commodities market, gold prices surged to approximately US$2,635 per ounce. The Federal Reserve’s rate cuts have continued to fuel a notable increase in gold valuations. Following a period of stabilization throughout the summer, gold prices are projected to maintain an upward trajectory, supported by more accommodative global monetary policies. Meanwhile, the crude oil market in September 2024 exhibited volatility and a downward price adjustment due to a combination of economic and geopolitical factors. As a result, crude oil prices moderated, with West Texas Intermediate (WTI) settling at US$68.17 per barrel and Brent at US$71.70 per barrel. Upside risks to energy and commodity prices include heightened demand and geopolitical tensions, while downside risks are primarily driven by pressures within the financial system and the looming threat of a recession.

Global Economic Outlook

The global economy demonstrated notable resilience in the first three quarters of 2024, despite confronting multiple challenges, including geopolitical tensions and weak export demand. However, downside risks persist, particularly from escalating geopolitical conflicts and softening global trade. Tailwinds to growth include sustained private consumption, while moderating inflation and anticipated interest rate cuts are expected to support steady momentum in the last quarter of 2024, extending into 2025.

In advanced economies, the U.S. economy continues to exhibit robustness, a trend likely to persist through Q4 2024. Nevertheless, persistent inflationary pressures in the services sector, elevated consumer debt levels, a cooling labour market, and political uncertainty are expected to dampen consumer spending and economic growth. In the Eurozone, growth prospects are improving modestly due to easing inflation and stronger exports, though the recovery remains the weakest among major economies.

Emerging market growth, particularly in China and India, remains resilient, driven by strong private consumption and export activity. China, however, continues to face significant headwinds due to a deteriorating real estate sector and slowing productivity growth, which could weigh on its overall recovery trajectory.

In the financial markets, sustained volatility is anticipated, as bond markets may have overestimated the pace of policy easing. Current market pricing suggests an aggressive path for rate cuts, which seems improbable without a significant economic downturn. As a result, we remain cautious about small-cap outperformance and instead favour regionally diversified exposures. More attractive valuations and stronger economic momentum can be found in regions like the UK and continental Europe, offering diversification against U.S. market and political risks.

As inflation concerns recede, markets are returning to a “bad news is bad news” framework, where weak economic data triggers decline in equities and rallies in bonds (i.e., yields decline). Re-establishing a negative correlation between equities and bonds could be a positive development for portfolio diversification, allowing fixed income assets to regain their role as a stabilizer during periods of equity market volatility.

Additionally, we foresee a shift in portfolio flows toward emerging markets, as advanced economies sustain monetary easing. Central banks face increasingly complex decisions, as the trade-off between controlling inflation, safeguarding jobs and output and guaranteeing financial stability intensifies in Q4 2024. Easing too early may reverse progress on inflation control, while further tightening could precipitate financial instability or even trigger a recession.

In the commodities market, oil prices are expected to face downward pressure for the remainder of 2024, as OPEC+ gradually reverses production cuts. Natural gas and coal prices are projected to decline amid ample supply and high inventory levels. Industrial metal prices are likely to rise, driven by China’s fiscal and monetary easing policies. Meanwhile, gold prices may experience a pullback, as the effects of rate cuts have largely been priced in. Agricultural commodity prices are expected to decrease throughout the year, supported by an improved supply outlook.

The global economy is navigating a complex interplay of geopolitical risks, monetary policy challenges, and commodity market fluctuations. Central banks and policymakers must strike a delicate balance to sustain growth and stability, requiring strategic interventions to manage the fragile economic recovery and ensure macroeconomic stability over the medium term.

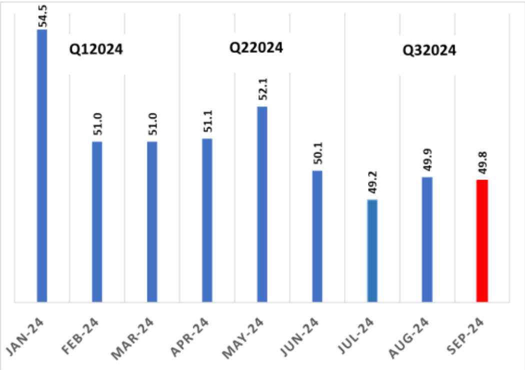
Nigeria’s Output Growth

According to the Stanbic-IBTC Purchasing Managers' Index (PMI), Nigeria's private sector economic activity weakened in Q3 2024 compared to the previous quarter. This suggests that the economy could experience slow growth in the third quarter, driven by the combined effects of high inflation, elevated interest rates, and currency volatility, which continued to suppress domestic demand and hinder business investments. Notably, Nigeria's PMI remained below the 50-point benchmark for the third consecutive month, slipping to 49.8 points in September 2024, from 49.9 points printed in August 2024. However, the rate of decline remained modest as output growth was recorded in agriculture and manufacturing, while it decreased in wholesale, retail, and services.

In the month of September, companies were hesitant to maintain inventory levels, thus, reducing stocks of purchases for the second consecutive month. During the same period, inflationary pressures intensified, with both input costs and output prices rising at the fastest pace in six months. Hence, purchase prices surged, driven by increased costs for fuel, logistics, materials, and transportation.

Nevertheless, with improved crude oil production in Q32024, the oil sector is expected to offset some of the underperformance of the non-oil sector, potentially driving up real GDP growth.

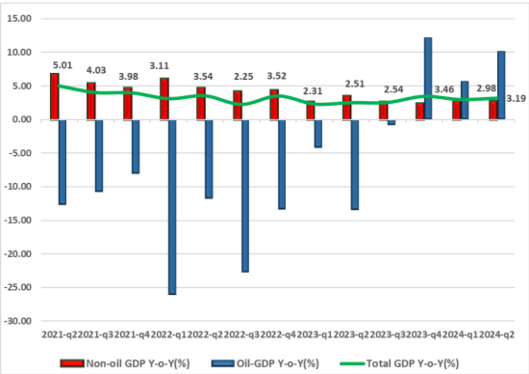
Figure 2: Trend of Nigeria's PMI (Jan - Sept 2024)



Source: Stanbic-IBTC

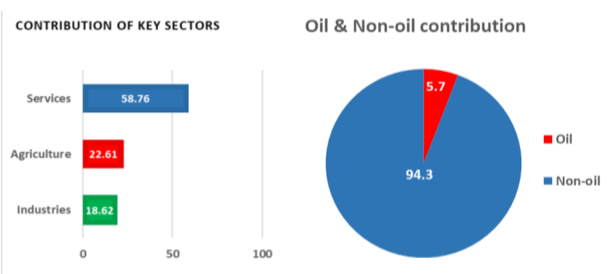
The marginal decline in business output in September 2024, similar to July and August performance, suggests sustained headwinds in the Nigerian private sector, as firms continued to face a sluggish business environment (Figure 2). We anticipate that though output performance will continue to be sluggish, it would remain positive and resilient even in the face of the numerous impediments.

Figure 3: Real GDP Growth Rate in Nigeria (Q22021 – Q22024) in Per cent



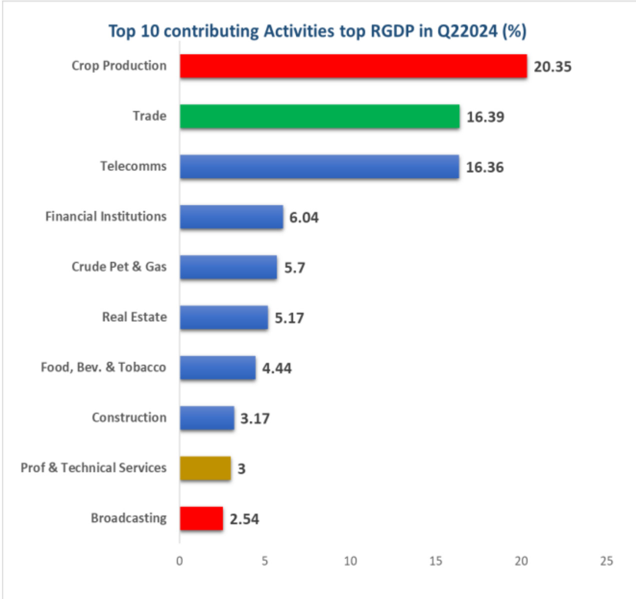
Source: National Bureau of Statistics (NBS)

Figure 4: Sectoral Contribution to GDP



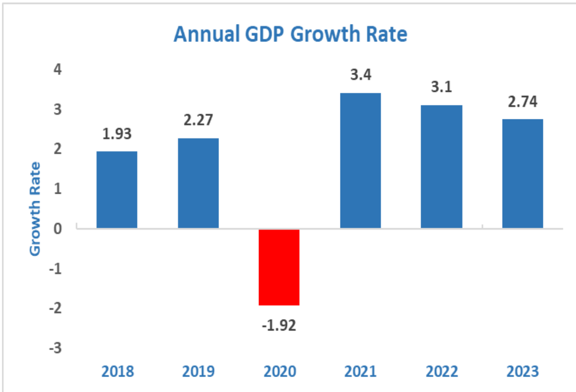
Source: NBS

Figure 5: Top 10 Economic activities that drove Nigeria's RGDP (Q22024) in Per cent



Source: NBS

Figure 6: Year Annual Real GDP Growth (%)



Source: NBS

Output Growth Outlook

Despite significant headwinds, Nigeria's output growth continues to demonstrate resilience. Persistent challenges such as elevated energy costs, exchange rate volatility exacerbated by foreign exchange shortages, security concerns, infrastructure deficits, structural constraints, and rising production costs remain substantial impediments to sustained economic expansion. As a result, while output growth is expected to remain positive through Q3 and Q4 of 2024, the growth outlook is tempered by these ongoing structural and macroeconomic challenges.

The projected recovery in Q3 and Q4 2024 is likely to face additional pressure from tighter monetary policy, driven by interest rate hikes, continued exchange rate fluctuations, and heightened economic uncertainty. However, this anticipated improvement in output is supported by seasonal gains in the agricultural sector and advancements in the industrial sector, particularly with the expected commencement of operations at the Dangote refinery during this period. These developments are likely to provide a moderate boost to overall economic activity, despite the prevailing headwinds.

Price Update

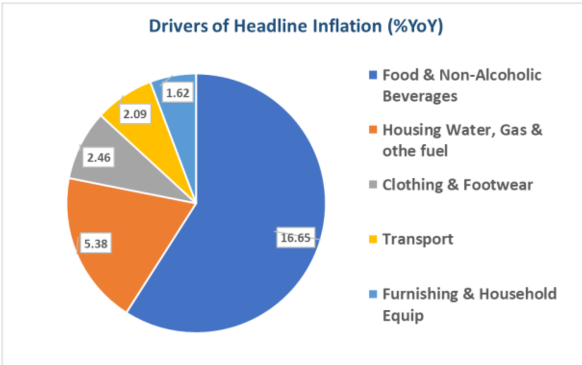
Nigeria's headline inflation rate further slowed down for the second consecutive month to 32.15 percent in August 2024 relative to the 33.40 percent printed in July, indicating a deceleration of 1.25 percentage points in headline inflation rate. However, on a year-on-year basis, the headline inflation rate rose by 6.35 percentage points relative to the 25.80 percent published in August 2023. The year-on-year rise reflects the underlying macroeconomic challenges driven by higher cost of inputs, exchange rate issues, insecurity, among others. Items contributing to headline inflation in Nigeria year-on-year are indicated in figure 7, thes include Food & Non-Alcoholic Beverages (16.65%) Housing, Water, Electricity, Gas & Other Fuel (5.38%), Clothing & Footwear (2.46%), Transport (2.09%).

Furthermore, on a month-on-month basis, the headline inflation rate in August 2024 stood at 2.22 percent, which was lower than the 2.28 percent recorded in August 2024 (See figure 9).

Food inflation eased further to 37.52 percent in August 2024 compared to 39.53 percent recorded July 2024. However, on a year-on-year basis, it increased by 8.18 percentage points compared to the 29.34 percent recorded in August 2023. This surge in food prices was primarily driven by significant increases in the costs of essential foodstuffs, signalling persistent inflationary pressures in the food sector. On a month-on-month basis, food inflation in August 2024 stood at 2.37 percent, relative to 2.47 percent recorded in July 2024, indicating a decline of 0.10 percentage points. This marginal reduction suggests some moderation in short-term food price movements, although the overall annual trend remains concerning.

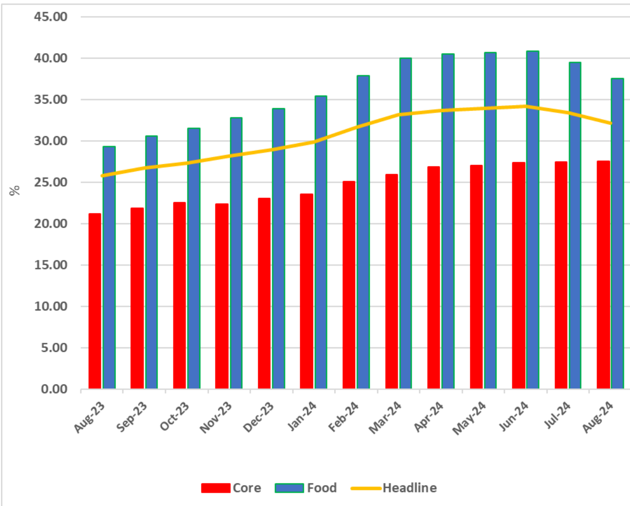
Core inflation however increased to 27.58 percent in August 2024 from 27.47 percent recorded in July 2024. Core inflation rose by 6.43 and 0.11 percents on a year-on-year and month-on-month basis, respectively. The increase further highlights the persistent inflationary pressures within the broader economy, driven by structural factors and price rigidities in non-food and non-energy sectors. The highest increases were recorded in prices of Rents, Bus Journey intercity, Journey by motorcycle, and Accommodation Service, Laboratory service, X-ray photography, Consultation fee of a medical doctor etc.

Figure 7: Drivers of Headline Inflation Aug 2024



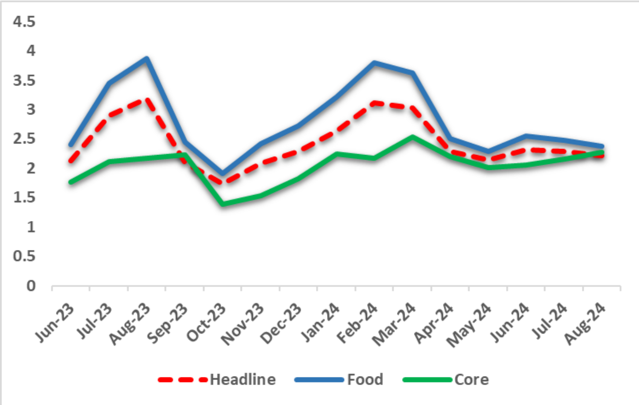
Source: NBS

Figure 8: Year-on-Year Headline, Food and Core Inflation (Aug 2023 – Aug 2024) in per cent



Source: NBS

Figure 9: Month-on-Month Inflation Rates (June 2023 – Aug 2024) in percent



Source: NBS

Price Outlook

Inflation is expected to heighten in September 2024. Our forecast showed that inflationary pressure would heighten marginally as headline and food inflation are expected to rise to 32.00 and 38.85 percent respectively, while, core inflation is expected to moderate to 27.27 percent.

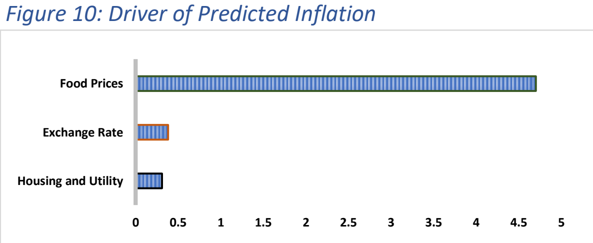
Table 1: Inflation forecast for September 2024 in Per Cent

Headline	Food	Core
32.00	38.85	27.27

Source: CAPE Economic Research and Consulting, 2024

The principal drivers shaping the forecast for headline inflation persist in food prices, the exchange rate, housing, and utility costs, contributing 4.70 percent, 0.38 percent, and 0.31 percent, respectively.

Figure 10: Driver of Predicted Inflation



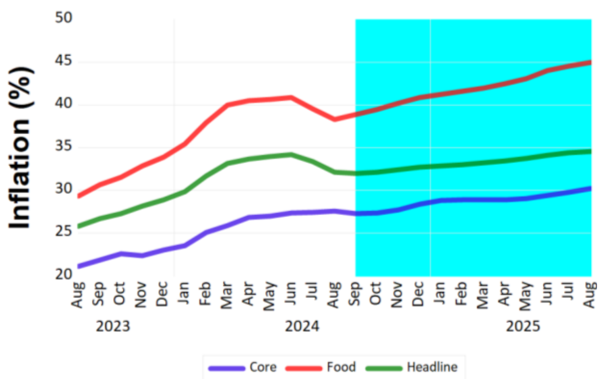
Source: CAPE Economic Research and Consulting, 2024

Our analysis underscores the significant impact of food prices, exchange rate fluctuations, and housing and utility expenses on headline inflation. Notably, the aftermath of the energy price hike and exchange rate adjustments post-deregulation continue to reverberate throughout the economy. These factors are anticipated to continue to exert sustained inflationary pressure.

Meanwhile, core inflation is principally influenced by transportation costs, education expenses, clothing prices, housing and utility charges, and healthcare expenditures. Elevated risks to inflation stem from a burgeoning fiscal deficit, the elimination of fuel subsidies, escalating exchange rate strains, and their subsequent pass-through effects on prices.

As we opined in our previous release the Monetary Policy Committee (MPC) of the Central Bank of Nigeria maintained its tight stance at its September 2024 meeting with a marginal hike of 50 basis points, shifting the policy rate to 27.25 percent. This remained premised on the need to achieve price stability and equally remain competitive in the foreign Portfolio Investment (FPI) market. To bolster stability in the foreign exchange market, concerted efforts are imperative, necessitating fiscal authorities to complement the Central Bank's initiatives with measures aimed at attracting Foreign Direct Investment (FDI) and catalysing exports, particularly in the oil sector initially, followed by other sectors. We anticipate that the Monetary Policy Committee (MPC) of the Central Bank of Nigeria will maintain its tight stance at its November 2024 meeting, - its closing meeting for the Year 2024, either by holding the policy rate steady at 27.25 percent or marginally tightening it further.

Figure 11: 12-Month Inflation Projection



Source: CAPE Economic Research and Consulting, 2024

Our revised 12-month inflation outlook suggests an upward trend of inflation for the rest of 2024 going into 2025, contingent upon prevailing conditions. Tailwinds to this projection include volatility in the exchange rate, security concerns, and policy uncertainties.

Fiscal Operations Update

The Federation Accounts Allocation Committee (FAAC) injected the sum of N1.203 trillion into the economy through its monthly allocations to the three tiers of government. The amount represents decline of 11.4 percent compared to the N1.354.38 distributed in August 2024. The amount distributed in September 2024 represents about 52.81 percent of total revenue (N2.278 trillion) collected, which was lower than revenue collected in the previous month. The decrease was attributed to the lower collections from value-added tax (VAT), Electronic Money Transfer Levy (EMTL) and exchange gain. The decline in fiscal injection may moderate the inflationary pressure in September 2024.

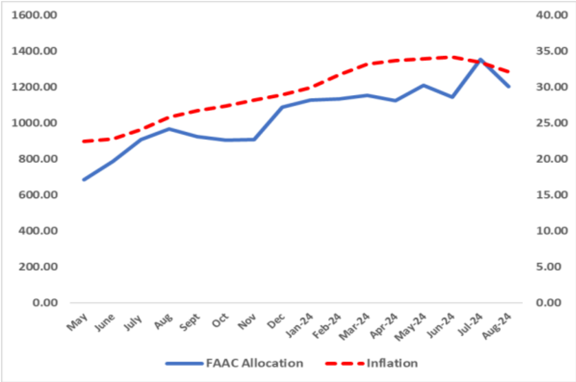
Table 2: Highlight of Sept. 2024 FAAC Distr (N'billion)

	September	August	% Change
Fed.	*374.93*	*431.08*	*-13.0*
State	*422.86*	*473.48*	*-10.7*
LG	*306.53*	*343.70*	*-10.8*
13%	*99.47*	*109.82*	*-9.4*
Total	**1,203.79**	**1,358.08**	***-11.4***

Source: FAAC, August 2024

Further breakdown as indicated in Table 3 showed that Federal Government received ₦374.93 billion; States, ₦422.86 billion; Local Government, ₦306.53 billion. Thirteen per cent derivation fund distributed among beneficiary states amounted to N99.47 billion. In a jurisdiction like Nigeria, which is already characterised by high inflation, a reduction in fiscal injection is likely to moderate inflationary pressures. Therefore, we expect the decrease in FAAC allocation to lower inflationary pressure and support exchange rate stability.

Figure 12: Trend of FAAC Distribution and Inflation Rate in Nigeria



Source: FAAC

Conclusion

In summary, the global output growth outlook for 2024 remains cautiously optimistic, though tempered by several challenges. Emerging markets, especially, are facing significant headwinds, further exacerbated by uncertainties and China's underwhelming performance. Central banks' assertive monetary policies are gradually moderating inflation in certain regions, but this comes at the cost of subdued economic output and heightened risks to financial stability. Despite these global challenges, Nigeria's economic forecast for 2024 remains resilient, underscoring its robust capacity to adapt and navigate prevailing economic conditions effectively.

Country in Focus – Republic of Mozambique

Figure 13: Economic Parameters for Republic of Mozambique

Source: CAPE Economic Research and Consulting, 2024