Cape Economic Performance and Prospect Bulletin – September 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 August 2024, with headline inflation rising to 33.55 percent**.*

Global Economic Update

Global economic growth remains resilient supported by several positive factors, including the moderation of inflation rates, ease in financial conditions, and improvement in global trade. 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 have largely commenced easing monetary policy thereby improving financial conditions by lowering borrowing costs and increasing liquidity in the financial system. The resulting pickup in global trade reflects demand recovery for goods and services across major economies, further contributing to the overall 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, geopolitical 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 2.9 percent, marginally down from 3.1 percent in 2023.

In the advanced economies, US economic data presented a more nuanced picture over the past month. While July's retail sales underscored sustained consumer activity, emerging weaknesses were evident in the labour market. The unemployment rate unexpectedly increased to 4.3 percent, marking its highest level in nearly three years, alongside a slowdown in job creation. Nevertheless, leading business surveys for August indicated continued expansion, and real-time GDP estimates suggested further economic growth for the quarter. However, headwinds remain high interest rates, and high levels of consumer debt, which may eventually dampen consumer spending and overall economic growth. In Europe, the UK was the fastest growing G7 economy in the first half of the year, with activity also looking healthy at the start of the third quarter. Euro area data were patchy: business surveys signalled overall expansion, but manufacturing output remained subdued.

Emerging markets are anticipated to outpace the growth of advanced economies. China's economic expansion is projected to remain positive in 2024, driven by increased investment despite challenges from the persistent underperformance of the real estate sector and weak household spending. Other emerging economies, such as India, Indonesia, Vietnam, and the Philippines, are on track to be among the fastest-growing economies, bolstered by strong domestic consumption and substantial foreign investments. In contrast, key Latin American emerging markets, including Mexico and Brazil, may face growth constraints due to slower domestic and international demand, fiscal consolidation measures, and strict monetary policies implemented to combat inflationary pressures.

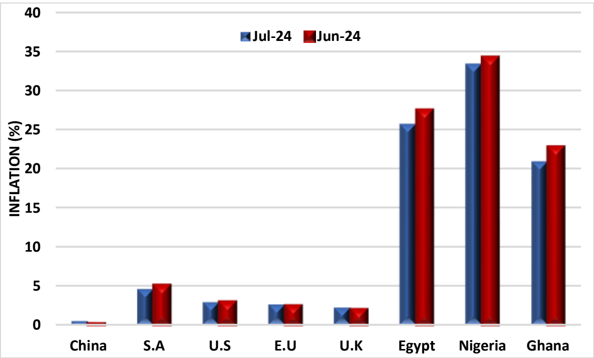
Overall, major headwinds to output growth remain increasing geopolitical divisions, and the permeating impact of restrictive monetary and fiscal policies.

Global inflationary patterns remain diverse, with households experiencing persistent financial strain despite widespread hawkish monetary policies. Geopolitical tensions exacerbate inflationary pressures by significantly impacting commodity prices such as oil and grains. In addition, concerns about climate change and its impact on global logistics may undermine supply chains.

The effectiveness of policy rate hikes in curbing inflation varies between developed and emerging markets. Particularly concerning is the risk of gain reversal in the already declining inflation trend in some advanced economies. The UK and the EU have commenced moderation in policy rates while it is anticipated that the Federal Reserves of the United States would commence loosening in September 2024.

Similarly, while the pressure to loosen monetary policy is not intense—given the need to remain competitive to attract capital inflows—inflation has begun to moderate in most emerging economies.

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



Source: Various National Statistics Offices

Due to slower economic growth and better progress in bringing inflation closer to targets, the European Central Bank (ECB), Bank of England, and several smaller central banks on the continent have already begun the easing cycle. As expected, the ECB deferred any further easing moves at its July meeting and was careful to convey it is not pre-committed to a particular path and will remain data dependent. But with growing risks of an economic slowdown and a receding German economy, the ECB should decrease rates again at its September meeting.

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 August 2024, equities market sustained volatilities and uncertainties from July 2024. The S&P 500® was up 2.28percent in August, bringing its year-to-date return to 18.42 percent. The Dow Jones Industrial Average® increased 1.76 percent for the month and was up 10.28 percent year-to-date. The S&P MidCap 400® fell 0.21 percent for the month, bringing its year-to-date return to 11.14 percent. The S&P SmallCap 600® lost 1.62 percent in August but was up 7.15 percent year-to-date.

In the currency market, several major currencies strengthen against the US dollar. Anticipation of Fed easing has begun to pressure the U.S. dollar, although any further depreciation this year should be rather limited due to strong relative economic growth and higher interest rates available in the United States.

In the commodities market, gold prices improved to around US$2,508 per ounce. The expected rate cuts by the Federal Reserve, continues to catalyze a sizeable upsurge in gold valuations, although it is assumed that the rate cuts are already priced in. Following a period of stabilization of these increments throughout the summer, it is projected that gold will persist in its upward trajectory amid a backdrop of more accommodative global financial policies. Meanwhile, the crude oil market in August 2024 experienced volatility and a downward price adjustment due to various economic and geopolitical factors. Consequently, crude oil prices experienced a moderation, with WTI ending at US$74.00 per barrel and Brent at US$76.93.

Upside risks to energy and commodity prices remain increased demand and geopolitical tensions, while the pressure in the financial system and the risk of a recession are downside risks.

Global Economic Outlook

The global economy has sustained resilience in H1 2024, despite facing numerous challenges and geopolitical tensions. However, downside risks persist, including the escalating geopolitical tensions, and weak export demand. Tailwinds to global economic growth include sustained private consumption, while moderating inflation and expected interest rate cuts would support a steady growth momentum in H2 2024 that will carry into 2025.

In the advanced economies, the US economy continues to show resilience in H1 2024, and this is expected into H2 2024. However, persistent service prices inflation, high consumer debts, a cooling labour market and political uncertainty will weigh on consumer spending and growth in the US. In the Eurozone, economic growth momentum improves slightly on easing inflation and stronger exports, but the recovery remains the weakest among key economies.

In the emerging economies growth prospects for both China and India remain resilient, reflecting the stronger economic activity in H1 2024, particularly in private consumption and exports. China, however, continues to face headwinds due to its ailing real estate sector and slowing productivity growth.

In the financial market, we anticipate sustained volatility, as there is a risk that bond markets may have moved too quickly. The extent of policy easing implied by current market pricing seems unlikely without a recession. Given this, we remain cautious about sustained small-cap outperformance. Instead, we continue to focus on more regionally diversified exposures. Stronger economic momentum and more attractive valuations can be found in areas such as the UK and continental Europe, providing the additional benefit of some diversification against US market and political risks. Furthermore, we anticipate a further shift of portfolio flows into emerging markets as policy rates are anticipated to commence easing in the advanced economies. Central banks face difficult decisions as the effects on financial stability and economic growth become more pronounced in Q3 2024. Easing financial conditions too early might reverse progress in controlling inflation, while further tightening could lead to financial instability and potentially trigger a recession.

In the commodity market, oil prices are expected to be encumbered in the remainder of 2024 as OPEC+ scales back production cuts. Natural gas and coal prices are projected to drop due to ample supply and high inventory levels. Industrial metal prices are likely to rise driven by China's easing of fiscal and monetary policies. Gold prices may fall as the positive effects of interest rate cuts are already priced in. Agricultural prices are anticipated to decrease throughout the year owing to an improved supply outlook.

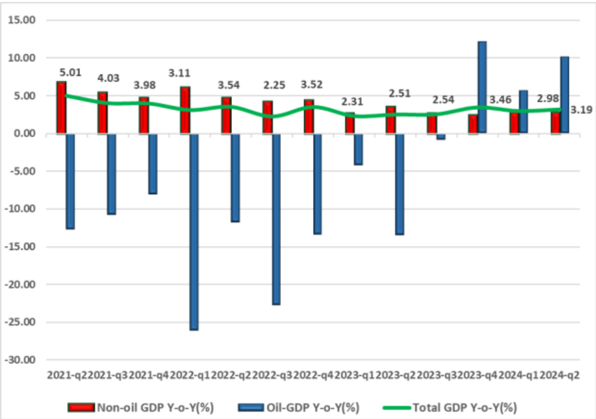
The global economy is contending with a complex mix of geopolitical risks, monetary policy challenges, and commodity market fluctuations. Central banks and policymakers face the difficult task of balancing these factors to maintain growth and stability. This requires careful and strategic interventions to navigate the fragile economic recovery and sustain overall economic stability.

Nigeria's Output Growth

Nigeria's Output Growth

At 3.19 percent (Y-o-Y), Nigeria's real GDP in Q22024 remained positive and resilient, as it accelerated marginally by 0.21 percentage points relative to the 2.98 percent recorded in Q12024 (figure 2). This growth also outpaced the growth rate of 2.51 percent registered in Q22023. Although Nigeria's real GDP growth in the second quarter of 2024 surpassed the population growth rate of 2.35 percent, the economic expansion was insufficient to significantly improve living standards. The marginal increase in GDP reflects the challenges the country faces in achieving sustained and inclusive economic growth that can meaningfully impact on the welfare of its rapidly expanding population. Without robust economic policies that promote more substantial growth, the gains from this modest GDP increase may not be enough to alleviate poverty, reduce unemployment, or improve essential services across the country. The feeble growth rate can be attributed to a number of headwinds including rising energy costs, deteriorating exchange rate, lingering insecurity, among others.

Figure 2: Real GDP Growth Rate in Nigeria (Q22021 – Q22024) in Per cent



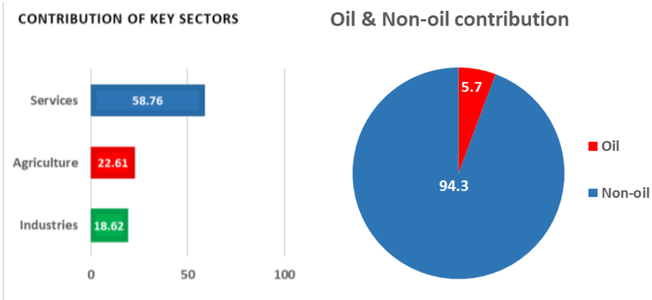
Source: National Bureau of Statistics (NBS)

GDP performance in Q22024 was mainly driven by the services sector, which grew by 3.79 percent while accounting for 58.76 percent of the overall GDP. The agriculture sector experienced slimer growth of 1.41 percent, below a 1.50 percent increase in the second quarter of 2023. The industry sector recorded significant growth of 3.53 percent compared to -1.94 percent growth in Q22023.

In nominal terms, GDP growth rate was 16.94 percent year-on-year rising to N60.93 trillion in Q22024 from N52.10 trillion in Q22023.

A sectoral breakdown reveals perpetual dominance of non-oil sector as it accounted for 94.30 per cent to the nation's total GDP in Q22024, higher than the Q12023 share of 93.62 percent. The Oil sector on the other hand, accounted for 5.70 percent of total real GDP in Q22024, compared to 6.38 percent in the preceding quarter. The growth could be attributed to the increase in the daily oil production to 1.41 mbpd in Q22024 from 1.22 mbpd in Q22023. Daily oil production is expected to continue to improve as government tackles major challenges facing the sector especially oil theft and pipeline vandalism.

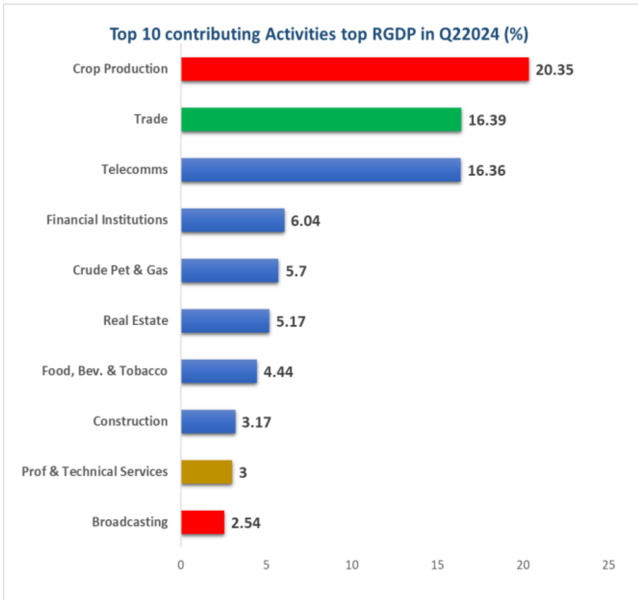
Figure 3: Sectoral Contribution to GDP



Source: National Bureau of Statistics (NBS)

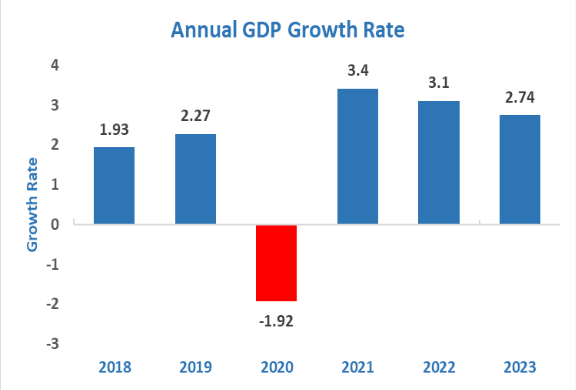
Top ten economic activities that drove real GDP in Q12024 (figure 4) include agriculture, trade, information and communication (ICT), crude petroleum and natural gas, among others.

Figure 4: Top 10 Economic activities that drove Nigeria's RGDP (Q12024) in Per cent



Source: National Bureau of Statistics (NBS)

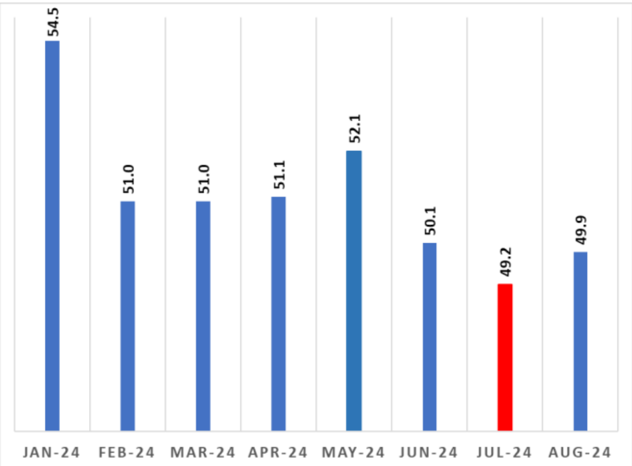
Figure 5 Year Annual Real GDP Growth (%)



Source: NBS

Looking forward to growth performance in Q32024, we anticipate slight slowdown as Nigeria's headline Purchasing Managers' Index (PMI) inched up to 49.9 in August 2024 from 49.2 in July, though it remained slightly below the neutral 50.0 mark, signalling a largely stable business environment. Despite the marginal improvement, overall operating conditions showed stagnation. This stability was mirrored in business activity trends, with Nigerian firms registering a slight decline in activity for the second consecutive month. The fractional dip in business output in August 2024, consistent with July's performance, suggests ongoing challenges in the Nigerian private sector, as firms continued to face a sluggish business environment (Figure 6).

Figure 6: Trend of Nigeria's PMI (Jan - May 2024)



Source: Stanbic IBTC

The PMIs in the first two months of the third quarter of 2024 suggest a slow down in private sector activity. We anticipate that domestic demand will continue to be weak relative to the historical average.

Output Growth Outlook

Despite numerous headwinds, Nigeria's output growth continues to display resilience. Persistent challenges such as elevated energy costs, exchange rate volatility driven by foreign exchange shortages, security concerns, infrastructure deficits, structural impediments, and rising production costs remain significant constraints on growth. Consequently, a slowdown in output expansion is anticipated, though it is expected to stay positive through Q3 and Q4 of 2024.

However, the projected growth recovery in Q3 and Q4 2024 is likely to be dampened by several factors, including tighter monetary policy through interest rate hikes, continued exchange rate volatility, and rising economic uncertainty. Nevertheless, this expected improvement in output is supported by seasonal gains in the agricultural sector and progress in the industrial sector, particularly with the anticipated operationalization of the Dangote refinery between Q3 and Q4 2024.

Price Update

Nigeria's headline inflation rate breaks its 19-month rising streak easing at 33.40 percent in July 2024, down from 34.19 percent in June. In July headline inflation rate saw a reduction of 0.79 percentage points compared to June 2024, marking a slight relief in month-on-month inflation pressures. However, on a year-on-year basis, inflation rose significantly, by 9.32 percentage points, compared to July 2023, when it was recorded at 24.08 percent. This year-on-year surge indicates continued inflationary pressures in the economy, driven by various factors.

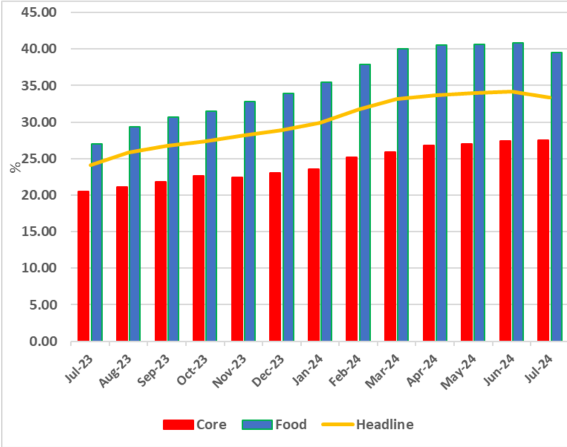
On a monthly basis, headline inflation stood at 2.28 percent in July 2024, a marginal decline from the 2.31 percent observed in June. The primary drivers of the year-on-year inflation increase were food and non-alcoholic beverages, contributing 17.30 percent, followed by housing, water, electricity, gas, and other fuels, which contributed 5.59 percent.

This decline in headline inflation marks the first downward shift since December 2022, when the inflation rate dropped to 21.34 percent, highlighting a potential easing of inflationary pressures after months of persistent increases. However, the year-on-year rise continues to reflect underlying economic challenges.

Food inflation also eased at 39.53 percent from 40.87 in June 2024. However, on a year-on-year basis, it increased by 12.55 percentage points compared to the 26.98 percent recorded in July 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 July 2024 was recorded at 2.47 percent, representing a slight decrease of 0.08 percentage points from the 2.55 percent posted in June 2024. This marginal reduction suggests some moderation in short-term food price movements, although the overall annual trend remains concerning.

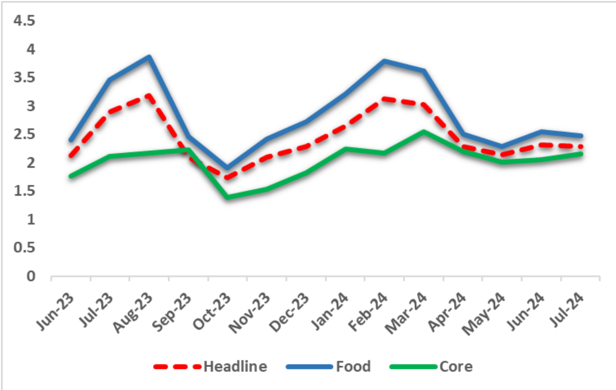
Core inflation surged to 27.47 percent year-on-year in July 2024, a significant rise of 6.99 percentage points compared to the 20.47 percent observed in July 2023. This sharp increase highlights the persistent inflationary pressures within the broader economy, driven by structural factors and price rigidities in non-food and non-energy sectors. On a month-on-month basis, core inflation edged up to 2.16 percent in July 2024, slightly higher than the 2.06 percent recorded in June, marking a 0.10 percentage point increase. This reflects continued upward pressure on prices within core categories, further signalling the challenge of curbing inflation. The sustained increase in core inflation underscores the entrenched inflationary dynamics that continue to weigh on Nigeria's macroeconomic environment.

Figure 7: Year-on-Year Headline, Food and Core Inflation (July 2023 – July 2024) in per cent



Source: National Bureau of Statistics (NBS), 2024

Figure 8: Month-on-Month Inflation Rates (June 2023 – July 2024) in percent



Source: National Bureau of Statistics (NBS), 2024

Price Outlook

Inflation is expected to heighten in August 2024. Our forecast showed that inflationary pressure would heighten marginally as headline and core inflation are expected to rise to 33.55 and 27.63 percent respectively, while, food is expected to moderate to 38.18 percent.

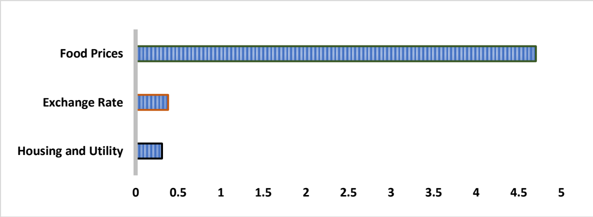
Table 1: Inflation forecast for August 2024 in Per Cent

Headline	Food	Core
33.55	38.18	27.63

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 9: Driver of Predicted Inflation



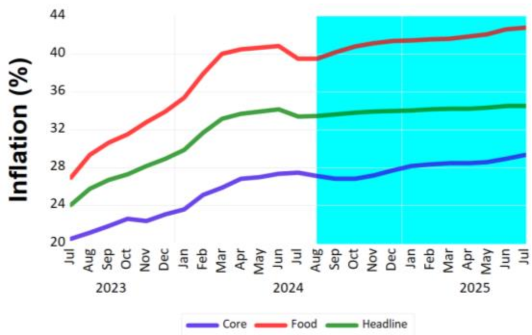
Source: CAPE Economic Research and Consulting, 2024

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 July 2024 meeting with a marginal hike of 50 basis points, shifting the policy rate to 26.75 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 September 2024 meeting, either by holding the policy rate steady at 26.75 percent or marginally tightening it further.

Figure 10: 12-Month Inflation Projection



Source: CAPE Economic Research and Consulting, 2024

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

Fiscal Operations Update

The fiscal injection from the Federation Account Allocation Committee (FAAC) in August 2024, for revenue collected in the month of July 2024, increased by 0.3 percent to N1.358.08 trillion, compared to the N1.354.38 trillion distributed in July 2024. The marginal increase in fiscal injection may slightly heighten inflationary pressure in August 2024. The amount distributed in July represents about 51.9 percent of total revenue collected, which was higher than the amount distributed in July 2024 by ₦3.7 billion. The increase was driven by the higher collections from Oil and Gas Royalty, Petroleum Profit Tax (PPT), Value Added Tax (VAT), Import Duty, Electronic Money Transfer Levy (EMTL) and External Tarrif levies (CET)

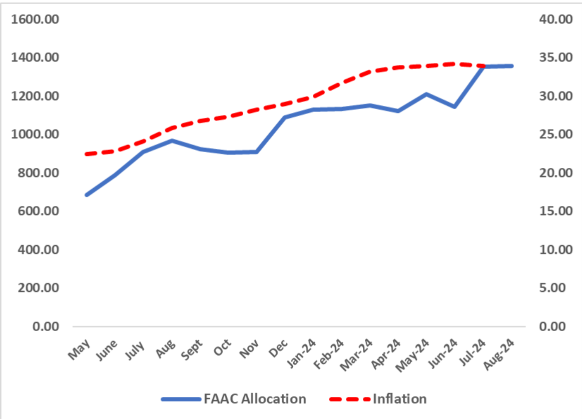
Table 2: Highlight of Aug. 2024 FAAC Distribution (N'billion)

	August	July	% Change
Fed.	*431.08*	*459.78*	*-6.2*
State	*473.48*	*461.98*	*2.5*
LG	*343.70*	*337.02*	*2.0*
13%	*109.82*	*95.60*	*14.9*
Total	**1,358.08**	**1,354.38**	***0.3***

Source: FAAC, August 2024

Further breakdown as indicated in Table 3 showed that Federal Government received ₦431.08 billion; States, ₦473.48 billion; Local Government, ₦343.70 billion. Thirteen per cent derivation fund distributed among beneficiary states amounted to N109.83 billion. Allocations to subnational governments increased in August compared to July 2024. The 13 percent derivation fund distributed among oil producing states increased of 0.14 percent. ***In an environment characterised by high inflation, additional fiscal injection is likely to exacerbate inflationary pressures. When the government increases spending without a corresponding increase in productivity, it boosts aggregate demand in the economy. This surge in demand can lead to a further escalation in price levels as supply struggles to keep pace. Consequently, the inflationary spiral intensifies, complicating efforts to stabilize prices and undermining the purchasing power of the currency.***

Figure 11: Trend of FAAC Distribution and Inflation Rate in Nigeria



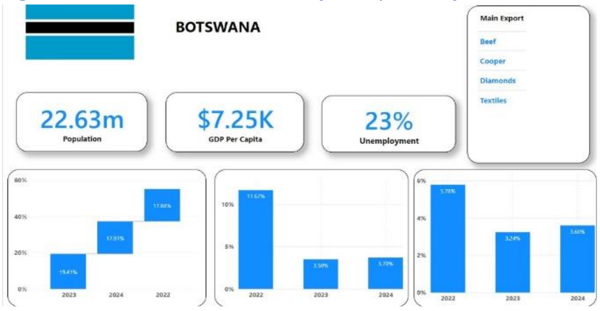
Source: FAAC, July 2024

Conclusion

In summary, the global output growth outlook for 2024 remains cautiously optimistic but tempered by various challenges. Emerging markets, in particular, are grappling with significant hurdles, exacerbated by uncertainties and China's weak performance. Central banks' assertive monetary measures are starting to moderate inflation in some regions, but this progress is not without trade-offs, notably impacting economic output and financial stability. Despite these global challenges, Nigeria's economic forecast for 2024 remains resilient, demonstrating a robust capacity to withstand and adapt to prevailing economic conditions.

Country in Focus – Republic of Botswana

Figure 12: Economic Parameters for Republic of Botswana



Source: CAPE Economic Research and Consulting, 2024