CAPE
Economic Research & Consulting

Cape Economic Performance and Prospect Bulletin – February 2025

Highlights

- *Price pressures expected to remain heightened and remain above pandemic levels as tightening efforts continue to crystalise.*
- *Nigeria's Q4 2024 output growth expected to remain positive and marginally higher than Q3 2024.*

Global Economic Update

The global economy continues to demonstrate resilience, with inflationary pressures moderating and growth sustaining momentum. On the demand side, economic activity has been supported by strong public and private consumption, despite prevailing tight monetary conditions. On the supply side, factors such as increased labour force participation, stabilized supply chains, and declining input costs—including energy and commodities—have contributed to improved production capacity, even amid persistent geopolitical uncertainties. However, distinguishing between a controlled economic slowdown and an impending recession remains complex, as early indicators for both scenarios often overlap.

Among advanced economies, the United States presents a mixed economic outlook. While retail sales and industrial production have maintained steady momentum, the labour market has begun to show signs of moderation, with job creation falling below projections. Although the labour market is not yet in contraction, its softening reflects broader economic uncertainties. The overall economic output remains positive; however, policy adjustments—including potential tax cuts and revised tariff policies under President Trump's administration, continue to influence market sentiment.

In Europe, the United Kingdom has emerged as the strongest-performing economy among the G7 nations. Conversely, the Eurozone has faced uneven growth, marked by disparities in manufacturing sector performance across different regions. Business sentiment surveys indicate continued expansion, but structural weaknesses persist.

Emerging markets are projected to grow at a faster pace than advanced economies, largely driven by strong domestic demand and increased foreign direct investment. China continues to lead this group, benefiting from targeted fiscal stimulus in real estate and construction, despite persistent weaknesses in household consumption. Similarly, India, Indonesia, Vietnam, and the Philippines are on track for robust economic expansion, supported by rising investment inflows and consumer spending. However, major Latin American economies, including Brazil and Mexico, are likely to experience slower growth, constrained by fiscal consolidation efforts, subdued domestic demand, and restrictive monetary policies.

Despite signs of resilience, global growth remains constrained by several challenges. Heightened geopolitical risks and climate-related disruptions continue to weigh on economic performance. Inflation dynamics remain uneven, with advanced economies experiencing some disinflationary progress, whereas emerging markets struggle to sustain capital inflows amid persistent inflationary pressures.

Easing inflation in the latter half of 2024 led to interest rate cuts in some economies, offering relief to households and businesses by reducing borrowing costs and supporting economic activity. By early 2025, central banks in both advanced and select emerging markets have adopted more nuanced monetary policies, tailored to domestic economic conditions. However, some monetary authorities, including the Central Bank of Nigeria, have opted to maintain a tightening stance to manage inflation risks, highlighting the divergence in macroeconomic conditions and policy responses across different regions.

A rebound in global trade activity signalled renewed demand for goods and services, contributing to overall economic growth.

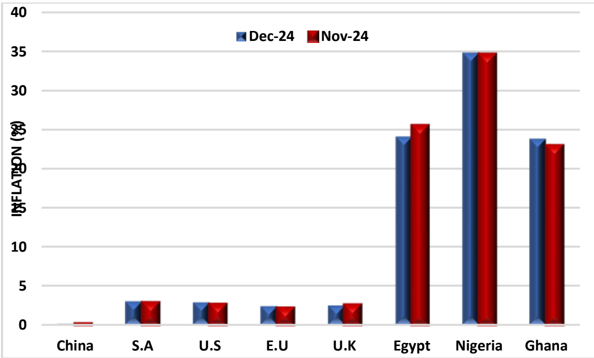
However, escalating trade protectionism, characterized by the imposition of tariffs and retaliatory measures, particularly by the United States—poses a significant risk to global trade recovery. Additionally, rising geopolitical tensions have intensified uncertainty, eroding business confidence and disrupting supply chains.

High debt burdens in both advanced and emerging economies, coupled with constrained fiscal capacity, continue to limit public expenditure geared towards economic growth. Elevated interest rates, relative to pre-pandemic levels, have also dampened consumer spending and private-sector investment.

The effectiveness of monetary policy adjustments in controlling inflation has varied across regions. In advanced economies, the U.S. Federal Reserve initiated monetary easing by lowering its target rate to 4.25–4.50% in December 2024, signalling a gradual slowdown in the pace of easing. While initial forecasts anticipated four additional rate cuts in 2025, the Trump administration's early policy decisions prompted the Federal Reserve to hold rates steady in January 2025 due to concerns over inflationary risks. Meanwhile, the European Central Bank took a more accommodative stance, reducing its deposit rate from 3% to 2.75% in January 2025, reflecting a less urgent need for aggressive inflation control. Similarly, the Bank of England is expected to lower interest rates from 4.75% to 4.50% in February 2025.

Conversely, emerging markets have maintained a more cautious approach. While inflation has moderated in several economies, central banks—including the Central Bank of Nigeria—have sustained tight monetary policies to curb inflation risks and support capital inflows. The Bank of Ghana, which shifted towards an easing stance in late 2024, opted to hold its policy rate at 27% in January 2025, reflecting the delicate balance between controlling inflation, sustaining economic growth, and maintaining financial stability.

Figure 1: Year-on-Year Inflation in Selected Economies (November 2024 – December 2024) in percent



Source: Various National Statistics Offices

In equity markets, the S&P 500® was up 2.70% in January, bringing its one-year return to 24.66%. The Dow Jones Industrial Average® gained 4.70% for the month and was up 16.76% for the one-year period. The S&P MidCap 400® increased 3.78% for the month, bringing its one-year return to 18.55%. The S&P SmallCap 600® returned 2.85% in January and was up 14.47% for the one-year period. The market initially struggling to hold its ground but picking up mid-month as earnings came in stronger than expected and the Trump administration started enacting its economic policy quickly.

Global geopolitical uncertainties have intensified, driven by significant developments across Europe, the Middle East, and North America. The economic landscape remains volatile as nations navigate trade tensions, shifting alliances, and strategic policy adjustments.

In North America, trade relations have faced renewed strains as tariff and counter-tariff measures between the United States, Canada, Mexico, and China escalated in early 2025. These measures, which impacted key industries including manufacturing, technology, and agriculture, fuelled concerns over potential disruptions in supply chains and global trade flows. However, following high-level negotiations, these tariffs have been suspended for a period of one month, providing a brief window for further diplomatic engagement and potential long-term resolution. The absence of a lasting resolution continues to undermine market confidence and disrupt supply chains, particularly in trade-sensitive sectors.

In Europe, Ukraine's conditional willingness to engage in peace negotiations with Russia—requiring the involvement of the EU and the United States—marks a potential shift in the conflict's trajectory. However, the ongoing uncertainty surrounding diplomatic negotiations exacerbates volatility in energy markets and cross-border investment flows, sustaining regional economic fragility.

While immediate policy interventions may offer transient relief, persistent uncertainties pose structural risks to global trade, inflation dynamics, and investor sentiment. The outlook for the coming months remains contingent on the effectiveness of diplomatic engagements and the resolution of trade disputes.

In the commodities market, crude oil prices saw a modest increase in January 2025. West Texas Intermediate (WTI) closed the month at US$73.72 per barrel, while Brent crude settled at US$76.76 per barrel. On the upside, energy and commodity markets continue to face price pressures driven by robust demand and ongoing geopolitical uncertainties. Conversely, downside risks are anchored in vulnerabilities within the global financial system, which could suppress market activity as well as increased oil production in the United States following the "drill baby drill" inaugural speech of President Trump which could result in a glut in the market and crash prices.

The cryptocurrency market opened the year on a strong footing, with Bitcoin surging 13.5% in January, driven by favourable regulatory developments in the United States. Broader digital asset valuations also increased by 7%, though momentum tempered slightly towards month-end amid potential tariff adjustments. A key catalyst was the Trump administration's executive order, which reinforced self-custody rights and outlined a structured approach to stable coin development. Concurrently, the SEC's updated policy guidance cleared the way for traditional financial institutions to offer crypto custody services, a move expected to accelerate institutional adoption.

Technological innovation also played a pivotal role in shaping market sentiment. A breakthrough from Chinese AI research lab DeepSeek underscored the increasing convergence between artificial intelligence and blockchain, highlighting the need for decentralized frameworks to support next-generation AI applications.

Global Economic Outlook

We anticipate a rocky start in the first half of 2025. In advanced economies, the United States continues to demonstrate strong economic performance, a trend projected to persist. However, risks to consumer spending and overall economic momentum remain, driven by persistent service sector inflation, rising consumer debt burdens, a softening labour market, and increasing political uncertainties. In the Eurozone, declining inflation and renewed export activity provide cautious optimism. Nevertheless, the region's recovery is progressing at a slower pace than other major economies due to persistent structural weaknesses and uneven economic conditions across member states.

Emerging markets, particularly China and India, are poised for continued expansion, supported by robust consumer demand and strong export activity. However, China's outlook is constrained by growing economic challenges, including a weakening real estate sector and diminishing productivity gains, which could create significant obstacles for its recovery and trade relations with the United States.

Financial markets are likely to experience continued volatility. Bond markets appear to have overestimated the likelihood of aggressive monetary policy easing. Despite market sentiment favouring swift interest rate cuts, such expectations may be premature unless a marked economic downturn materializes. A prudent investment approach would prioritize diversified regional exposure over concentrated small-cap investments. Markets in the United Kingdom and continental Europe offer relatively attractive valuations and stable economic momentum, potentially mitigating risks posed by vulnerabilities in the U.S. market.

Central banks in advanced economies are expected to adopt a measured approach as they transition toward more accommodative monetary policies, carefully assessing domestic economic conditions while navigating shifts in global dynamics, including policy directions under the Trump administration. Meanwhile, emerging markets are expected to maintain restrictive monetary policies in early 2025, particularly in economies grappling with elevated inflation or seeking to sustain capital inflows in competitive financial environments. This divergence in policy underscores the complex trade-offs central banks must manage in balancing growth objectives, price stability, and financial system resilience.

Looking ahead, capital flows are projected to shift increasingly toward emerging markets, driven by monetary easing in advanced economies. Central banks will continue to face complex policy dilemmas as they work to balance inflation containment, employment support, and financial stability. Premature policy loosening could undermine inflation control efforts, while excessive tightening heightens the risk of financial instability or recessionary pressures.

In the commodities sector, further adjustments are anticipated. Oil prices are expected to moderate as OPEC+ gradually reverses earlier production cuts and U.S. oil output rises. Similarly, natural gas and coal prices are likely to decline due to ample supply and elevated inventory levels. In contrast, industrial metal prices could rebound, supported by China's fiscal and monetary stimulus measures. Gold prices may soften as expectations of interest rate cuts have already been factored into market valuations, while agricultural commodity prices are expected to decrease amid improved global supply conditions.

In summary, the global economic environment remains finely balanced, shaped by geopolitical uncertainties, monetary policy transitions, and evolving commodity market dynamics. To ensure sustained growth and macroeconomic stability, policymakers and central banks must employ precise and adaptable strategies to reinforce the ongoing recovery and mitigate risks in the medium term.

Nigeria's Output Growth

Economic activity in Nigeria continued its expansionary trend in January 2025, driven by rising customer demand and an improved appetite among clients for new projects. This momentum supported an increase in output, as highlighted in the latest Purchasing Managers' Index (PMI) report.

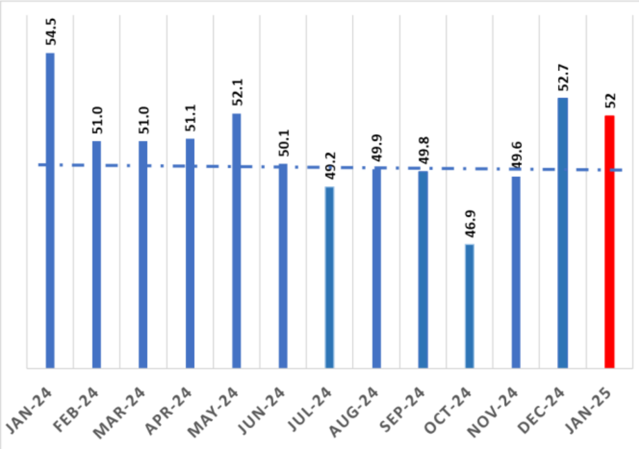
The Stanbic IBTC PMI Survey placed the headline index at 52.0 in January, slightly lower than the 52.7 recorded in December 2024. A reading above 50.0 signals an improvement in business conditions, whereas values below this threshold indicate contraction.

The report indicate that the private sector sustained the recovery observed at the end of 2024, with continued growth in new orders and business activity. Business confidence strengthened considerably, prompting firms to expand employment, procurement, and inventory levels.

While input costs and output prices remained elevated, inflationary pressures moderated relative to December. Increased demand and a higher propensity for investment among clients contributed to the expansion in output and new orders. However, the pace of growth softened compared to the previous month.

Nigerian firms expressed stronger optimism regarding future business prospects, as evidenced by a notable increase in expansion and marketing plans. This heightened confidence reflects an improved outlook on economic stability, bolstered by expectations of sustained demand growth, policy support, and evolving market opportunities. Businesses appear to be positioning themselves strategically for long-term expansion by investing in workforce development, supply chain efficiency, and technological upgrades. Additionally, the increased willingness to allocate resources toward innovation and market penetration suggests that firms anticipate a more favourable operating environment in the coming months. This renewed sentiment underscores a shift towards proactive growth strategies, with companies focusing on enhancing productivity, diversifying revenue streams, and mitigating potential risks associated with economic volatility.

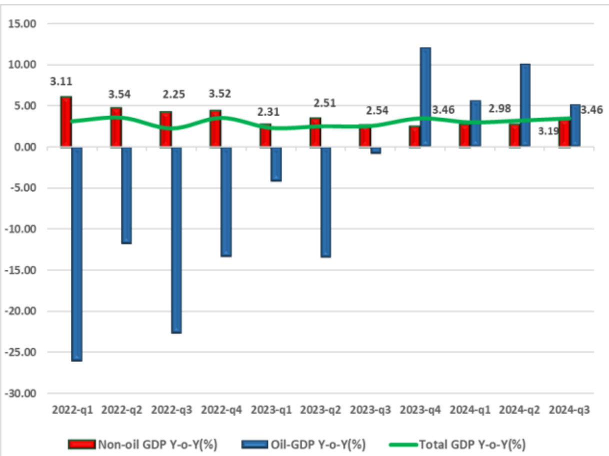
Figure 2: Trend of Nigeria's PMI (Jan 2024 - Jan 2025)



Source: Stanbic IBTC

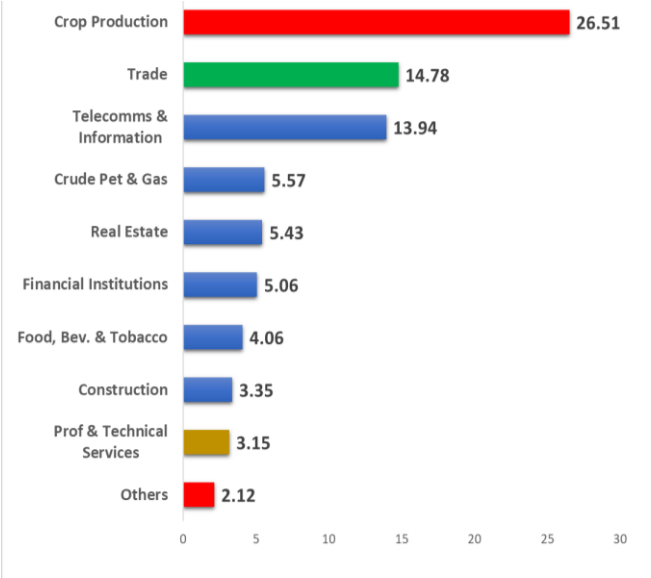
The positive momentum of Nigeria's economic activity in January 2025 is expected to be sustained amid prolonged macroeconomic headwinds. Key sectors expected to driver growth include ICT and finance & insurance, manufacturing sector, particularly in the cement, food and chemicals & pharmaceutical sub-sectors. Hence, the outlook for GDP growth in Q12025 remains positive.

Figure 3: Real GDP Growth Rate in Nigeria (Q12022 – Q32024) in percent



Source: National Bureau of Statistics (NBS)

Figure 4: Top 10 Economic activities that drove Nigeria's RGDP in Q32024 in Per cent



Source: National Bureau of Statistics (NBS)

Output Growth Outlook

Nigeria's economic growth has demonstrated resilience despite prevailing macroeconomic headwinds. Key constraints, including high energy costs, foreign exchange volatility exacerbated by currency shortages, security concerns, inadequate infrastructure, and rising production expenses, continue to impede the realization of sustained and robust economic expansion. While forecasts suggest that growth will remain positive in 2025, persistent structural and macroeconomic challenges are expected to temper the overall growth trajectory.

Further compounding the outlook are restrictive monetary conditions, as elevated interest rates, exchange rate fluctuations, and prevailing economic uncertainty may exert downward pressure on economic activity. The increased oil production in the United States are expected to push down crude oil prices which would have adverse economic implication for Nigeria, across the real, fiscal and external sector. Government revenue is likely to be increasingly constrained having that the budgeted US$75/ barrel may no longer be feasible.

However, cautious optimism stems from projected seasonal gains in agriculture and improved industrial output, particularly with the operationalization of the Dangote refinery, as well as the revitalization of the Warri and Port Harcourt refineries, alongside emerging private-sector refinery investments expected to commence in 2025. These factors are anticipated to contribute to a moderate boost in economic activity. Nevertheless, underlying structural deficiencies remain a critical concern, potentially constraining the effectiveness of policy interventions aimed at fostering sustainable economic growth.

Rebasing Nigeria's GDP and Inflation: Policy Implications

Nigeria's ongoing rebasing of Gross Domestic Product (GDP) and the Consumer Price Index (CPI) represents a crucial step in improving economic measurement and aligning policy with structural realities. The GDP rebasing updates the base year to 2019, incorporating emerging industries such as digital services, modular refineries, and the informal economy, enhancing investor confidence and macroeconomic planning.

Table 1: GDP Rebasing Facts

	2014 Rebasing	2024 Rebasing
Base Year	2010	2019
GDP Size Post Rebasing	US$509.9 billion	To be determined
GDP Increase	89 %	To be determined
Key Sectors Added	Nollywood, Telecommunications, IT	Digital Economy, Quarrying, NSITF, NHIS, Modular Refineries, Informal Activities
Ranking in Africa by GDP	1st	To be determined

Source: CAPE Economic Research and Consulting, 2025

Similarly, CPI rebasing expands the basket of goods and services from 740 to 960 items, introducing a new Insurance and Financial Services division to reflect evolving consumption patterns.

Table 2: CPI Rebasing Facts

Aspect	Previous Methodology	Updated Methodology
Number of Items in CPI Basket	740	960
Number of Divisions	12	13
New Division Added	None	Insurance and Financial Services

Source: CAPE Economic Research and Consulting, 2025

However, the choice of 2024 as the base year for inflation rebasing presents risks to monetary policy formulation. Given the high price levels recorded in 2024, subsequent inflation calculations may indicate technical disinflation, potentially leading to negative inflation rates. A monetary policy response would imply a sharp interest rate cut, which could overstimulate liquidity, renew inflationary pressures, and heighten financial market volatility. Additionally, if reported inflation figures diverge from consumer experiences, this could erode public confidence in official data and weaken monetary policy transmission.

To mitigate these risks, policy authorities such as monetary authority must adopt a nuanced, data-driven approach, complementing headline inflation with core inflation, cost-of-living indices, and household expenditure surveys. Enhanced communication strategies will also be critical in managing expectations and reinforcing trust in Nigeria's economic governance frameworks. Successfully navigating this transition will strengthen Nigeria's credibility in macroeconomic planning and reinforce its commitment to evidence-based policymaking and sustainable economic growth.

Fiscal Operations Update

In January 2025, the Federation Accounts Allocation Committee (FAAC) disbursed N1.424 trillion to the three tiers of government, marking a 17.5 percent decline from the N1.727 trillion allocated in December 2024. The distributed amount accounted for 61.64 percent of the total revenue collected, which stood at N2.31 trillion, significantly lower than the N3.14 trillion recorded in the previous month. The decline in revenue was primarily driven by lower collections from Oil and Gas Royalties, Common External Tariff (CET) Levies, Excise Duties, Import Duties, Petroleum Profit Tax (PPT), and Companies Income Tax (CIT).

A decrease in fiscal injections could help ease inflationary pressures by curbing aggregate demand in an economy struggling with supply constraints and rising costs. With less government spending, demand-pull inflation may moderate as consumers and businesses scale back expenditures. Additionally, reduced fiscal injections could stabilize the exchange rate by lowering import demand, mitigating imported inflation. However, a contraction in government spending might also slow economic growth, particularly in sectors reliant on public funding, potentially affecting employment and output.

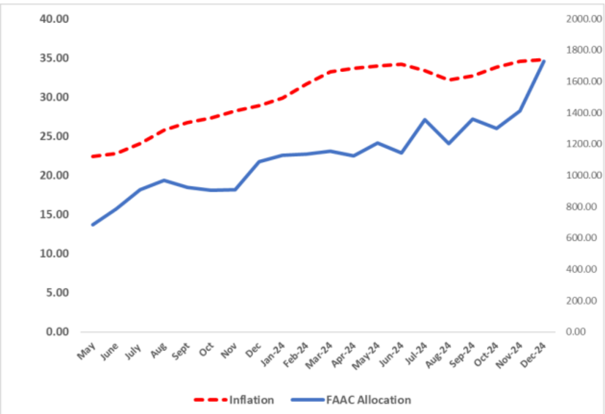
Table 3: Highlight of Jan. 2025 FAAC Distr (N'billion)

	Jan. 2025	Dec. 2024	% Change
Fed.	*451.19*	*581.86*	*-22.5*
State	*498.49*	*549.79*	*-9.3*
LG	*361.75*	*402.55*	*-10.1*
13%	*113.48*	*193.29*	*-41.3*
Total	***1,424.49***	***1,727.49***	***-17.5***

Source: FAAC, Jan 2025

A detailed breakdown of allocations, as presented in Table 3, reveals that the Federal Government received ₦451.19 billion, the States ₦498.49 billion, and Local Governments ₦361.75 billion. Additionally, the 13% derivation fund distributed to beneficiary states amounted to ₦113.48 billion. In Nigeria's high-inflation environment, such decreased fiscal injections are likely to moderate inflationary pressures. Figure 12, shows the relationship between FAAC allocations and inflation.

Figure 5: Trend of FAAC Distribution and Inflation Rate in Nigeria



Source: FAAC

Conclusion

In summary, the global economic outlook for 2025 reflects a cautiously optimistic trajectory, tempered by significant challenges. Emerging markets continue to face deep-rooted structural constraints, exacerbated by prolonged global uncertainties and the slower-than-expected recovery in China. While stringent monetary policy interventions by central banks have contributed to moderating inflation in some regions, these measures have also introduced considerable trade-offs, including subdued economic growth and increased financial sector vulnerabilities. Despite these global headwinds and the limited scope for expansive policy adjustments, Nigeria's economic prospects for 2025 remain positive.

Country in Focus – Republic of Niger

Figure 6: Economic Parameters for Republic of Niger

Source: CAPE Economic Research and Consulting, 2025