Cape Economic Research & Consulting

Cape Economic Performance and Prospect Bulletin – April 2025

Highlights

- *Price pressures expected to remain heightened and remain above pandemic levels as tightening efforts continue to crystalise.*
- *Nigeria's Q1 2025 output growth expected to remain positive and marginally higher than Q4 2024 as economy stabilises from reforms.*

Global Economic Update

The first quarter of 2025 has been notably turbulent, marked by rising risks of resurgent inflation and a shifting global order shaped by ongoing geopolitical uncertainty. The challenge lies in distinguishing between a controlled economic slowdown and the early onset of a recession, as both scenarios share similar early indicators.

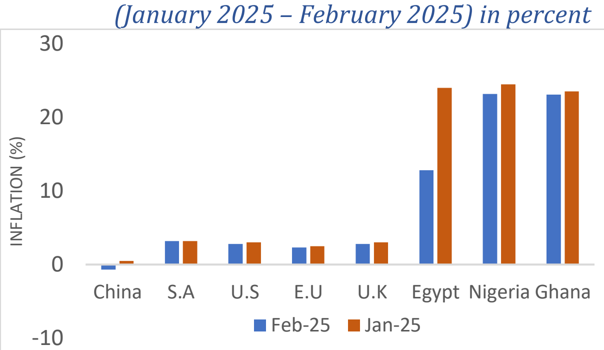
In the United States, the economic outlook is mixed. Product and labor markets remain resilient. However, recent executive orders, new tariffs, and stricter immigration policies have created notable headwinds for output. These measures, along with uncertainty over the new administration's geopolitical stance, have contributed to a complex environment where emerging risks are beginning to undermine core market fundamentals.

There is growing concern that the emerging global trade conflict could dampen growth prospects for both the U.S. and the global economy. This tension is expected to push inflation higher and may delay anticipated interest rate cuts by the Federal Reserve. While only a few policy actions have been implemented so far, markets largely expect the Fed to hold off on easing. Confidence remains in the Fed's ability to carefully monitor developments and adjust its stance as needed.

For emerging markets, economies are on track to outpace their advanced counterparts. This is driven largely by robust domestic demand and an influx of foreign capital. China continues to lead this group, benefiting from targeted fiscal measures in the real estate and construction sectors despite challenges in household consumption. Similarly, countries such as India, Indonesia, Vietnam, and the Philippines are poised for strong expansion, propelled by increased investment and rising consumer spending. In contrast, major Latin American economies like Brazil and Mexico are forecast to experience slower growth due to fiscal consolidation efforts, tepid domestic demand, restrictive monetary policies, and external pressures from tariffs.

Inflationary trends are divergent. Advanced economies are slowly achieving disinflation, as well as bigger emerging economies like China, whereas smaller emerging markets continue to wrestle with persistent inflation and difficulties in sustaining capital inflows. In response, several advanced economies are easing to support output growth. In the U.S., the Federal Reserve reduced its target rate to between 4.25% and 4.50% in December 2024, indicating a moderated pace of easing; however, concerns over inflation prompted a temporary pause on further rate cuts in January 2025. In contrast, the European Central Bank and the Bank of England adopted more accommodative stances, reducing their rates in early 2025. Emerging markets are equally tailoring their monetary policies to local conditions. Notably, Nigeria and Ghana's central banks, have generally maintained a tighter monetary policy to balance inflation control, capital inflow stabilization, and overall economic growth.

Figure 1:Year-on-Year Inflation in Selected Economies (January 2025 – February 2025) in percent



Source: Various National Statistics Offices

Equity markets trended lower in March, with broad-based losses across major indices. The S&P500® declined 5.75% for the month, pulling its year-to-date (YTD) return to –4.59%. The Dow Jones Industrial Average® also posted a negative month, falling 4.20% and trimming its YTD performance to –1.28%. The mid- and small-cap segments fared no better. The S&P Midcap 400® slipped 5.68%, bringing its YTD loss to –6.46%, while the S&P SmallCap 600® dropped 6.36% in March, deepening its YTD decline to –9.31%.

Markets faced headwinds in March, driven largely by short-term policy turbulence out of Washington. A wave of executive actions and regulatory shifts weighed heavily on investor sentiment, keeping equities on the back foot for most of the month. While there were brief rebounds, they weren't enough to offset the broader sell-off.The S&P 500® fell 5.75% in March (5.63% including dividends), extending the decline from February (–1.42%) and erasing January's modest 2.70% gain. As a result, Q1 2025 closed in the red, down –4.59% (–4.27% with dividends). This stands in sharp contrast to its 12-month return of 6.80% (8.25% total return) and the strong 2024 performance of 23.31% (25.02% with dividends).

A deeper look shows that the decline was magnified by underperformance from the "Magnificent 7"—a group of heavyweight tech and growth stocks. Stripping out their impact, March's drop would have been just 2.59%, and the YTD figure would shift from negative to a slight gain of 0.50%.Beyond these technical drivers, broader macro concerns also played a role: ongoing tariff uncertainty, inflation worries, softening labor market data, and weakening consumer confidence all contributed to the downturn. These were further aggravated by rapid policy pivots under the Trump administration, alongside headlines of widespread layoffs—some tied to initiatives like Elon Musk's Department of Government Efficiency (DOGE)—and growing distress signals from the retail sector.

A pickup in global trade activity has signaled strengthening demand, offering some support to overall economic growth. However, the resurgence of protectionist policies—including new tariffs and retaliatory measures, particularly by the United States—poses a significant risk to the recovery. At the same time, rising geopolitical tensions continue to undermine business confidence and disrupt global supply chains. Compounding these challenges, both advanced and emerging economies face mounting debt burdens and limited fiscal space, which constrain their ability to implement stimulus measures. Meanwhile, interest rates remain elevated relative to pre-pandemic levels, further dampening consumer spending and private sector investment.

Global geopolitical uncertainties continue to intensify, driven by significant developments across Europe, the Middle East, and North America. The economic landscape remains volatile as nations contend with trade tensions, shifting alliances, and strategic policy adjustments. In North America, trade dynamics have recently deteriorated, with tariff and counter-tariff actions among the United States, Canada, Mexico, and China surging in early 2025. Shifting tariff policies from the U.S. administration, along with reciprocal measures from key trading partners have disrupted critical sectors including manufacturing, automotive, technology and agriculture. These trade dynamics are fueling concerns over supply chain instability and placing additional pressure on global trade flows. The ongoing absence of a sustainable resolution is steadily denting market confidence, particularly in these vulnerable industries.

In Europe, Ukraine's conditional openness to initiating peace discussions with Russia predicated on active EU and U.S. involvement could signal a turning point in the longstanding conflict. This development follows a contentious media interaction where U.S. officials demanded greater acknowledgment from Ukraine's leadership. Although Ukraine has shown some willingness to negotiate a mineral resource deal in exchange for security assurances, European nations, particularly NATO members, are bolstering their defense expenditures. Germany is evaluating a significant expansion of its military infrastructure, while France is emerging as a key regional nuclear power. However, persistent diplomatic uncertainties continue to destabilize energy markets and impede cross-border investment, further intensifying regional economic fragility.

In the commodities market, crude oil prices declined in March 2025, with West Texas Intermediate (WTI) closing at US$71.64 per barrel and Brent crude at US$74.97 per barrel. Upside risks persist due to robust demand and geopolitical uncertainties, while downside risks are linked to vulnerabilities in the global financial system, rising trade uncertainty and the potential oversupply from increased U.S. oil production following aggressive policy directives, which could trigger a market glut and price collapse.

In the Crypto market, there was a significant downturn for Bitcoin in the first quarter of 2025, with Bitcoin's price plunging by 12%, its steepest decline in seven years. This period of intense institutional interest and investment starkly contrasts with the negative price action, confounding analysts and traders alike. The primary driver behind this disconnect appears to be the strategic selloffs by long-term holders, which effectively neutralized any upward momentum. This imbalance between demand and supply not only underscores the intricate market dynamics of Bitcoin but also serves as a cautionary reminder that isolated growth metrics cannot adequately represent an asset's comprehensive performance within the rapidly evolving crypto landscape.

Global Economic Outlook

On the outlook, the remainder of the first half of 2025, the global economy is expected to be marked by considerable turbulence. In advanced economies, the United States continues to demonstrate resilience despite heightening headwinds such as persistent service inflation, rising consumer indebtedness, a softening labour market, and escalating political and trade uncertainties, all of which threatens consumer spending and overall economic momentum. Meanwhile, the Eurozone, buoyed by easing inflationary pressures and a revival in export activity, offers a cautiously optimistic outlook, even as legacy structural issues and divergent economic conditions among its members constrain its recovery. In the emerging markets, China and India, are expected to sustain their expansion, fuelled by strong domestic demand and vigorous export performance. Although, China faces significant headwinds, including a contracting real estate market and waning productivity gains, which may dampen trade and output growth prospects.

Central banks in advanced economies are expected to gradually transition toward more accommodative monetary policies, meticulously calibrating their adjustments in response to domestic economic conditions and evolving global dynamics. In stark contrast, emerging market central banks are likely to maintain restrictive monetary policies well into early 2025, particularly in regions grappling with elevated inflation or striving to sustain capital inflows amid competitive financial environments. This divergence underscores the complex trade-offs inherent in balancing growth objectives, price stability, and financial system resilience.

Looking forward, capital flows are projected to increasingly favour emerging markets as monetary easing in advanced economies takes hold. Central banks will continue to navigate intricate policy dilemmas, balancing the imperatives of inflation control, employment support, and financial stability, while recognizing that premature policy easing could erode inflation containment efforts and overly aggressive tightening might heighten the risks of financial instability or recessionary pressures.

Financial markets are equally projected to remain volatile; although current sentiment leans toward interest rate cuts, bond markets appear to have overestimated the likelihood of aggressive monetary easing. Premature rate reductions could prove counterproductive unless triggered by a marked economic downturn. Consequently, a prudent investment strategy should favour diversified regional exposure over concentrated small-cap positions, with markets in the United Kingdom and continental Europe presenting relatively attractive valuations and steadier economic momentum that may offset the emerging vulnerabilities from the United States.

Global trade remains caught-up in persistent uncertainties that pose structural risks to trade flows, inflation dynamics, and investor sentiment. The outlook for the coming months will largely depend on the success of diplomatic efforts to renegotiate trade tariffs, forge new international alliances, and resolve longstanding trade disputes.

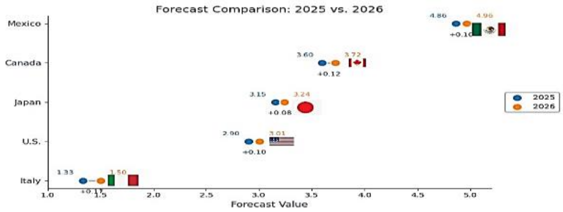
In the commodities sector, further adjustments are anticipated. Oil prices are likely to moderate further as OPEC+ incrementally reverses previous production cuts in tandem with rising U.S. output. Similarly, abundant supply and high inventory levels should exert downward pressure on natural gas and coal prices. In contrast, industrial metals may experience a rebound, buoyed by fiscal and monetary stimulus in China, while gold prices are expected to soften as expectations for interest rate cuts are already fully integrated into market valuations. Improved global supply conditions are also projected to depress agricultural commodity prices.

In summary, the global economic environment for the second quarter of 2025 is poised to be shaped by geopolitical uncertainties, shifting monetary policy trajectories, and dynamic trends in commodity markets. To ensure sustained growth and macroeconomic stability, policymakers and central banks must adopt precise, adaptable strategies that reinforce the ongoing recovery while effectively mitigating medium-term risks.

Tariff Shock: Forecasts for the US, Mexico & Canada

Injecting the tariff shock into our model raises U.S. inflation modestly but persistently: annual inflation averages 2.9 % in 2025 and 3.0% in 2026. This uptick reflects pass through of higher import costs particularly on intermediate goods, into consumer prices, as well as second round effects via tighter labour markets and rising wage pressures.

Figure 2: Annual Inflation Forecasts



Source: CAPE Economic Research and Consulting, 2025

Canada's diversified export base and flexible exchange rate provide partial insulation from external shocks. Monthly inflation scenarios show moderate increases, particularly in tradable goods, while nontradable inflation remains relatively stable. On an annual basis, inflation is projected to rise modestly above baseline, though to a lesser extent than in Mexico, reflecting Canada's greater capacity to source imports from alternative markets and its more responsive exchange rate passthrough.

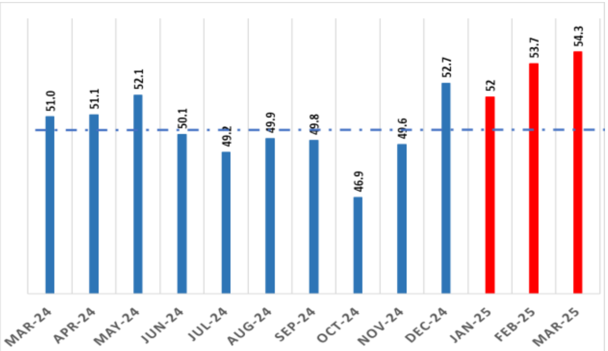
Our baseline scenario forecasts inflation in Canada reaching 3.5% in 2025, followed by a slight uptick to 3.7% in 2026. These projections suggest that the Bank of Canada may pursue a cautious tightening path, balancing mild imported inflation pressures with the ongoing need to support domestic demand recovery.

Mexico's high trade exposure to the U.S. amplifies the inflationary impact of new tariffs. Monthly forecasts indicate a sharp initial spike in inflation during the quarters following tariff implementation, primarily driven by rising costs of imported inputs in the manufacturing and food sectors. While inflation is expected to gradually converge toward trend, it will likely remain above the pre-tariff baseline on an annual basis. Our projections show Mexico's inflation rising to 4.8% in 2025, followed by a slight increase to 4.9% in 2026. This outlook suggests that Banxico may need to frontload interest rate hikes or implement macroprudential measures to contain imported inflation and protect real incomes, particularly among lower-income households.

Nigeria's Output Growth

Nigeria's economic output is projected to post a stronger performance in Q1 2025 compared to the previous quarter, supported by sustained growth in private sector activity. Business conditions continued to recover in March, with solid gains in output, employment, and new orders relative to February. A key factor behind this momentum is the gradual easing of inflation, which is boosting domestic demand and improving consumer purchasing power. This shift is driving a steady expansion in private sector activity. The headline Purchasing Managers' Index (PMI) rose to 54.3 in March, up from 53.7 in February, marking the fourth straight month of growth and the highest reading since January 2024. The March PMI reflects the fastest rise in new orders in over 14 months, fuelled by strengthening customer demand and improved market sentiment. For Q1 2025, the average PMI stood at 53.3, well above the 50-point threshold that signals expansion. This sustained improvement highlights the resilience of Nigeria's private sector amid easing inflation and recovering demand.

Figure 3: Trend of Nigeria's PMI (Mar 2024 - Mar 2025)



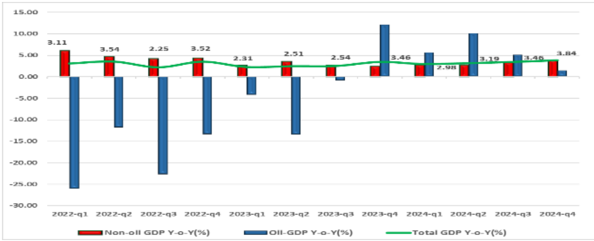
Source: Stanbic IBTC

Cost pressures eased in March, with input prices rising at their slowest pace since May 2023. While input cost inflation persists, the slowdown indicates that price pressures on businesses are beginning to moderate. Output price inflation also softened for a third consecutive month, reaching a similar low. However, wage pressures remained elevated, as firms continued adjusting salaries to support workers facing high living costs. This highlights the ongoing challenge of persistent consumer inflation, despite broader signs of macroeconomic stabilisation.

Looking ahead, key sectors that supported output growth in Q4 2024—such as crop production, trade, and telecommunications—are expected to remain primary growth drivers in Q1 2025. Historical trends and sectoral dynamics are illustrated in the charts below.

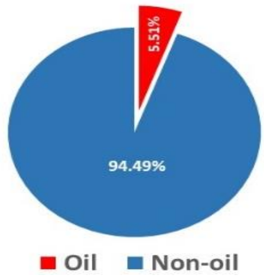
Historical trends and dynamics of Nigeria's output growth are as illustrated in the following charts

Figure 4: Real GDP Growth Rate in Nigeria (Q12022 – Q42024) in percent



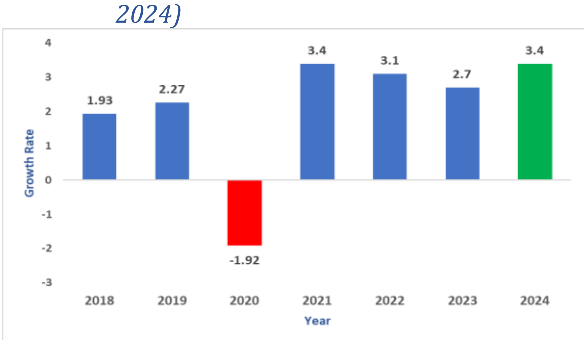
Source: National Bureau of Statistics (NBS)

Figure 5: Contributions of Oil and Non-oil Sectors to 2024 Aggregate GDP



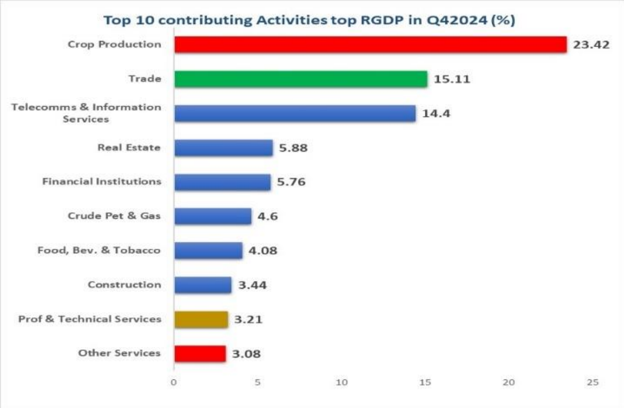
Source: National Bureau of Statistics (NBS)

Figure 6: Nigeria's Annual GDP Growth Rates (2018 - 2024)



Source: National Bureau of Statistics (NBS)

Figure 7: Top 10 Economic activities that accounted for Nigeria's RGDP in Q42024 (Percent)



Source: National Bureau of Statistics (NBS)

Output Growth Outlook

Nigeria's economic growth continues to show resilience, but significant structural and macroeconomic challenges persist. High energy costs, foreign exchange volatility driven by currency shortages, insecurity, infrastructure gaps, and rising production expenses continue to weigh on sustained expansion. Although growth projections for 2025 remain positive, these enduring constraints are expected to moderate the pace of recovery.

Restrictive monetary conditions further cloud the outlook. Elevated interest rates, exchange rate instability, and ongoing economic uncertainty are likely to dampen investment and consumption. Meanwhile, rising oil output in the United States may put downward pressure on global crude prices, posing risks to Nigeria's fiscal and external positions. This could strain government revenue, especially as the benchmark oil price of US$75 per barrel becomes less attainable.

Nonetheless, cautious optimism remains. Seasonal gains in agriculture and modest improvements in industrial output are expected to support near-term activity. The operationalization of the Dangote refinery, alongside the rehabilitation of Warri and Port Harcourt refineries and new private-sector investments in 2025, could provide a moderate lift to growth. However, underlying structural weaknesses remain a key concern, limiting the long-term impact of policy interventions.

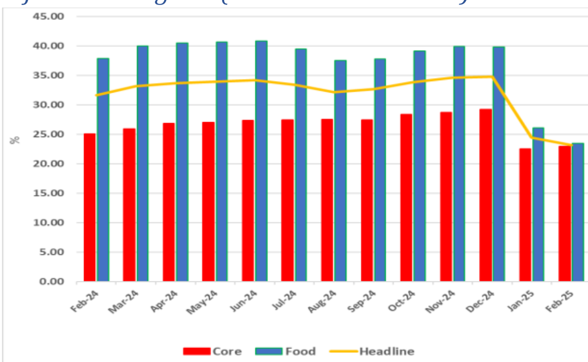
Price Update

Nigeria's headline inflation rate moderated further in February 2025, providing signs of easing price pressures in the economy. The inflation rate declined to 23.18 percent, down from 24.48 percent in January 2025, reflecting a month-on-month reduction of 1.30 percentage points. This deceleration is indicative of a gradual disinflationary trend, which is attributed to the CPI rebasing, monetary policy stance, and relatively lower food and energy prices.

On a year-on-year basis, headline inflation recorded a significant drop of 8.52 percentage points, from 31.70 percent in February 2024 to the current rate. This marks a notable improvement in price stability over a 12-month period, driven in part by the recent rebasing of the Consumer Price Index (CPI) to better capture contemporary household consumption patterns. The rebasing exercise, implemented by the National Bureau of Statistics (NBS), shifted the reference year to 2024, replacing the 16-year-old base year of 2009. This recalibration is expected to improve the accuracy and relevance of inflation measurement going forward.

Month-on-month inflation eased to 2.04 percent in February 2025, indicating a slower pace of price increases compared to the previous month. This deceleration suggests that recent monetary tightening, alongside some moderation in food and energy prices, may be starting to take effect.

Figure 8: Year-on-Year Headline, Food and Core Inflation in Nigeria (Feb. 2024 - Feb 2025)



Source: National Bureau of Statistics (NBS)

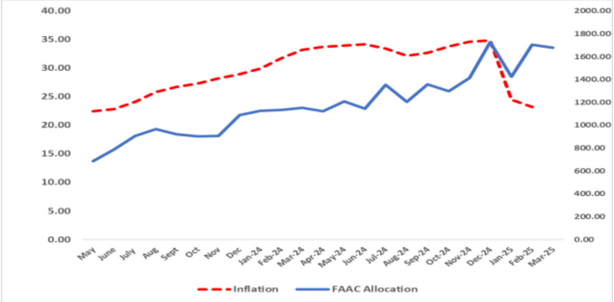
Food inflation, a major driver of headline inflation in Nigeria, recorded a notable year-on-year decline in February 2025. The rate fell to 23.51 percent from 37.92 percent in February 2024—a sharp drop of 14.41 percentage points. On a month-on-month basis, food prices rose by 1.67 percent, reflecting a slower pace of increase and signalling growing stability in food markets. February's inflation data reflect a combination of base effects, targeted policy interventions, and easing pressures in key categories. While inflationary risks remain—particularly in transport and housing—the broader trend points to improving price dynamics. Sustained monetary tightening, supply chain improvements, and structural reforms will be essential to consolidate recent gains and support medium-term price stability.

Fiscal Operations Update

The fiscal operations of the Nigerian government in March 2025 reflect a slight moderation in Federation Account disbursements amid a notable decline in gross revenue collections. According to data from the Federation Accounts Allocation Committee (FAAC), a total of ₦1.678 trillion was distributed among the three tiers of government in March 2025. This represents a marginal decline of 1.47 percent compared to the ₦1.703 trillion allocated in the preceding month.

The disbursed amount accounted for 71.59 percent of the ₦2.344 trillion in gross revenue collected in February 2025 (typically distributed in the subsequent month). However, gross revenue for the month experienced a sharp 11.25 percent decline from ₦2.641 trillion recorded in January 2025, indicating a contraction in revenue inflows. The reduction in gross revenue was primarily attributed to decreased collections from major tax categories, including Value Added Tax (VAT), Petroleum Profit Tax (PPT), Companies Income Tax (CIT), Excise Duty, Import Duty, and Common External Tariff (CET) Levies. This trend may reflect weaker economic activity, subdued trade volumes, or temporary compliance issues.

Figure 9: Trend of FAAC Distribution and Inflation Rate in Nigeria



Source: NBS and FAAC

Oil and Gas Royalties and the Electronic Money Transfer Levy (EMTL) recorded strong gains in February, helping to partially offset declines in non-oil tax revenue. These inflows highlight the value of a diversified revenue base in enhancing fiscal resilience.

Despite a modest month-on-month decline in FAAC allocations, disbursements remained strong, sustaining fiscal operations across all tiers of government. Continued growth in oil-sector receipts and ongoing tax administration reforms will be essential to stabilizing and expanding the revenue base in the months ahead.

Table 1: Highlight of Mar. 2025 FAAC Distr (N'billion)

	Mar. 2025	Feb. 2025	% Change
Fed.	*569.66*	*552.59*	*3.09*
State	*562.19*	*590.61*	*-4.81*
LG	*410.56*	*434.57*	*-5.53*
13%	*136.04*	*125.28*	*8.59*
Total	***1,678.45***	***1,703.05***	***-1.47***

Source: FAAC, Mar 2025

As shown in Table 1, March 2025 FAAC allocations amounted to ₦569.66 billion for the Federal Government, ₦562.19 billion for States, and ₦410.56 billion for Local Governments. An additional ₦136.04 billion was disbursed to oil-producing states under the 13% derivation fund.

FAAC disbursements declined marginally by 1.47 percent in March, a trend that may be contributing to the ongoing moderation in inflationary pressures. While the extent of this impact depends on broader factors—including monetary policy, exchange rate dynamics, and supply-side conditions—the observed alignment between lower fiscal outflows and easing inflation suggests that fiscal restraint, whether deliberate or incidental, may be reinforcing the disinflation process.

Conclusion

The 2025 global outlook remains cautiously optimistic but clouded by persistent headwinds, including geopolitical realignments and structural imbalances in emerging markets. These challenges are compounded by global uncertainty and a slower-than-expected recovery in China. While tighter monetary policies have helped contain inflation across regions, they have also led to trade-offs—most notably, weaker growth and heightened financial sector vulnerabilities.

Despite these global pressures and limited policy space, Nigeria's economic outlook for 2025 remains resilient and broadly favourable.

Country in Focus – Republic of Namibia

Figure 10: Economic Parameters for Republic of Namibia

Source: CAPE Economic Research and Consulting, 2025