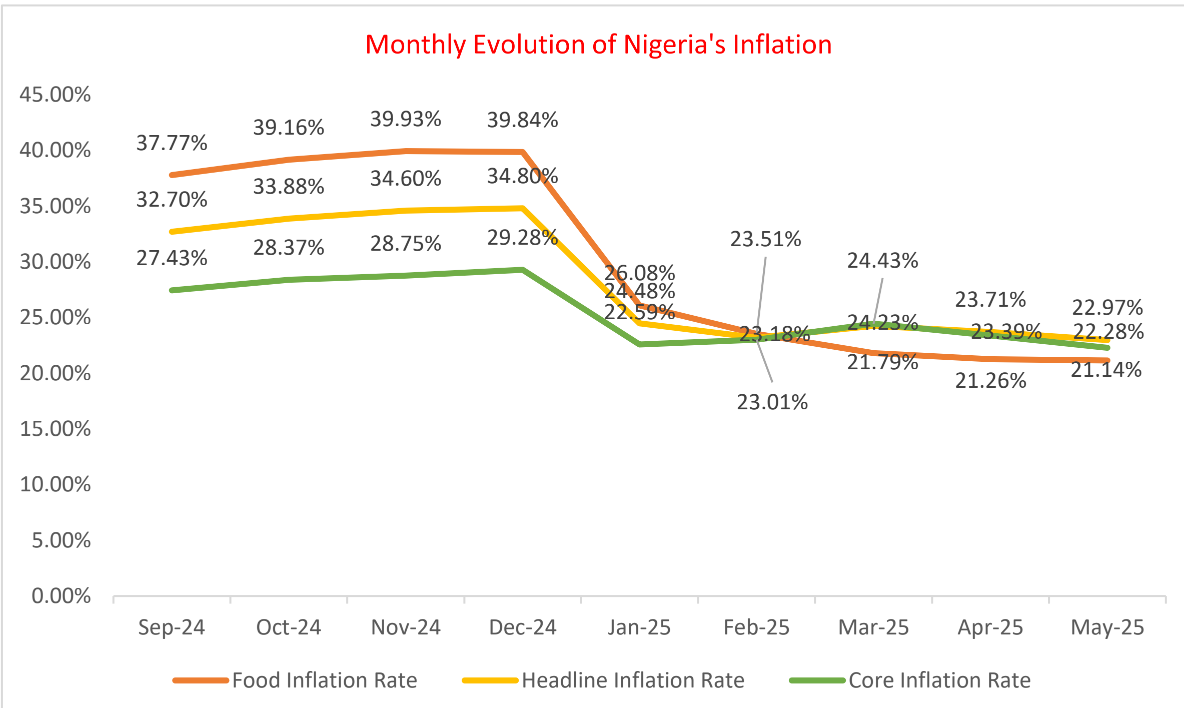
June 17, 2025

Analyst’s Note on: Nigeria’s Inflation Report – May 2025

Nigeria’s Inflation Slides to 22.97% in May as Naira Strength Lends Support …….

The latest NBS CPI report shows that Nigeria’s headline inflation eased for a second consecutive month in May 2025, falling to 22.97% from 23.71% in April (Cowry’s projection: 22.56%). This deceleration, amounting to a 74 basis-point drop, aligns with the recent strengthening of the naira and reflects early signs of macroeconomic rebalancing. The positive exchange rate dynamics, driven by improved FX liquidity and CBN’s tighter monetary stance, appear to be filtering through to consumer prices. The year-on-year data offers even sharper relief, with the headline rate now almost 11 percentage points below the 33.95% recorded in May 2024 and was driven by a recalibrated base year.

A breakdown of the inflation composition reveals that food and non-alcoholic beverages remain the dominant driver of the overall index, contributing 9.20% on a year-on-year basis. Other significant contributors include restaurant and accommodation services (2.97%), transport (2.45%), and housing-related costs (1.93%). These patterns reflect the persistence of structural inflation pressures—particularly in food supply chains and logistics—even as overall inflation decelerates.



Month-on-month, inflation slowed to 1.53% in May from 1.86% in April, suggesting that while prices are still rising, the pace has moderated. This cooling in sequential inflation should be welcomed by policymakers and investors alike, especially against the backdrop of ongoing FX volatility and energy supply disruptions. Again, food led the charge with a 0.61% contribution, followed by restaurants and accommodation (0.20%), and transport (0.16%). These areas highlight sectors still experiencing active price increases, which could feed into future inflation expectations.

Zooming into food inflation, the annual rate came in at 21.14% in May 2025—down sharply by 19.52 percentage points from the 40.66% recorded in May 2024. While this substantial drop is largely technical due to the statistical rebasing, it does suggest the worst of food price shocks may be behind the economy. However, on a month-on-month basis, food inflation rose marginally to 2.19% from 2.06%, reflecting ongoing seasonal and supply-side pressures. The uptick was driven by increases in the prices of staples like yam, cassava tuber, maize flour, fresh pepper, and sweet potatoes.

Core inflation, which excludes volatile food and energy prices, declined year-on-year to 22.28% in May from 27.04% in the same month last year. Month-on-month, the core index slowed further to 1.10% from April’s 1.34%. The easing in core inflation reinforces the idea that underlying price pressures are also cooling, a favourable development for forward-looking monetary policy expectations.

Regionally, wide disparities persist. Borno, Niger, and Plateau states recorded the highest headline inflation rates on a year-on-year basis, at 38.93%, 34.97%, and 32.35%, respectively—likely reflecting localised supply chain issues or security-related disruptions. In contrast, Katsina (16.25%), Adamawa (18.20%), and Delta (18.41%) saw the lowest headline rates. On a month-on-month basis, Bayelsa, Bauchi, and Borno experienced the sharpest price increases, while Kaduna, Jigawa, and Edo saw inflation decline, with Kaduna posting a surprising 6.75% month-on-month drop.

The food inflation map mirrors this divergence across states. Borno topped the chart with a staggering 64.36% annual increase, while Katsina posted a subdued 6.90%. For the month, Bayelsa, Cross River, and Anambra recorded food inflation spikes, whereas Katsina, Jigawa, and Kaduna experienced outright food price deflation.

From our standpoint, the deceleration in headline and core inflation metrics signals easing cost pressures, which could create room for monetary easing in the medium term—especially if sustained over the coming months just as seen in the first two months. However, the volatility in state-level inflation, particularly food prices, underscores persistent vulnerabilities in domestic supply chains and regional logistics. While the inflation curve is bending downward, whether this signals a sustainable disinflation trend or merely a statistical lull remains the critical question. We think focus on the next two inflation prints act as investment guidance before reassessing real returns on fixed income instruments or pricing in monetary policy pivots. Thus, we anticipate further deceleration, projecting headline inflation to print at 21.56% in June 2025.