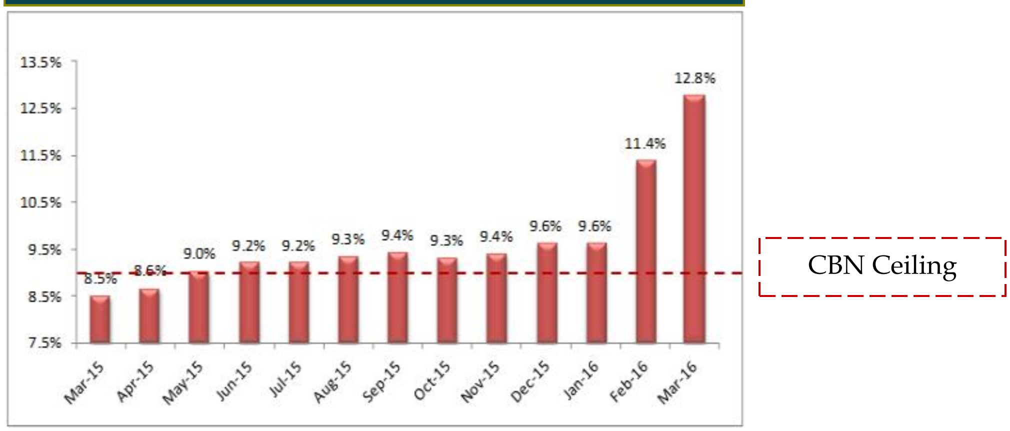
FDC Economic Bulletin

April 12, 2016

Headline inflation spikes into record territory at 12.8%

The consumer price index astounded the analysts community by spiking astronomically to 12.8% in March, a record four-year high. This is 3.8% above the CBN ceiling of 9% and it confounds the MPC by posing a major policy trilemma of a weak exchange rate, runaway inflation and high interest rates.

Chart 1: Headline Inflation Rate



Source : NBS, FDC Research

Factors driving inflation

A breakdown of the inflation report shows that the food basket increased by 1.4% to 12.7% while the core inflation, which is price level deseasonalized for volatile agricultural produce, increased by 1.1% to 12.2% in March. The food basket was a victim of higher transportation and logistics costs. The highest price increases were in fish, vegetables, bread and cereals. The core index jumped significantly due to imported inflation, higher electricity tariffs and fuel shortages. Besides the restaurants and hotels divisions, all major divisions contributing to the index accelerated faster than anticipated. The highest price increases in the core index were recorded in the electricity, furniture, road transport, spare parts and liquid fuels groups. The urban index increased to 13.5% in March, up from 12.3% in February. The rural index increased to 12% in March, up from 10.7% in the previous month. Urban prices are rising faster than rural

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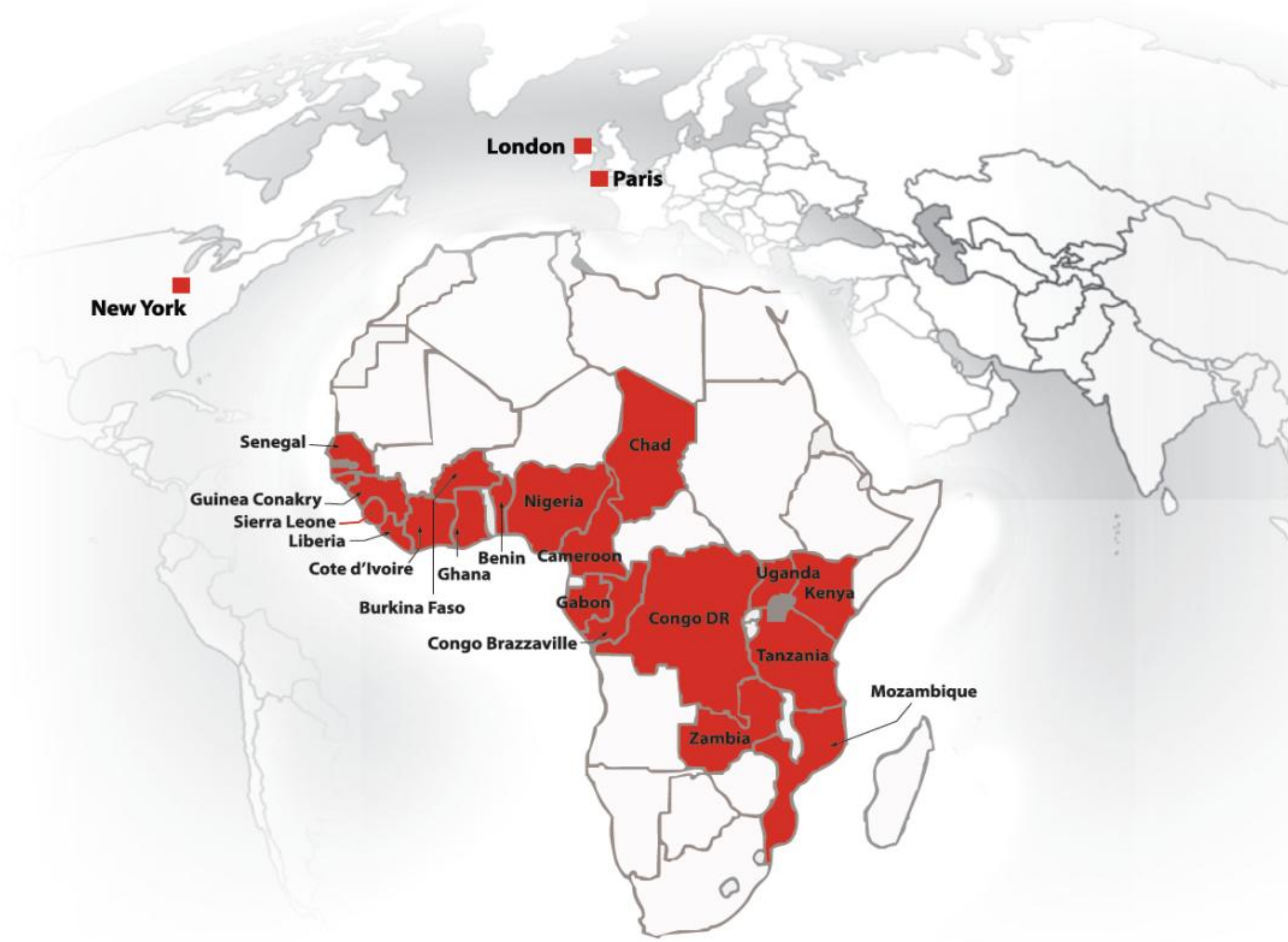

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www.ubagroup.com e-Mail: cfc@ubagroup.com *Africa's global bank* prices due to food transportation costs as well as higher import content in urban areas.

Scarcity, speculation and panic buying in anticipation of higher inflation, are drivers of increasing inflation. Demand-pull factors cannot be discounted as liquidity still remains very high despite the CBN's efforts.

Regional comparison

At 12.8%, the current inflation rate places Nigeria as the country with the 8th highest inflation rate in Africa. Inflation data released across sub-Saharan Africa (SSA) indicates a general decline in consumer prices. Seven countries have reported declines in inflation including Kenya, Uganda, and Tanzania. In two significant cases, inflation dropped after a currency devaluation. These were in Egypt and Ghana.

Inflationary expectations in April 2016

We expect inflation to increase in April but at a slower pace than March. This is because the exchange rate has appreciated significantly by 25% in the parallel market from N400 to N320. Also, the CBN has released some more dollars into the market. However, at N320/$ and the perverse nature of the fuel scarcity, the CPI is likely to remain sticky downwards.

Outlook

After two consecutive spikes, preceded by three small increases, the MPC will need to come to terms with the fact that the absence of an exchange rate policy will continue to be a recipe for macroeconomic and monetary instability.

In the meantime, the probability of Nigeria being excluded from the MSCI emerging market index, will continue to undermine the Nigerian stock market. The spectre of another rate increase is haunting investors.