

FDC Economic Bulletin

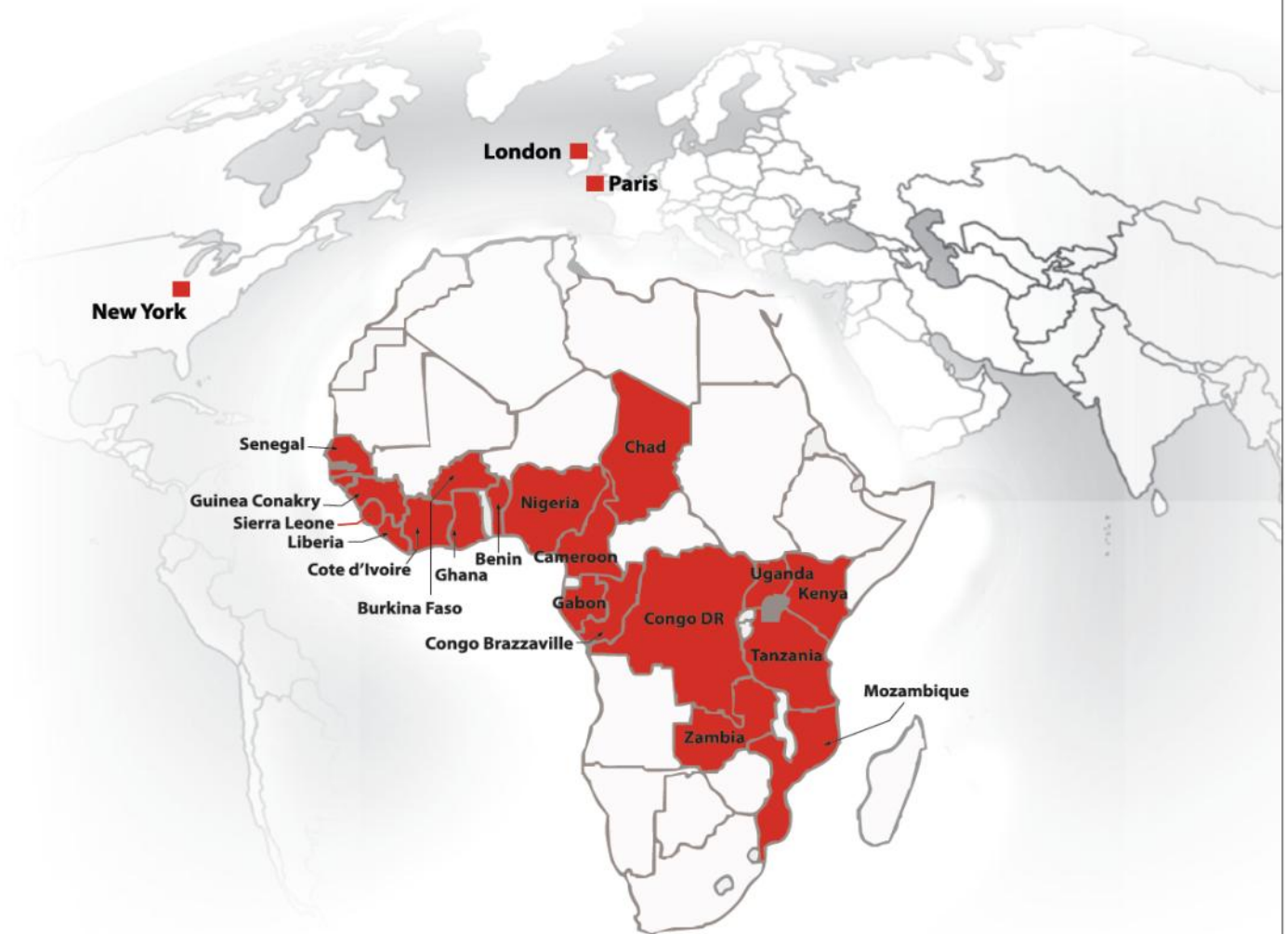
February 17 , 2016

Headline Inflation flat at 9.6%

The inflation data released 3 days ago by the NBS showed that headline inflation in January 2016 came in flat at 9.6%. Analysts' consensus was for a marginal decline in the CPI (headline inflation). The question now is, why did prices stay stubbornly flat in January instead of moving in the anticipated direction? A breakdown of the inflation report shows that the food basket segment was flat at 10.6% while core inflation which is price level deseasonalized and discounted for volatile agricultural produce inched up marginally from 8.7% to 8.8%. January is a month of the year when prices traditionally move downwards. This is because of the lower disposable income arising from spending during year end festivities. Also, preparation for educational expenses leaves less money for consumption.

For the food index, highest price increases were recorded in the fish, vegetables and bread and cereals groups. For the core index, slower increases in housing, water, electricity, gas and other fuels, furnishings and household equipment maintenance weighed down inflation pressures from clothing and footwear, transportation, and communication. The highest month-on-month price increases were recorded in the passenger transport by road, and books and stationery groups due to the commencement of a new school term. Imported inflation, which added significant inflationary pressures to December's inflation, did not put pressure on consumer prices as importers absorbed some of the incremental cost arising from naira weakness. Imported food inflation reduced to 1.0% MoM in January from 1.1% MoM in December.

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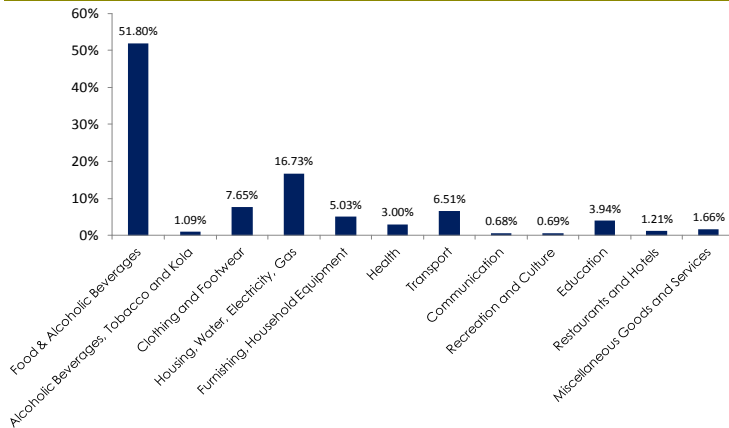
■ Africa

● New York

● London

● Paris

Chart 1: Inflation breakdown by item weight



Source : NBS

Inflationary expectations in February 2016

We expect imported inflation to impact prices in February. The foreign exchange uncertainty in the country has led to the depreciation of the naira to as low as N370/\$. Consumer resistance is expected if prices of imported items spike. The inadequate supply of forex to the market will result in shortages of raw materials and consumer staples in February. The increase in the headline inflation in February will become a major issue confronting the MPC as they prepare for their meeting next month.

Outlook

The CBN is resisting the idea of allowing the naira float and find its true value. The rumor about the restriction of payments on education and healthcare has led to a steep depreciation of the naira. The uncertainty in the forex market is fast feeding into the currency risk premium and thus making the naira turn into a banana republic currency.

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2. Intercom system
3. Equipped kitchen with electrical cooker/oven, fridge, deep freezer and washing/drying machine.

Other Facilities:

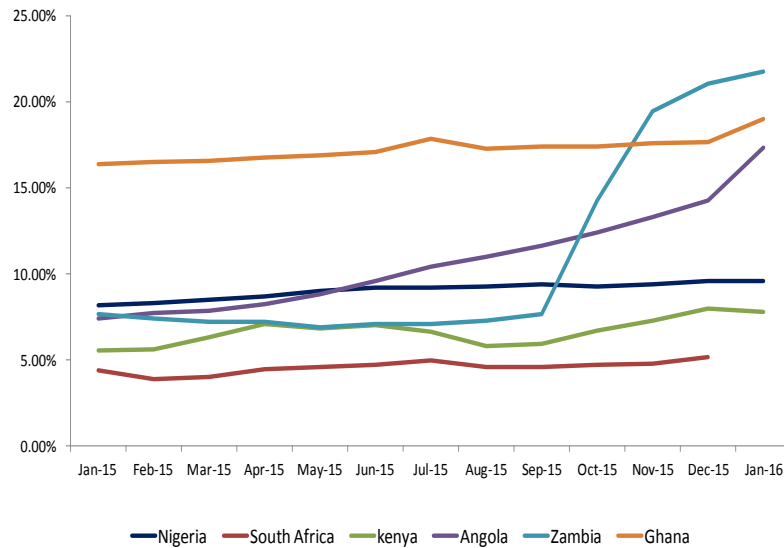
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Regional Comparison

Across Africa, it has been a mixed story with inflation rising in several countries. Notably, Angola, Ghana and South Africa are witnessing increasing price levels fueled by imported inflation and exchange rate pressures.

Chart 2: Regional Inflation



Source : Trading Economics

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