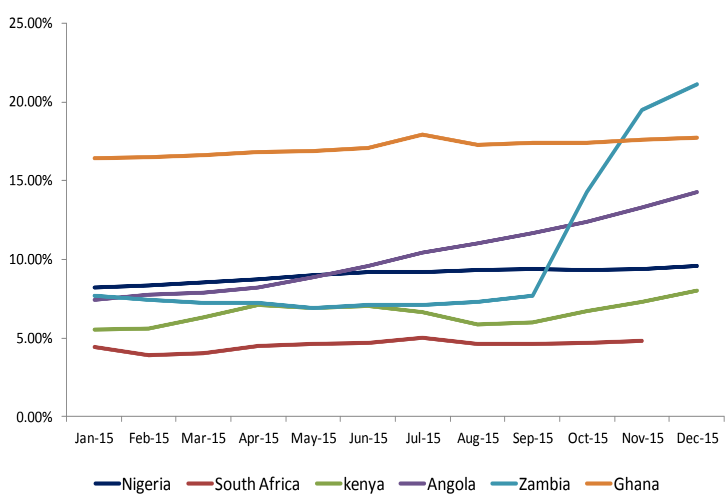
FDC Economic Bulletin

January 18, 2016

Headline inflation jumps to 9.6%

The National Bureau of Statistics yesterday released the official headline inflation rate for December 2015 at 9.6% year-on-year, 0.2% higher than the 9.4% recorded in November. Whilst the trend was expected, the magnitude of the spike was surprising. This is the highest level since February 2013. It is significantly higher than the moderate 0.1% increase recorded between November and December in 2013 and 2014. The current inflation rate will put Nigeria amongst the 13 countries with the highest. South Sudan has the highest inflation rate in Africa at 109.9% while Zambia, Ghana and Angola have inflation rates of 21.1%, 17.7% and 14.27%, respectively. These countries have also had their currencies depreciate significantly against the dollar. The currencies of Zambia, Ghana and Angola have depreciated by 69.7%, 21.25% and 50.44% respectively against the dollar in the last 12 months. The naira has lost 7.28% against the dollar in this period.

Chart 1: Regional Inflation



Source : NBS, Trading Economics

Why the sharp increase in consumer prices?

An analysis of December inflation for the last 5 years shows that consumer prices declined by an average of -0.3%, with declines of -1.0%, -0.2% and -0.3% recorded in 2010, 2011 and 2012 respectively.

Nigeria's chronic forex shortage and fuel supply bottlenecks were major catalysts of the price surge. The increase in CPI was as a result of the uptick in the prices of imported items in food & non alcoholic beverages divisions; alcoholic beverage, tobacco and kola; clothing and foot wear and transportation. The food sub-index rose to 10.6%, 0.3% higher than the rate recorded in November. With the exception of the milk, cheese and eggs category, all major food categories increased at a faster pace in December. The core index was flat for the third consecutive month. Alcoholic beverage, clothing and foot wear segments were affected by yearend festivities while the sporadic petrol supply led to the rise in transportation costs. The urban index increased at a faster pace compared to November, increasing from 9.4% to 9.7%. The rate of increase in the rural index was slower as it increased from 9.3% to 9.4%.

Though inflationary pressures resulted mainly from cost-push factors, this time around demand -pull factors seem to be a significant contributor due to excess liquidity in the system and a generally lower level of interest rates. T/bills discount rates were as low as 2.5%, down from 10% in November. In addition, forex restrictions have led to a reduction in the importation of certain widely used food and non-food items. The resulting scarcity from this shortage is expected to push prices in the next few months as consumers scramble for available products.

Inflationary expectations in January 2016

Imported inflation is still going to take a toll on prices again in January. The naira has depreciated to as low as N305/$ combined the cancellation of dollar sales by the CBN to Bureau De Change (BDC) operators will exacerbate the forex scarcity in the country. Additionally, the shortage of key raw materials as well as commonly used consumer goods will push up prices in January. Besides imported inflation, increased electricity tariffs, fuel subsidy removal and the disbursement of the 2016 budget outlay will stoke inflationary pressures.

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1. Gym, squash court, steam bath, sauna, swimming pool with bar and barbeque stand
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Outlook

The value of the naira which has been off limits for policy makers in the last 12 months, is now likely to be the main issue during the MPC meeting next week. This has become critical in view of the sharp drop (75%) in the price of crude oil to $28pb. An increase in the rate of inflation in Nigeria will trigger a serious discussion on whether to increase interest rates, just 2 months after reducing the MPR to 11% p.a. The nation is waiting in nervous anticipation for the outcome of this crucial meeting on January 26t