FDC Economic Bulletin

October 13, 2016

Headline Inflation projected to reach 18%

Our forecast for year-on-year (YoY) headline inflation rate for the month of September is 18.0%, a 0.4% increase from August's 17.6%. If the estimates of our model are accurate, it will be the highest level in 11 years. However, a change of 0.4% indicates that the rate of increase is slowing. If this trend continues, the direction of inflation is likely to reverse.

Chart 1: Headline Inflation Rate

Source : NBS, FDC Think Tank

The Controversy between Fiscalists and Monetarists

Our model predicts a CPI of 208.24, with month-on-month inflation for September estimated at 0.95%, a decline from August rate of 1.01%. Annualised monthly inflation rate is therefore estimated at 12.01%. Monetarists are of the opinion that the country is in a state of stagflation. However, Fiscalists believe that Nigeria is in a recession. Both schools agree about declining growth, however, they disagree about the direction of inflation.

In a state of stagflation, inflation (and unemployment) increases, however in a recession economic growth and inflation are moving in the same downward trajectory while unemployment rises. The pace of increase in consumer prices is declining for both headline and monthly inflation. Therefore, a recessionary state is a

UBA

United Bank for Africa

Africa... United by One Bank

We know our way around finance in Africa

United Bank for Africa Plc is one of Africa's leading financial Institutions, offering banking services to more than 11 million customers through diverse global channels.
With presence in 19 African countries and 3 global financial centres; London, New York and Paris, UBA is connecting people and businesses through retail and corporate banking, innovative cross-border payments and trade finance.

■ Africa • New York • London • Paris

Web: www.ubagroup.com Email: cfc@ubagroup.com *Africa's global bank* more accurate description and Nigeria's economic challenges. Working with this premise, the argument for a more accommodative monetary policy – cut rates – is not implausible.

Treasury bills

91 T/Bill rates have declined from the average peak of 14.99% to 13.9% in the primary market and from 16% to 13.61% at the secondary market. 364 T/bill rates have remained relatively flat. The initial high demand for fixed income instruments appears to be dissipating as the pace of capital inflows remains below expectations.

Why did prices increase?

The parallel market rate depreciated significantly while the interbank market rate appreciated in the month of September. This can be attributed to the temporary shock in the parallel market following an abnormal spike in demand. The decision by the CBN to halt the forex operations of 9 banks, due to an outstanding payment of $2bn owed to the NNPC, led to short covering by these banks in the parallel market hereby hiking demand. However, since this directive has been met, the naira is slowly starting to appreciate in the parallel market. The naira which traded at N490/$ at the peak of the shock has appreciated to N460/$.

The price of cement was hiked in the month of September by almost 37.5% to N2200. In response to this, other stakeholders in the building industry such as the National Association of Block Moulders are looking to increase prices. Transport costs have also increased. The Association of Luxury Bus Owners (ALBO) and the Association of Private Transport Company Owners of Nigeria (APTON) have hiked road fare by 35% and 40% respectively. However, the price of flour increased marginally by 4.8% to N11000, the prices of diesel and PMS are declining and telecom tariffs have remained flat.

What factors are putting pressure on inflation?

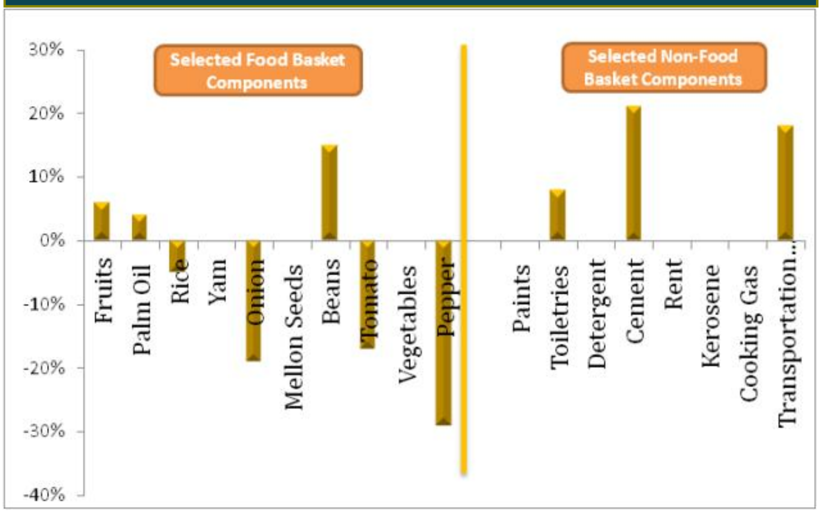
Diesel prices eased in September to an average of N190/ltr from August's average of N193.53/ltr partly due to heavy rains and reduced attacks in the Niger Delta due to a ceasefire agreement. However, on the 24th of

September the NDA defied the cease-fire agreement with an attack on the Bonny crude export line. PMS prices maintained an average of N143/ltr with some filling stations selling as low as N140/ltr.

Urban Price Movement

The FDC Lagos urban inflation index decreased to 13.11% in September. This is a decrease of 0.19% up from the August rate of 13.30%. This decline our urban index is due to abundant harvest that has reduced inflationary pressures from the food basket. The year-on-year food index increased to 16.27% from 17.85% in August while the non-food year-on-year index increased to 11.51% from 10.99%.

Chart 2: Month-on-Month Price Changes



Source : FDC Think Tank

Outlook for October

Inflationary pressures are likely to reduce in October. This is attributed to the trickle down effect of the new deal with Travelex to trade forex with BDCs in the country. OPEC came to the conclusion of cutting production to 32.5 -33 million bpd. However, countries like Nigeria and Iran were given allowances to produce as much as possible. Therefore, the country's reserves are to receive a boost and as such pressure on prices from forex scarcity is to be elevated. This is because the country is to enjoy higher oil revenue from higher oil prices (from OPEC production cut) and production allowance. The problem rests in the efficiency of the government to make sure the cease-fire with the militants is upheld.

A The Address Homes

Femi Okunnu Series II, Lekki

building homes with you in mind..

Did you miss out in our Femi Okunnu Series 1? Here is an opportunity to own one of our luxury homes. Due to high demand, The Address Homes have now commenced development of Series 2. This comprises of 20nos. Beautiful contemporary, 4 Bedroom Luxury Semi-detached and 4nos. fully detached Homes, with 1 Bedroom BQ on 3 floors, where intelligent design meets aesthetics to create the perfect backdrop for the modern lifestyle. Located just 70meters from The Address Homes Femi Okunnu, close to the new Circle Mall/Shoprite, Lekki, Lagos.

Each Home Features include:

- 4 Bedrooms Luxury detached & semi-detached
- 1 en-suite maid's room attached
- Double height master bedroom on 2 floors
- All rooms en-suite
- Modern fitted kitchen and wardrobes
- Vitrified Tile; Dedicated Parking Slots for 5 carsfor each unit
- CCTV, DSTV & Intercom pre-wired
- Generous terraces
- Double/triple volume spaces
- Bridge Split-level ceilings
- Galleries and interconnecting levels
- Innovative lighting concept

Recreation Amenities:

- Beautiful landscaped outdoors
- Fully serviced with 24/7 electricity and security
- 24/7 water supply
- Ample parking space
- Swimming pool
- Electric fence

SPECIAL INTRODUCTORY
PRICE FROM - N85M

CONSTRUCTION ON GOING

Own One with 30% deposit and spread the balance over one year construction period.

For sales enquires and inspection please call:
Dimeji - 08069402201, Doyin - 07061539863,
Dami - 09038859470, Victoria - 08106166211
Zainab - 08167279532, Toyin - 08080751527

The Address Homes Ltd.
21, Ribadu Road, Off Awolowo Road, Ikoyi, Lagos.
P.O. Box 55500, Ikoyi, Lagos.
Tel: 01-2803351; 01-2803352
E-mail: info@theaddresshomes.com
www.theaddresshomes.com

TheAddresshomes @theaddresshomes @theaddresshomes

On the policy front, the CBN is likely to give into a more accommodative policy direction seeing that there is a divergence between headline and monthly inflation. The argument in favour of growth seems to be intensifying as increased output and productivity may be the panacea for negative growth.