

# FDC Economic Bulletin

August 28, 2017

## *Headline inflation declines in July to 16.05%*

Headline inflation declined marginally to 16.05% in July. This is the 6th consecutive monthly decline in the headline inflation in 2017. This drop in the year-on-year price level is contrary to some analysts' expectations, but within the acceptable margin of error of (+/- 0.1%).

Core inflation moved in the same direction as headline rate, declining by 0.3% to 12.2% in July. Core inflation has declined consistently in the last seven months and is a good sign, as it measures price change minus seasonality.

Globally, there was a marginal increase in the inflation rate, with countries such as the US and Germany both recording an uptick to 1.7%. However, inflation in the Euro area, Japan and the UK was relatively unchanged. Regionally, inflation is tapering with declines recorded in Angola, Ghana, South Africa, Kenya and Ivory Coast to name a few.

## **Breakdown of the inflation data**

### ***Core Inflation***

Core inflation maintained a declining trend although at a slower rate. The contributions with the highest increases were in medical services, clothing materials, furniture and furnishings, glassware and household utensils, books and stationery, accommodation services, household textiles.

Housing, water, electricity, gas and other fuels, a category under the core index which often filters into the price of other goods, recorded a slowdown. A decline to 9.5% was recorded in this sub index from 11% in June.

Month-on-month core inflation also moved in tandem with the yearly core index, with a decline to 1% from 1.32% in June.



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**Food basket**

The food basket rose to 20.28% from 19.91% year-on-year in the month of July. The trend in food inflation continues to support the general increase in price level. Major contributors to the increase included meat, fish, bread and cereals, potatoes, yam and other tubers, vegetables and coffee, tea and cocoa.

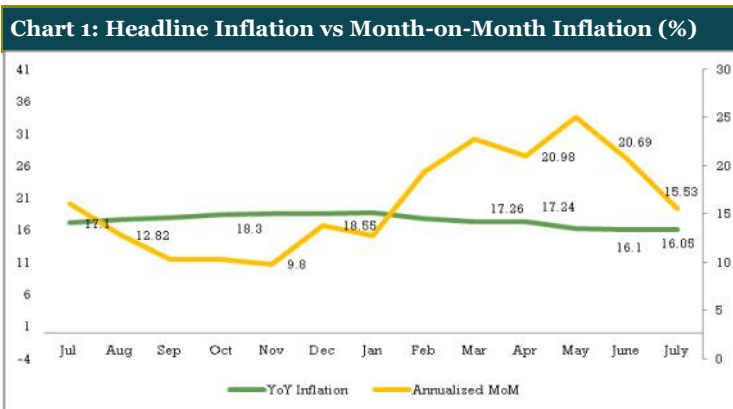
Imported food inflation moved contrary to this trend, as it eased marginally to 14.11% from 14.2% in June. This trend can be ascribed to the relative stability in the exchange rate.

**Rural, Urban sub-index**

The urban and rural sub indices showed a mixed pattern. The urban index slowed to 16.04% from 16.15% in the previous month while the rural index inched up slightly to 16.08% from 16.01% in June.

**Month-on-month inflation**

Month-on-month inflation declined to 1.21% (15.53% annualized) in July from 1.58% (20.69% annualized) in the previous month.



Source : NBS, FDC Think Tank

**Outlook**

The Monetary Policy Committee (MPC) will meet on September 25/26. The doves are likely to get support from this movement in inflation. If Q2'17 GDP data and August 2017 inflation are favorable, the committee is likely to consider adopting an accommodative monetary policy stance.

We expect the current inflation trend to be further reinforced by an ease in food prices, following the start of the harvest season in August. Base year effects are likely to have little or no impact on the current inflation trend.

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