

FDC Economic Bulletin

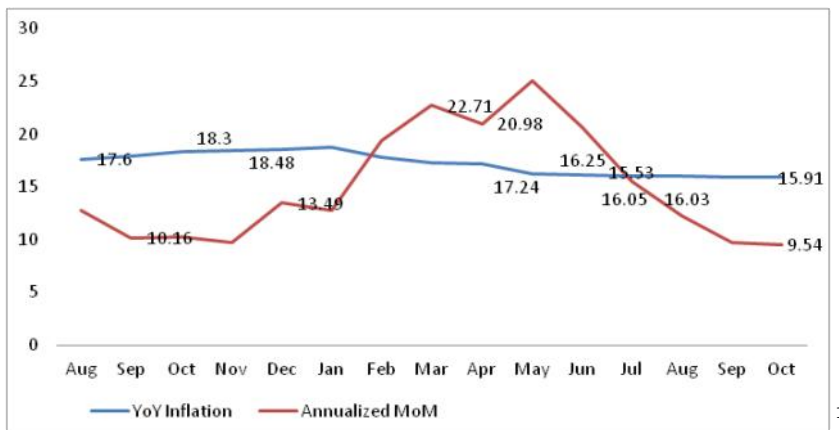
November 16, 2017

Headline inflation falls again, but Bauchi state records highest price level in Nigeria

Headline inflation slowed to 15.91% in October from 15.98% in September. The inflation numbers confirm a trend of declining inflation, marking the ninth consecutive decline in 2017. Month-on-month inflation also eased to 0.76% (9.54% annualized) in October from 0.78% (9.77% annualized) in September.

Food and core inflation moved in opposite directions in the month of October. Food inflation declined marginally by 1bp to 20.31% from 20.32% in September. On the other hand, core inflation increased to 12.14% in October from 12.12% in September.

Essentially, inflation in Nigeria is moderating, but could swing upwards if there is a surge in money supply and wages increase sharply, causing demand-pull inflation.



Breakdown of inflation data

Food sub index

Food inflation rose by 20.31% in October – 0.01% lower than September’s rate of 20.32%. On a month-on-month basis, food inflation fell by 2bps to 0.85% in October. This is the lowest level recorded so far in 2017. Domestic food inflation benefited from the bountiful harvest as beverages, tobacco and grains recorded

¹ Source: NBS, FDC Think Tank

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price drops in the month of October. But imported food inflation spiked to 15.34% in October from 14.83% in September. This can be partly attributed to the increase in demand for export as consumer confidence improved in the last three months.

Core sub-index is back up again

The core sub-index is back up again, increasing to 12.14% in October from 12.12% in the previous month. The main drivers were mechanical maintenance and logistics cost. Diesel prices rose to N205/litre in October from N185/litre in the previous month. But an improvement in power supply – from 3,433MW/hr in September to 3,696MW/hr in October – restricted the impact of rising diesel prices.

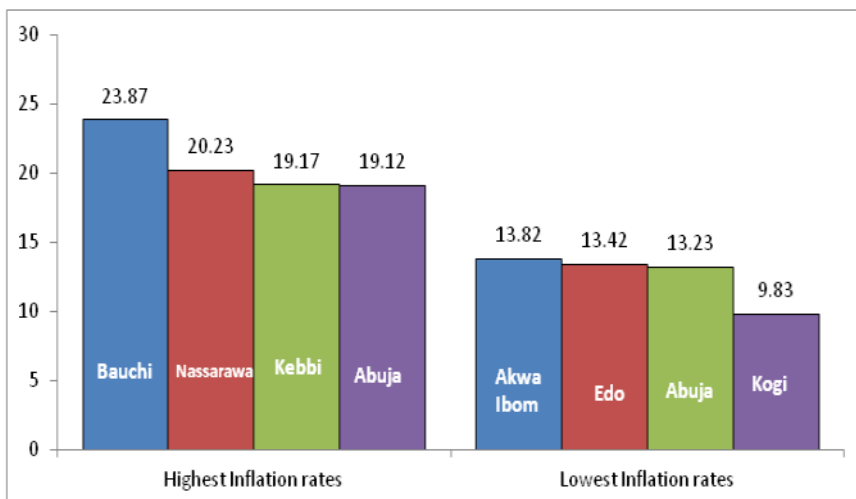
Rural and Urban sub-index

The urban and rural sub indexes moved in opposite directions in October, just like in the previous month. The urban index increased to 16.19% in October from 16.18%. This can be attributed to higher logistics costs in the urban region as earlier explained. While rural index declined further to 15.67% in October from 15.81%, mainly as a result of the decline in domestic food inflation in the region.

State index

Statistics released by the NBS show that Kogi state recorded the lowest level of inflation in October – 9.83%. This was mainly driven by a bountiful harvest. Food items such as cashew and cassava recorded major increases in output during the period.

Bauchi state on the other hand recorded the highest inflation rate of 23.87% in October; closely followed by Nassarawa and Kebbi states, with inflation rate of 20.23% and 19.17% respectively.



³Source: NBS, FDC Think Tank



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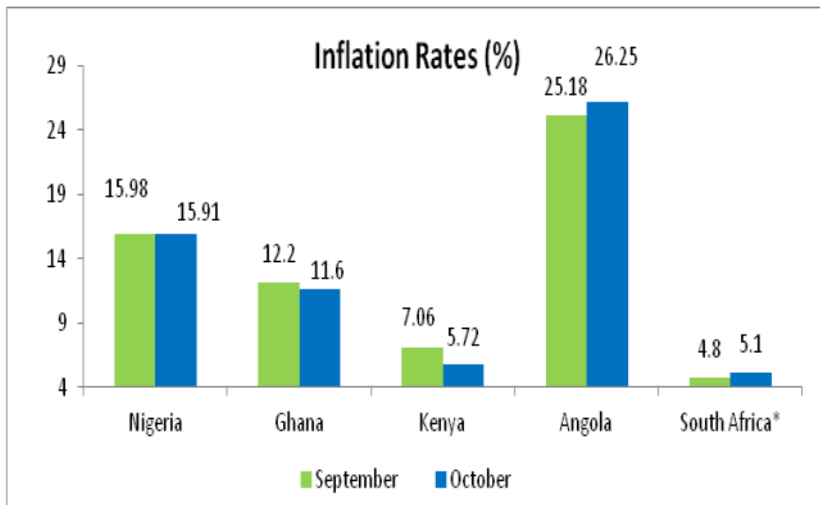
Statistics released showed that eight out of the 10 states that recorded the highest levels of inflation are located in the northern region of Nigeria. While six of the 10 states with the lowest inflation rates were from the South-South and South-East regions of Nigeria.

Also, seven of the 10 states with the lowest inflation rates were those with the highest salary arrears. They are Kogi, Delta, Edo, Abia, Benue, Imo and Akwa Ibom.

However, this came with a caveat that indices cannot be compared one-for-one due to varying basket items.

Sub-Sahara Africa

Like Nigeria, most countries in SSA recorded declines in headline inflation. This was mainly driven by the improvements in domestic food yields. With the exception of a few countries like Ghana, transport and maintenance costs remain key concerns for most of SSA. This has negatively impacted both logistics and utilities costs in these countries.



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Outlook

Headline inflation is likely to rise marginally in the remaining part of the year, as end of year festivities are set to drive up aggregate demand. Though declining domestic food prices might somewhat limit the impact of heightened inflationary pressure resulting from the boost in aggregate demand.

³ Source: FDC Think Tank

The MPC is scheduled to hold its last meeting for the year on November 20/21 while Q3'17 GDP figures are expected on November 20. We expect the GDP figures to be reflective of an economy gaining momentum on the path to recovery. While it makes the case for an interest rate cut more compelling, we expect the committee to maintain its wait and see approach and not review current rates until the end of Q1'18.

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