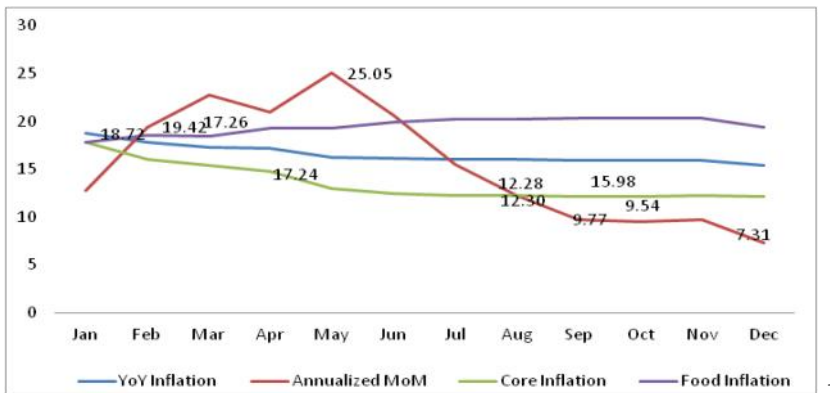


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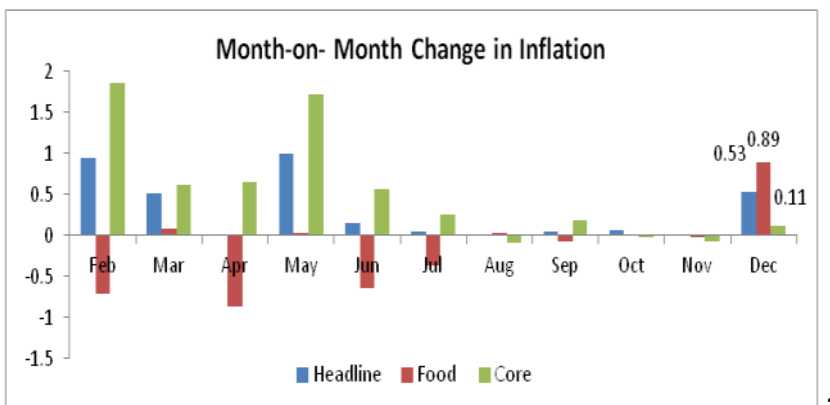
Inflation dips sharply to 15.37%, despite the fuel scarcity

The December inflation data, showing a decline to 15.37% came as a surprise to some analysts, not only in its direction but its magnitude. Cumulatively, Nigeria's inflation rate declined by 3.35% in 2017. This steep decline in inflation can be attributed to a bountiful harvest and stronger currency. Month-on-month (MoM) inflation also declined to 0.59% (7.31% annualized) from 0.78% (9.77% annualized) in November.



Food and core inflation moved in tandem with headline inflation. Core inflation recorded a marginal decline of 0.1%, while food inflation fell at a faster pace of 0.89%.

The easing of these inflation components can be attributed to an increase in aggregate output. In addition, the positive effect of a stable exchange rate and high PMI data more than compensated for the supply shocks during the period.



¹ Source: NBS, FDC Think Tank

² Ibid

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Breakdown of inflation data

Food Inflation

Food inflation eased by 0.89% to 19.42% in December 20.30% in November. This is the sharpest decline recorded in food inflation in 2017. Month-on-month, the sub index also declined to 0.58%, easing by 30bps compared to November. Domestic food inflation continues to benefit from the decline in beverages and tobacco prices. Conversely, imported food inflation maintained its upward spiral for the third consecutive month, increasing to 15.90% in December from 15.79% in November. But domestic food prices remained resilient to ease this inflationary pressure.

Core Inflation

The core inflation, which is inflation less seasonality, eased marginally to 12.10% in December from 12.20% in the previous month. Clothing, household consumables and utilities were the main drivers for the slowdown in core sub-index. However, NBS' statistics shows that transport costs increased during the period, as the average price of Petrol and Diesel increased by 17.10% and 3.29% respectively to N171.8/ltr and N205.81/ltr.

Rural and Urban sub-index

For the first time since May 2017, urban and rural sub indexes moved in the same direction. The urban index declined to 15.78% in December from 16.27% in November. The rural index declined further to 15.02% in December from 15.59%.

State by State breakdown

According to the NBS, Kogi state had the lowest level of inflation of 10.03% in December, owing to lower disposable income. In a similar vein, Delta (12.61%), Benue (13.35%) and Kwara (13.46%) were among the states with the slowest rise in headline inflation.

For the third consecutive month, Bauchi recorded the highest inflation rate of 21.92% in December, though much lower than November's rate of 23.63%; closely followed by Kebbi, with an inflation rate of 18.67%, and Nassarawa state (18.16%).



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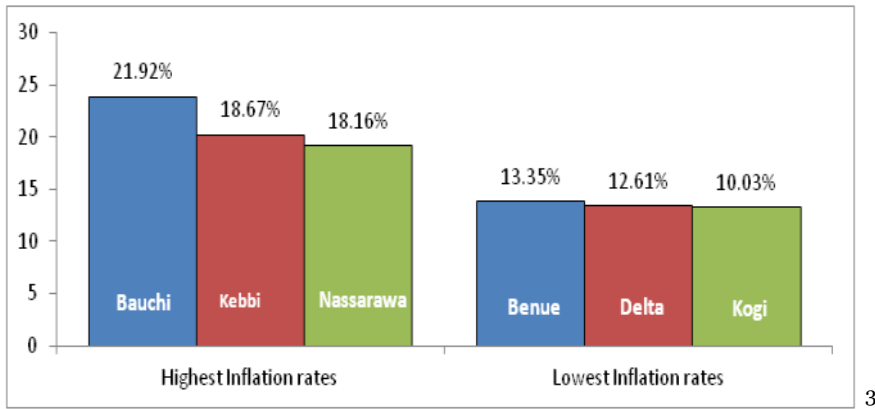


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Similar to the prior month, the NBS’ report showed that eight out of the 10 states that recorded the highest levels of inflation are located in the northern region of Nigeria. Five of the 10 states with the lowest inflation rates were from the South-South and South-East regions.

Sub-Saharan Africa

With the exception of Ghana, most countries in SSA recorded a decline in headline inflation. On the other hand, Ghana reduced its benchmark interest rate four times in 2017 to boost its non-oil sector. It recorded a remarkable boost in GDP growth, with a growth rate of 9.3% in Q3’17. However, the country continues to experience rising prices in housing, transport and clothing and footwear.

Country	Inflation (%)	Policy rate (%)
Nigeria	15.37 ↓	14 ↔
Angola	24.7* ↓	18 ↑
Kenya	4.50 ↓	10 ↔
South Africa	4.6 ↓	6.75 ↔
Ghana	11.8 ↑	20 ↓

Outlook

Outlook for headline inflation is mixed. January is usually characterized by a general slowdown in activities and a decline in consumers’ disposable income. However, we expect increased liquidity stemming from FAAC disbursements (higher oil proceeds) and capex disbursements by the government. This is coupled with the lingering fuel scarcity could exacerbate inflationary pressures.

³Source: NBS, FDC Think Tank

⁴Source: FDC Think Tank; *: October inflation rate

The sharp decline in December's inflation will mount immense pressure on the committee to take an accommodative stance on the MPR, as it will be difficult for any hawk to argue against easing rates at this time.

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