FDC Economic Bulletin

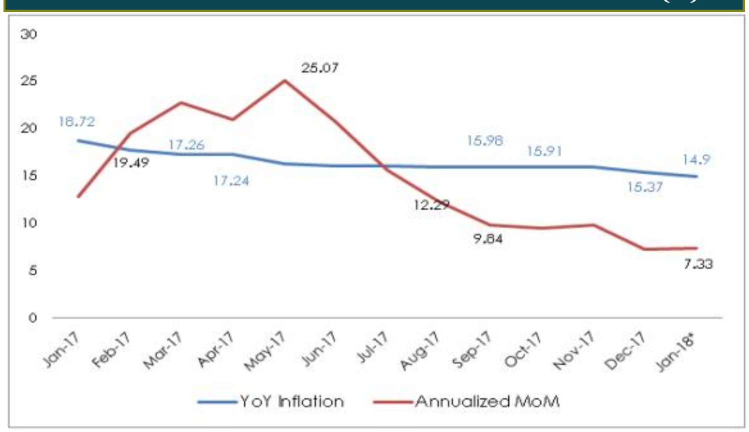
February 08, 2018

Headline Inflation to dip to 14.90%

We forecast that year-on-year headline inflation will plunge to 14.9% in January 2018. This is a 0.47% decline from 15.37% in December 2017. If our estimates are correct, this will mark the 12th consecutive decline since February 2017. Our forecast is based on a simple regression model and empirical analysis. We expect month-on-month inflation to flatten out to 0.59% (7.33% annualized).

The downward trajectory in headline inflation can be attributed to the decline in most global commodity food prices such as sugar and rice and to a minor extent, the stability of exchange rate between (N363/$-N364/$). A stable exchange rate encourages producers to finally pass through the benefit of cheaper imports to consumers. Furthermore, the decline in production levels due to the fall in demand (post-Christmas blues) in January - evident in the sharp fall in FBN PMI to 54.6 from 68.7 in Dec'17 - will taper inflationary pressures.

Chart 1: Headline Inflation vs Month-on-Month Inflation (%)



[1]

Core sub-index to remain flat

Core inflation is expected to remain flat at 12.10% year-on-year despite an increase in domestic transport fares due to the resurgence of fuel scarcity in January.

[1] Source: NBS, FDC Think Tank

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*

Food sub-index to decline further

Food inflation is expected to taper to 18.61% year-on-year in January from 19.42% in December 2017. Month-on-month food inflation is also projected to decline to 0.61% (7.59% annualized) from 0.62% (7.72% annualized). The fall in food inflation can be attributed to the decline in domestic food prices across the food basket, especially grains.

Sub-Saharan Africa

With the exception of Uganda, most countries in SSA recorded an uptick in headline inflation in January. The rise was driven mainly by an increase in the prices of food, housing and utilities. High global crude oil prices continue to adversely affect logistics and utility costs in these countries.

Country	January Inflation (%)	Policy rate (%) pa
Nigeria	14.90* ↓	14 ↔
Kenya	4.83 ↑	10 ↑
Uganda	3.0 ↓	9.5 ↔
Zambia	6.2 ↑	10.25 ↔

[2]

Although Inflationary pressures were subdued in the month of January, we are likely to see a reversal in the trend in the coming months. As business activities pick up in the run up to Easter, there will be an increase in aggregate domestic demand which could trigger a further build-up of inflationary pressure.

Assuming that inflation declines as anticipated, the CBN will find it difficult to respond by lowering the current policy rate (MPR). This is because the National Assembly is yet to ratify the appointments of the new nominees of the President to the MPC. The absence of a quorum will make any policy change almost impossible.

[2] Source: NBS, FDC Think Tank

Financial Derivatives Company Ltd.
☎: 01-6320213 ▪ www.fdcng.com