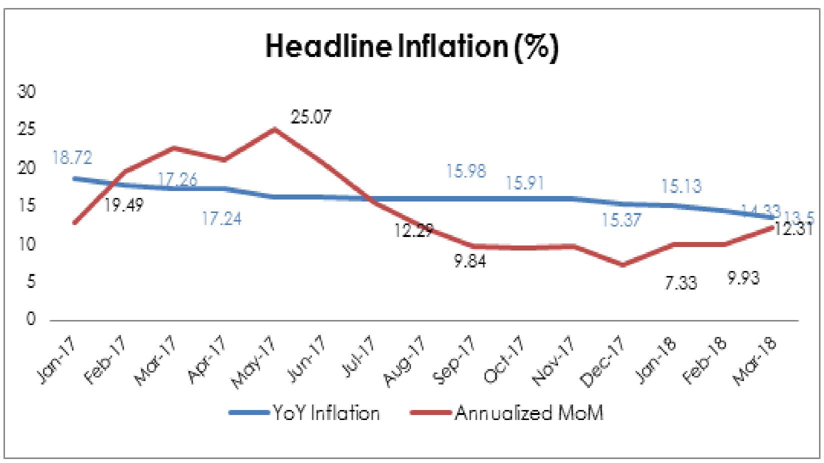
FDC Economic Bulletin

April 09, 2018

Inflation to plunge further to 13.5% in March

We are projecting a substantial drop of 0.84% in headline inflation in March to 13.5% from 14.33% in February. If this projection is accurate, it will be the 14th consecutive monthly decline and a 23-month low. It also signifies a 3.8% decline from 17.24% in March 2017. The rate of decline accelerated at a slower pace but it remains a significant fall in the price level trajectory. An autoregressive integrated moving average (ARIMA) forecasting methodology was adopted for the forecast coupled with deductive reasoning. Ironically, the survey shows a moderate increase in month-on-month inflation to 0.97% (9.93% annualized) from 0.79% (12.31% annualized) in February.



[1]

The declining trend in headline inflation was due to:

- Exchange rate stability and increased forex supply at the SME level, which helped obviate imported inflation
- The 2.34% increase in available power supply had an impact on aggregate output
- Improved storage and reduced demand for diesel and PMS, leading to a fall in PMS from N190.9/ltr to N172.5/ltr and diesel from N213.82/ltr to N209.89/ltr in February

[1] Source: NBS, FDC Think Tank

- Increased inventory level as reflected in the increase in FBN PMI by 8.59% to 59.4 in March, the 4th highest since January 2017.
- Reduced money supply (M2) growth of 0.07% (0.42% annualized) in February.

Core sub-index to decline

We expect year-on-year core inflation to decline to 11.23% in March from 11.71% in February based on exchange rate stability and external reserves accretion. Month-on-month core inflation is expected to increase to 0.89% (11.16% annualized) from 0.75% (9.44% annualized) in February as a result of an increase in aggregate demand.

Food sub-index to plunge further

Food inflation is expected to decline further to 16.56% in March from 17.59% in February as the planting season kicks in fully. However, we expect an uptick in month-on-month food inflation to 1.31% (16.93% annualized) from 0.85% (10.65% annualized) in February as food prices rebound.

Sub-Saharan Africa

With the exception of Ghana, most of the Sub-Saharan African (SSA) countries recorded a decline in inflation. This decline was largely attributed to the ease in food prices, transport & furnishing and household equipment. However, an increase in the cost of housing and utilities remain a major concern. Of the 6 SSA countries, Kenya, Ghana, South Africa and Uganda adopted an accommodative monetary policy stance while Nigeria and Angola maintained the status quo on monetary policy. Typically, there is a type of herd instinct amongst SSA countries. Therefore, the probability of the outliers – Nigeria and Angola- falling in line with their neighbours is likely.

Country	February Inflation (%)	Policy rate (%) pa
Nigeria	13.5* ↓	14 ↔
Kenya	4.18 ** ↓	9.5 ↓
Ghana	10.6 ↑	18 ↓
South Africa	4.0 ↓	6.5 ↓
Angola	21.47 ↓	18 ↔
Uganda	2.0** ↓	9 ↓

[2]

[2] Source: FDC Think Tank; *March Forecast: ** March actual inflation rate

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Head Office:
Leasing House, 2 Leasing Drive, off Bisola Durosinmi Etti drive, off Admiralty way, Lekki Phase 1, Lagos.
Tel: 09038869179 - 88
info@c-ileasing.com,
www.c-ileasing.com

Portharcourt
C&I Leasing Plc
C&I Leasing Drive,
Off Elekahia-Oginigba Link Road,
Transamadi Industrial Layout,
Port Harcourt

Abuja
C&I Leasing Plc.
Suite SF7,2nd Floor
Metro Plaza
CBD, Abuja

Ghana
Leasafric Ghana.
No. 5 East Legon
Tetteh Quarshie
Interchange - Legon Road
Accra, Ghana.
+233-302-780901-3

Concluding Thoughts

The MPC met last week and as widely anticipated, maintained the status quo on all monetary parameters. The next MPC meeting is likely to hold in the month of May. Prior to this meeting, some key data points would be released such as Q1'18 GDP growth figures, unemployment & underemployment data and inflation numbers. If our projection for a further decline in inflation is accurate, it increases the probability of a rate cut and a move towards an accommodative stance. However, the CBN will also bear in mind the dangers associated with a minimum wage review.

A higher PMI reading highlights an improvement in the economic health of the manufacturing sector. This is expected to translate into increased output in April. However, as the planting season commences, we expect a reduction in the supply of commodities. This is likely to limit the anticipated gains in inventory levels and push prices up.

In addition, liquidity levels and the exchange rate have been stable. The delay in the budget passage till May will defer the impact of increased money supply on inflation. Hence, we expect the declining trend in inflation to persist into the next month.