

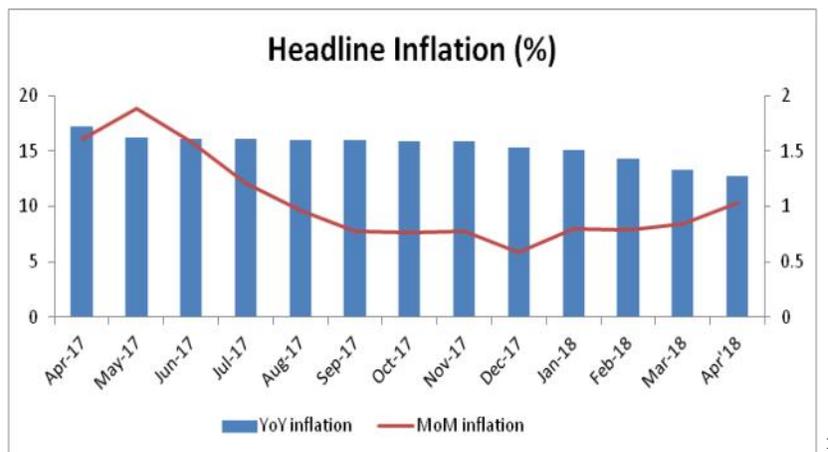
FDC Economic Bulletin

May 04, 2018

Headline Inflation to decline in April to 12.7%

In April, headline inflation is projected to dip again to 12.7%. It is likely to be the 15th consecutive monthly decline and the lowest point since March 2016. The drop is mainly attributable to the waning base year effects. Ironically, month-on-month (MoM) inflation is expected to maintain its upward trend, increasing by 19bps to 1.03% (13.09% annualized) from 0.84% (10.50% annualized) in March. To arrive at this forecast, we employed both quantitative (using ARIMA methodology) and qualitative (critical and analytical reasoning) techniques.

We also anticipate both food and core inflation (less seasonality) to move in tandem with headline inflation. This is because of the stability of the Naira, but could be undermined by the commencement of the planting season, with price increases associated with the period.



Interestingly, higher liquidity and declining interest rates are expected to have had a muted impact on headline inflation. However, the uptick in MoM inflation for the second consecutive month alludes to the fact that headline inflation could be moving towards an inflection point. This, coupled with the impending minimum wage review and the 10.5% increase in diesel prices to N210/litre, are expected to feed into inflation level going forward.

¹ Source: NBS, FDC Think Tank

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Sub-Saharan Africa

All the Sub-Saharan African (SSA) countries recorded a decline in inflation, notwithstanding the monetary policy stance. This downward trend was supported by a decline in the prices of food and non-alcoholic beverages amid optimal weather conditions and the strengthening of the respective domestic currencies. According to the IMF, the growth outlook for SSA remains positive, with the expected increase in output helping to subdue inflationary pressures. However, a downside risk to this forecast is the increasing debt burden globally and in emerging markets, emphasizing the need to broaden fiscal coffers in order to maintain macroeconomic stability.

Country	April Inflation (%)	Policy rate (%) pa
Nigeria	12.7** ↓	14 ↔
Kenya	3.73 ↓	9.5 ↓
Ghana	10.4* ↓	18.0 ↓
South Africa	3.8* ↓	6.5 ↓
Angola	20.9* ↓	18 ↔
Uganda	1.8 ↓	9.0 ↔

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Concluding Thoughts

The budget is likely to be passed in May and will thus boost liquidity and heighten inflationary pressures. However, after 15 months of consecutive reduction in inflation, a reversal of the trend may not be farfetched at this time.

²Source: FDC Think Tank; *March Actual; ** April forecast