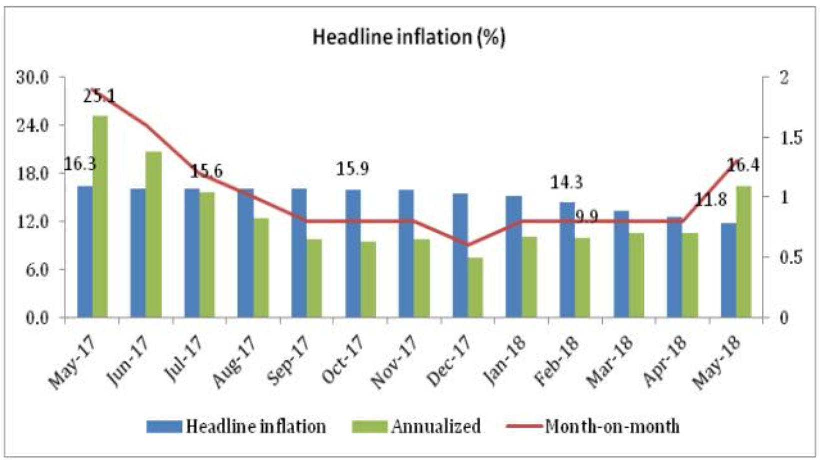
FDC Economic Bulletin

June 08, 2018

Headline inflation to decline further to 11.8% in May

Headline inflation is expected to slow further in May, falling by 68bps to 11.8% from 12.48% in April. This will mark the 16th consecutive monthly decline and the lowest rate of inflation since February 2016. It is noteworthy that both the rate of inflation and slope of the curve have declined. This moderating trend in headline inflation (year-on-year) is mainly driven by base year effects. We expect food and core indices to move in tandem with headline inflation.



[1]

Conversely, month-on-month inflation is expected to rise to 1.28% (16.45% annualized) after recording a marginal decline of 0.83% (10.45% annualized) in April. This is largely due to the spike in food prices. This increase was mainly due to a number of factors including the Ramadan fast, the commencement of the planting season and the herdsmen attacks in some northern parts of the country. The sharp increase in month-on-month inflation could signal an inflection point in the headline inflation.

Implications

If our forecast is accurate, it increases the possibility of a rate cut at the next MPC meeting in July. Even though the policy rate has remained unchanged at 14% pa, effective T/bill rates have fallen sharply by 371 basis points this year. In spite of lower interest rates, credit to the private sector (CPS) has remained constrained. There is a growing level of risk aversion by the Nigerian banks. In April, CPS declined by

[1] Source: NBS, FDC Think Tank

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18bps to N22.25trn from N22.29trn in Dec'17. The CBN is of the opinion that cutting rates would boost liquidity which could trigger inflationary pressures. However, a reduction in interest rates will support increased lending to the private sector. The availability of credit to the real sector will spur increased production and boost aggregate output. In the long run, the impact is lower prices and inflation.

Sub-Saharan Africa

Most of the SSA countries under our review are yet to release their inflation figures for the month of May except Kenya and Uganda. Kenya's inflation rate increased to 3.95% while Uganda slowed to 1.7%. The other African countries who are yet to release their inflation numbers for the month of May recorded a decline in their April inflation numbers except South Africa. The latter recently released its Q1 GDP numbers which was a contraction of 2.2%.

Furthermore, with the exception of Ghana, all the Sub-Saharan African (SSA) countries under review maintained status quo at their May meeting.

Country	May Inflation (%)		May Policy rate (%)	
Nigeria	11.8**	⬇	14	⬌
Angola	20.22*	⬇	18	⬌
Kenya	3.95	⬆	9.5	⬌
South Africa	4.5*	⬆	6.5	⬌
Ghana	9.6*	⬇	17	⬇
Uganda	1.7	⬇	9*	⬌

[2]

Concluding Thoughts

We anticipate that the declining trend in inflation is slowly reaching an inflection point, as month-on-month inflation, which is a better indicator of economic reality is anticipated to increase. This would be compounded by the impact of the Ramadan fast, planting season shortages and increased liquidity associated with the budget approval & implementation. Furthermore, the imminent presidential assent to the 2018 appropriation bill in June and the release of the authority to incur expenditure would exacerbate inflationary pressures, due to the corresponding increase in liquidity and forex demand.

The new excise duty on alcoholic beverages and tobacco took effect on June 4th. Since alcoholic beverages and tobacco account for a minuscule proportion of the food basket, we do not expect any significant impact on inflation. This notwithstanding, there are other potent factors which could trigger inflationary pressure

[2] Source: FDC Think Tank; *April inflation rate; ** May inflation forecast

such as growth in money supply, however this has been muted. Broad money supply grew at an annualized rate of 2.17% in April.

The proposed upward review in the minimum wage appears to be in limbo owing to the ambivalent statements by the government. This poses no risk to consumer price levels in the short term. However, as we approach the election period, the union's demand for a wage review will become more vociferous and affect the consumer price basket.