

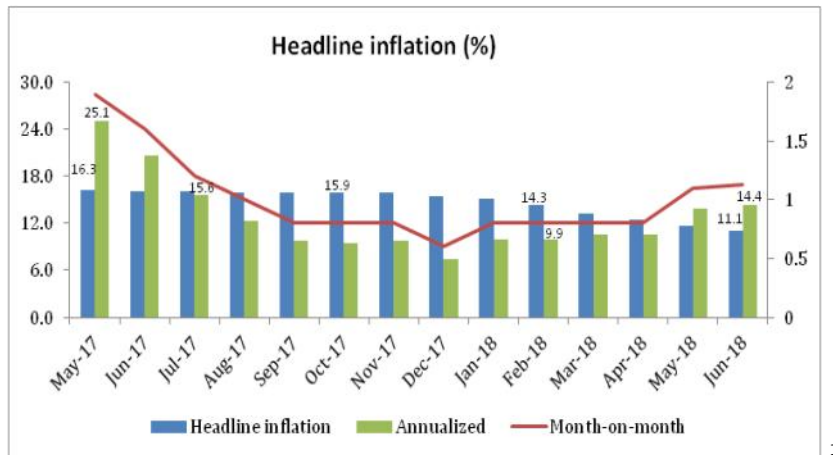
FDC Economic Bulletin

July 2, 2018

Year-on-year inflation set to fall again to 11.1% but monthly inflation to spike

Nigeria's headline inflation is likely to slip 0.51% to 11.1% in June, making it the 17th consecutive monthly decline. Like most Sub-Saharan African economies, Nigeria's rate of inflation is now coming close to the African average of 10%.

Whilst this sounds like good news to any observer, it is noteworthy that the rate of decline in the price level has slowed significantly. This is partly attributable to waning base year effects and the normalization of the inflation curve. Also equally significant is the projection that month-on-month inflation is expected to rise again to 1.13% (14.40% annualized). The import of this divergence between the monthly and annual inflation movement is that it would appear that the annual inflation is likely to bottom out very soon.



There are some extraneous circumstances and aberrational developments notably the sharp rise in the price of diesel, the main automotive fuel for distribution and logistics. Also, the intensity of the herdsmen conflict and the displacement impact on commodity output and prices, specifically, tomatoes, onions and egusi (melon).

The CBN in its MPC communiqué of May had raised concerns about the risks to inflation and its growth retarding consequences. Therefore, if our projections are accurate, it will have very serious implications on the deliberations at the upcoming meeting.

¹ NBS, FDC Think Tank

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Also worth considering, is the correlation between money supply and prices. The IMF has warned that most African economies run the risk of higher inflation if they adopt an accommodative stance, with exchange rate weakening consequences.

Money supply growth (M2) in Nigeria has recently started crawling towards 4.88% (11.71% annualized), still a far cry from threatening levels.

Sub-Saharan Africa

Of all the Sub-Saharan African (SSA) countries under our review, Kenya, Zambia and Uganda have released their inflation numbers for the month of June. While Kenya and Uganda recorded an increase in their price level, Zambia's inflation rate eased. With the exception of Ghana, the other African countries who are yet to release their June inflation figures recorded an ease in the month of May. Most of the SSA countries under our review excluding Angola and Ghana maintained the status quo at their May meeting.

Country	June Inflation (%)		May Policy rate (%)	
Nigeria	11.1**	↓	14	↔
Angola	19.84*	↓	18	↓
Kenya	4.28	↑	9.5	↔
South Africa	4.4*	↓	6.5	↔
Ghana	9.8*	↑	17	↓
Uganda	2.2	↑	9	↔
Zambia	7.4	↓	9.75	↔

²

Concluding Thoughts

The president assented to the 2018 appropriation bill on June 20th with a promise to request for a supplementary budget shortly. The expansionary effect of these measures and its link to inflation means that we are likely to see an increase in annual inflation shortly.

² FDC Think Tank ; *May inflation rate, **June inflation forecast

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