FDC Economic Bulletin

July 23, 2018

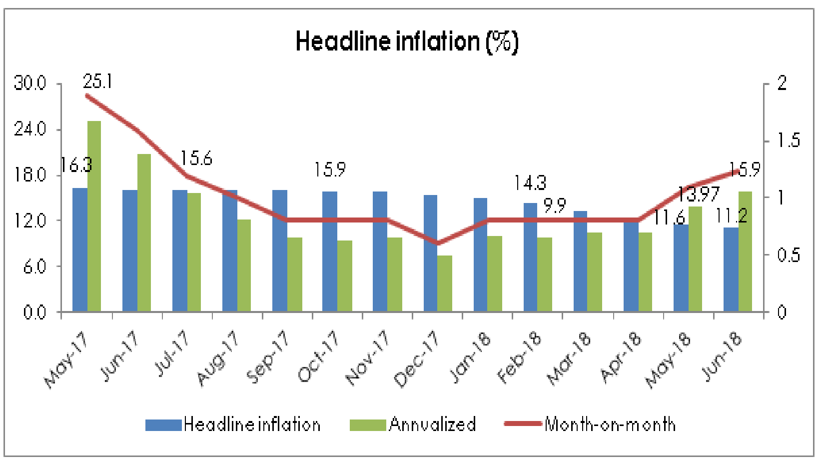
Nigeria's Headline inflation drops to 11.23% in June 2018

As widely anticipated, Nigeria's headline inflation (year-on-year) fell to 11.23% in June from 11.61% in May. This marks the 17th consecutive monthly decline since February 2017. Whilst this is a positive development, the rate of decline in the price level has slowed significantly. This is partly due to waning base year effects.

Interestingly, all the sub indices except month-on-month inflation (M-o-M) moved in tandem with the headline inflation indicating that the consumer price index is yet to reach an inflection point.

Upward trend in Month-on-Month inflation persists

Month-on-Month inflation (a better reflection of current prices and inflation expectations) increased to 1.23% (15.94% annualized) from 1.09% (13.93% annualized) in May. This was primarily due to the increase in food prices as a result of the herdsmen conflict and supply shocks arising from higher diesel prices, the main automotive fuel for distribution and logistics.



[1]

Food inflation and Core inflation plunged further

The food sub-index (Y-o-Y) eased by 47bps to 12.98% from 13.45% in May. However, M-o-M, the sub-index increased to 1.03% compared to 0.98% in May. Major contributors to the increase include milk, cheese and

[1] NBS, FDC Think Tank

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eggs, meat, vegetables, fruits, fish, potatoes, yams and tubers, and bread and cereals, as a result of the intensified herdsmen conflict.

The core sub-index (inflation less seasonalities) declined slightly by 30bps to 10.4% from 10.7% in May. Conversely, M-o-M core inflation increased to 1.03% from 0.98% in the previous month due to increased cost of logistics.

The core inflation rate is currently below the 91-day secondary market T/bill rate of 10.99%. This implies a positive real rate of return.

Imported food inflation declines

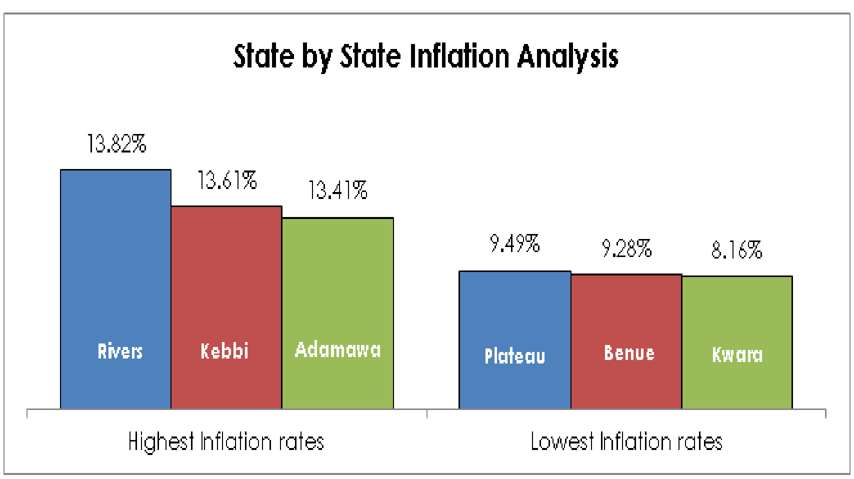
Imported inflation eased by 33bps to 15.71% from 16.04% in the preceding month. This was partly supported by a relatively stable exchange rate and the US dollar appreciating against a basket of currencies as the Yuan recorded a sharp decline in value representing 20% of Nigeria's imports.

Rural & Urban Indices

Rural and urban inflation rate (year-on-year) declined to 10.83% and 11.68%, from 11.02% and 12.08% in May respectively. However, M-o-M, both rural and urban indices rose to 1.24% and 1.23% from 1.08% and 1.10% respectively in the previous month.

State by State Analysis

Kwara state was the best performing, as it maintained its position as the state with the lowest inflation rate (8.16%), followed by Benue (9.28%) and Plateau (9.49%). Rivers recorded the highest inflation rate (13.82%), closely followed by Kebbi (13.61%) and Adamawa (13.41%).



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[2] NBS, FDC Think Tank

Sub-Saharan Africa

With the exception of Nigeria and Angola, most countries in SSA recorded an increase in headline inflation. The rise was driven mainly by an increase in the prices of food and non-alcoholic beverages, housing and utilities.

All the Sub-Saharan African (SSA) countries under review except Angola maintained status quo at their June monetary policy meeting.

Country	Inflation (%)		Policy rate (%)		GDP Q1'18 (%)	
Nigeria	11.23	↓	14	↔	1.94	↓
Angola	19.52	↓	16.5	↓	-4.30 (Q4'17)	↑
Kenya	4.28	↑	9.5	↔	5.70	↑
South Africa	4.60	↑	6.5	↔	0.80	↓
Ghana	10.0	↑	17	↔	6.80	↓
Uganda	2.20	↑	9	↔	6.40	↔

[3]

Outlook

The downward trend in inflation brings the CBN closer to its single digit target and increases the possibility of a reduction in interest rates at the MPC meeting holding today, 23rd of June.

However, policy makers are more interested in inflation expectations, which we believe will bottom-out and begin to increase in the coming months. This is due to the possibility of the passage of a supplementary budget, increased liquidity stemming from FAAC disbursements and the expected upward review of the minimum wage. Therefore, the most likely outcome is a status quo.

[3] Trading Economics: FDC Think Tank

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