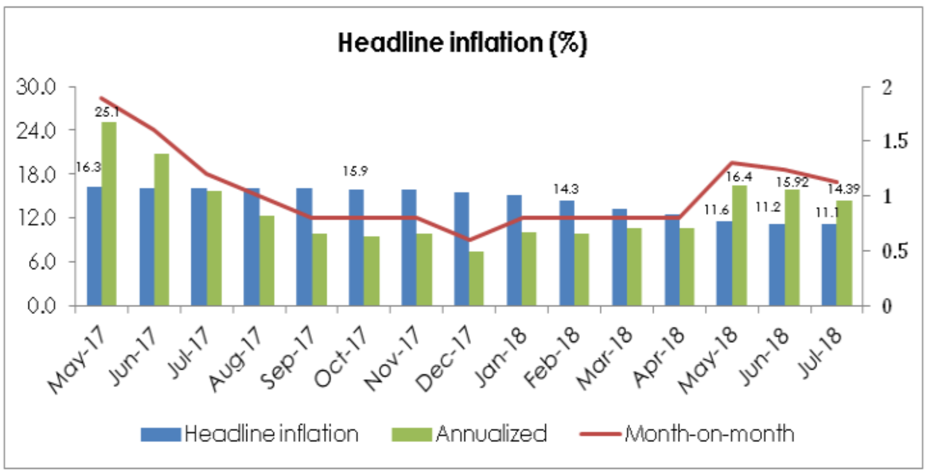
FDC Economic Bulletin

August 15, 2018

Headline inflation slips to 11.14% in July

Plateau state now best performing

As widely anticipated, Nigeria's headline inflation slipped by 0.09% to 11.14% in July. This is the 18th consecutive monthly decline and a 30-month low, driven mainly by a drop in food inflation. Even though the trend of 18 months continued, the rate of decline has slowed to a trifle, thus indicating a likely increase in August. Cumulatively, headline inflation has fallen by 3.99% over a period of 7 months.



[1]

Monthly inflation, a more current measure of price movement, however declined to 1.13% (14.39% annualized). This figure is more reflective of harvest seasonality effect. Most notable changes to the food basket were the decline in the prices of commodities such as tomato, garri and yam.

Data Breakdown

Food inflation Declined further

The (year-on-year) food sub-index declined marginally by 0.03% to 12.95% in July. This represents the 10th consecutive monthly decline since September 2017. Month-on-month food index also fell by 0.17% to 1.4% during the review period.

[1] NBS, FDC Think Tank

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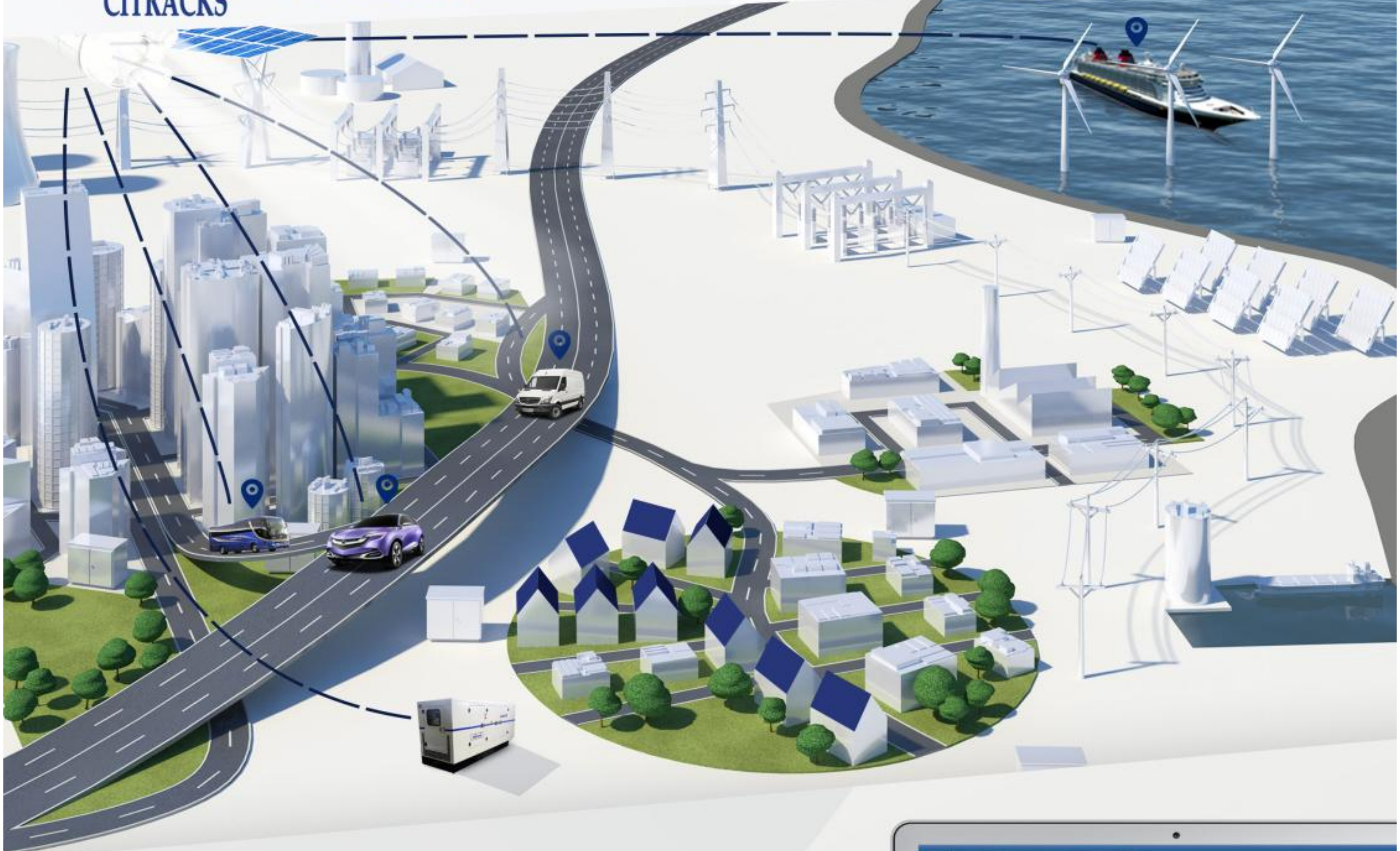

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Core inflation

Core inflation (inflation less seasonalities) was down 0.2% to 10.20%. For the first time in 2018, month-on-month core inflation declined to 0.81% in July from 1.03% in June. This was partly driven by reduction in logistics costs. The average price of diesel nationwide (the main automotive fuel for distribution and logistics) fell by 0.32% to N204.32/litre in July.

Core inflation is currently below the 91-day secondary market T/bills rate of 10.86%. This signifies a positive rate of return.

Imported inflation

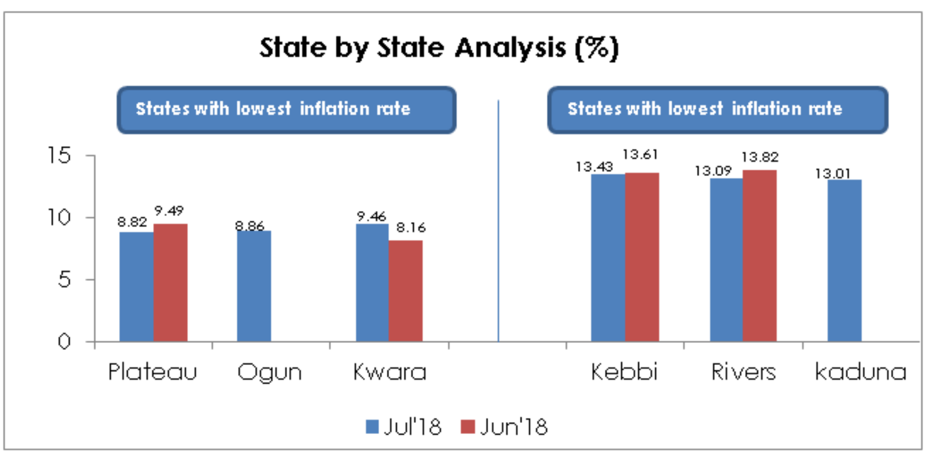
Imported inflation eased by 51bps to 15.20% in July. This was partly supported by the marginal appreciation in exchange rate which is expected to reflect in import prices. At the parallel market, the exchange rate appreciated to close the month at N360/$ (a 2-year high) from N362/$ at the end of June.

Rural & Urban Indices

Rural inflation rate (year-on-year) was flat at 10.83%, while urban inflation declined marginally by 0.02% to 11.66%. Month- on-month, the rural index declined to 1.18% from 1.23% while the urban index increased to 1.23% from 1.18% in June.

State by State Analysis

Plateau state recorded the lowest inflation rate of 8.82%, as the best performing state, followed by Ogun (8.82%) and Kwara (9.63%). The states with the highest inflation rates are Kebbi (13.43%), Rivers (13.09%) and Kaduna (13.01%).



[2]

[2] NBS, FDC Think Tank

Sub-Saharan Africa

Most of all the Sub-Saharan African (SSA) countries under our review have released their inflation numbers for July. Nigeria, Angola and Ghana recorded a decline in inflation, while Kenya and Uganda's inflation rates increased.

With the exception of Angola, all the African countries under our review maintained status quo at their July monetary policy meeting.

Country	July Inflation (%)	July Policy rate (%)	Q1'18 (%)
Nigeria	11.14 ↓	14 ↔	1.94 ↓
Angola	19.01 ↓	16.5 ↓	-4.30 (Q4'17) ↑
Kenya	4.35 ↑	9.0** ↓	5.7 ↑
South Africa	4.6* ↑	6.5 ↔	-2.2 ↓
Ghana	9.6 ↓	17 ↔	6.8 ↓
Uganda	3.1 ↑	9*[3] ↔	6.4 ↔

Outlook

The reduction in the slope of the inflation curve now implies that all things being equal, headline inflation is likely to increase in August. In addition, increased liquidity stemming from FAAC disbursement of N1.49trn towards the end of July, release of funds for CAPEX, pre-election spending and a possible wage increase in Q3'18 would further support this trend.

The Central Bank of Nigeria (CBN) has indicated that it could increase interest rates in response to rising inflation ahead of the general elections in 2019. This means the commencement of another round of tightening, which could make the cost of credit higher across the entire market.

The GDP numbers for Q2'18 are scheduled to be released on August 27. We expect the rate to stay flat between 1.95%-2.0%. If the GDP numbers come in lower than expected and unemployment data shows a spike, the CBN may be forced to consider an accommodative stance as against a promised tightening. At this point, analysts are mostly in a wait and see mode as the picture is looking murky.

[3] Trading Economics; FDC Think Tank, * August policy rate, ** June policy rate