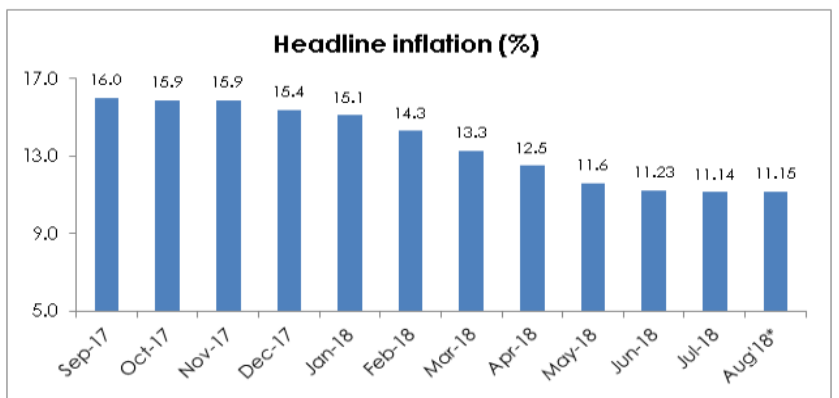


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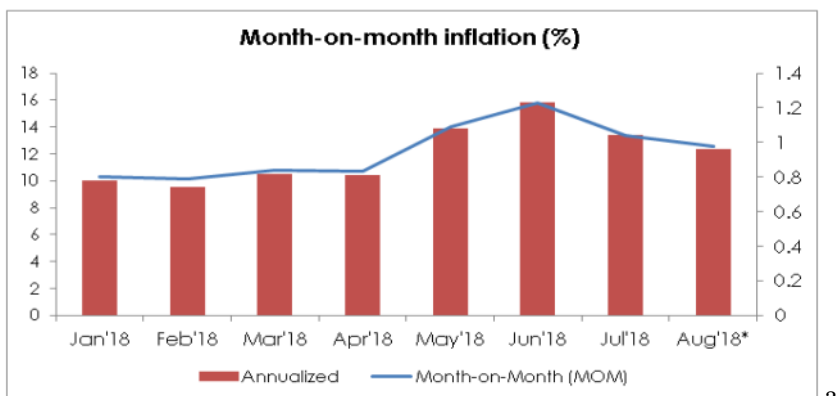
August Headline inflation expected to inch up to 11.15%

We forecast that headline inflation will inch up to 11.15% in August. If this forecast is accurate, it will bring to an end the 18-month consistent decline in the index. This inflection is not surprising as the rate of moderation in the price level had been noticeable over time.



1

Interestingly, month-on-month (MoM) inflation, which is more reflective of seasonalities, is expected to decline to 0.98% (12.36% annualized). Typically, the third quarter is the harvest period, which is a season of higher agric output. Food commodities such as tomatoes, pepper and yam tubers recorded a significant decline in their prices. The usual increase in food prices during the Eid-Al-Fitr celebrations was moderated by higher agric output. The only outlier being the price of onions.



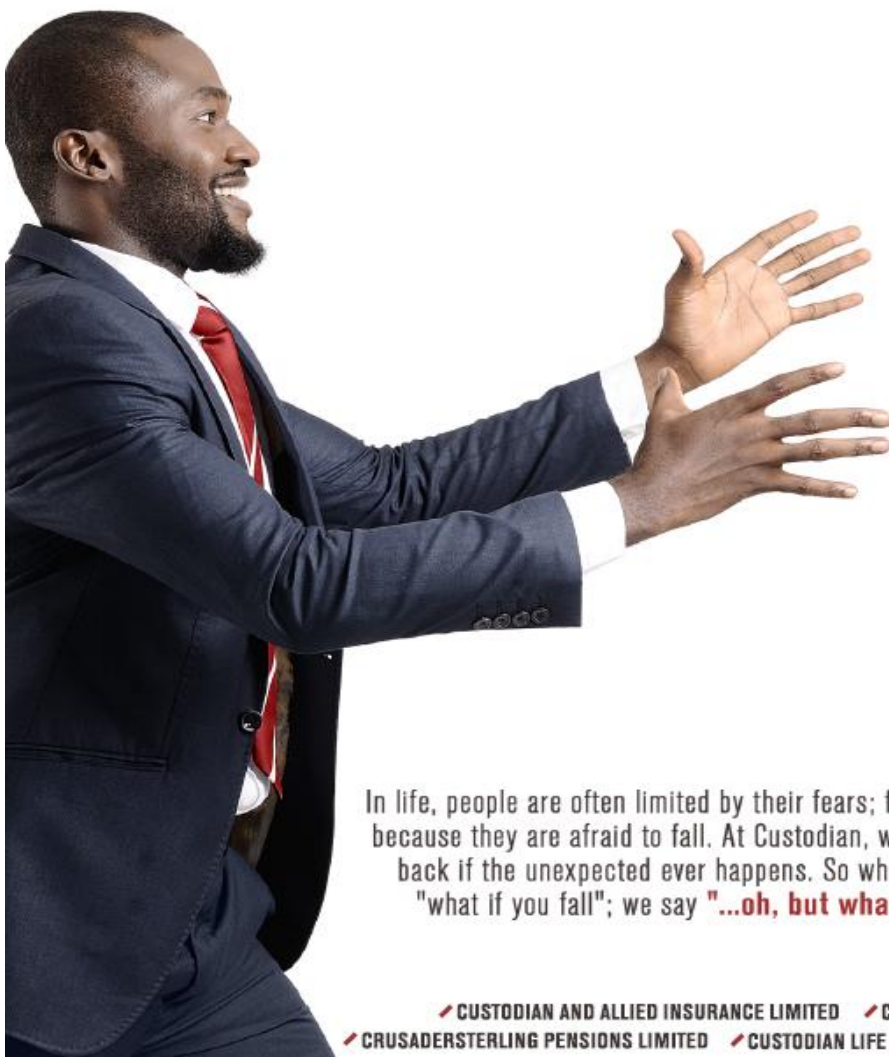
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¹NBS, FDC Think Tank

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Moderating Factors















- Average on-grid power output increased by 1.32% to 3,660MWh/h. This is expected to have a positive impact on aggregate output and also reduce the demand for alternative source of energy such as diesel. The average wholesale (depot) price of diesel fell by 0.97% to N205/liter in August. This reflects a reduction in logistics costs, which could drive down the operating expenses of firms.
- PMI now out of a contraction, following 12.07% increase in August. This suggests an increased level of activities.
- The improvement in Nielsen's consumer confidence index to 122 from 113 implies higher willingness of consumers to spend.

Inflation Drivers

- The effect of the Apapa gridlock which could increase the inventory carrying costs and demurrage.
- The confluence of the Eid-Al-Fitr and 3-day closure of the 3rd mainland bridge triggered a hike in transport fares.

Peer Country Comparison

If our projections are accurate, it suggests the possibility of Nigeria's inflation rate diverging from the continent's average of 10%. Three of the Sub-Saharan African (SSA) countries under our review have released their inflation numbers for August. Whilst Uganda and Zambia recorded an increase, Kenya's inflation rate slowed. In July, Angola and Ghana reported a slowdown in inflation while South Africa recorded an increase. All the SSA countries, with the exception of Kenya and Angola maintained status quo at their last monetary policy meeting.

Country	August Inflation (%)	August Policy rate (%)
Nigeria	11.15** 	14 
Angola	19.01* 	16.5 (July) 
Kenya	4.04 	9.0 (June) 
South Africa	5.1* 	6.5 (July) 
Ghana	9.6* 	17 (July) 
Uganda	3.8 	9.0 
Zambia	8.1 	9.75 (May) 

³ FDC Think Tank; *July inflation rate; ** August Inflation forecast

Policy Making Impact

The weak Q2 GDP growth rate (1.5%), coupled with the possibility of a reversal in the inflation trend would be major considerations at the next MPC meeting on September 24/25. This would make for an interesting and equally acrimonious meeting.

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