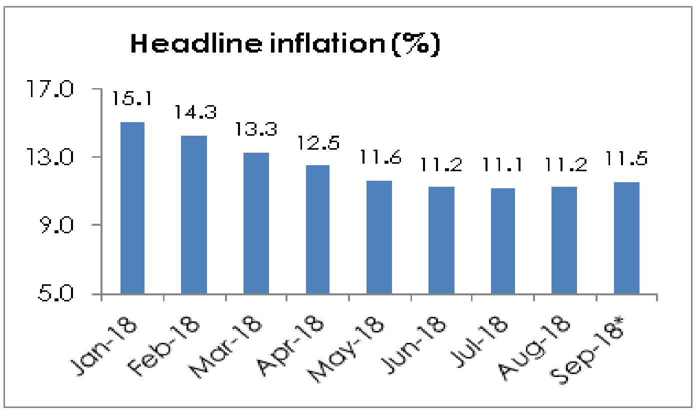
FDC Economic Bulletin

October 08, 2018

Headline inflation projected to increase to 11.53% in September

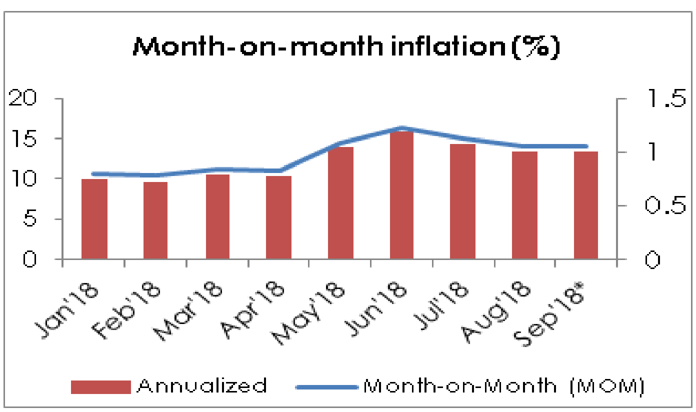
Year-on-year headline inflation is expected to increase by 30bps to 11.53% in the month of September. This will be the 2nd consecutive month of rising inflation after an 18-month consistent decline. The rise in the inflation numbers would be primarily driven by higher food inflation as the recent floods in the middle belt region has undermined agric output.



[1]

Monthly inflation up in spite of harvest

The month-on-month (MoM) sub-index is also expected to move in tandem with the headline inflation, increasing to 1.06% (13.48% annualized) from 1.05% (13.38% annualized) in August. The end of the third quarter is usually the peak of the harvest season. However, the herdsmen/pastoral crisis coupled with the recent floods in the food producing states muted the impact of the harvest.



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[1] NBS, FDC Think Tank
[2] NBS, FDC Think Tank

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Money supply increase fuelling inflation

Money supply grew by 3.58% in August and is expected to grow by 8% in September. Even though this is below the benchmark of 10.84%, the impact is expected to filter through to higher prices. The growth in money supply was partly due to the rise in the average opening position of banks, net inflows from OMO auctions, and campaign spending. In addition, the fall in the average power output, higher logistics cost (diesel),and high borrowing cost had an adverse effect on economic activities as reflected in the decline in the Purchasing Managers' Index (PMI). The PMI declined to 53.7 from 54.8 in August.

Peer Comparison – Lower GDP and flat inflation across SSA

The average inflation rate for Sub-Saharan African (SSA) countries in 2018 is expected to be approximately 9%. Three of the SSA countries under our review have released their inflation numbers for September. While Uganda and Zambia recorded a decline, Kenya's inflation rate increased. Most of the SSA countries under our review maintained status quo at their last monetary policy meeting, with Uganda being an outlier.

The World Bank has reviewed downwards its growth forecast for the Sub-Saharan African (SSA) countries to 2.7% from the earlier projected 3.1%. This downward review was as a result of slowing growth in the region's three largest economies (Nigeria, Angola and South Africa).Nigeria's 2018 GDP growth was also revised downwards to 1.9% from 2.1%.

Country	September Inflation (%)		September Policy rate (%)	
Nigeria	11.53**	↑	14	↔
Angola	18.56*	↓	16.5	↔
Kenya	5.7	↑	9.0	↔
South Africa	4.9*	↓	6.5	↔
Ghana	9.9*	↑	17	↔
Uganda	3.7	↓	10.0 (Oct)	↑
Zambia	7.9	↓	9.75 (Oct)	↔

Impact on policy makers

At the last MPC meeting in September, three of the ten members in attendance voted in favour of increasing the monetary policy rate (MPR). However, the decision to hold all policy parameters was premised on the need to get more clarity on the timing and quantum of anticipated liquidity injections into the economy from pre-election spending and minimum wage.

[3]FDC Think Tank; *August inflation rate; ** September inflation forecast

If our projections are accurate, increasing inflation at a time of wage negotiation is like throwing a flame on gasoline. The unions are likely to be more aggressive in their demands especially in an election season. The minimum wage review could trigger cost push inflation. This coupled with the reversal of capital flows from emerging market economies due to the rise in the interest rate differential in the US could embolden the hawks in the MPC, who are calling for another cycle of tightening.