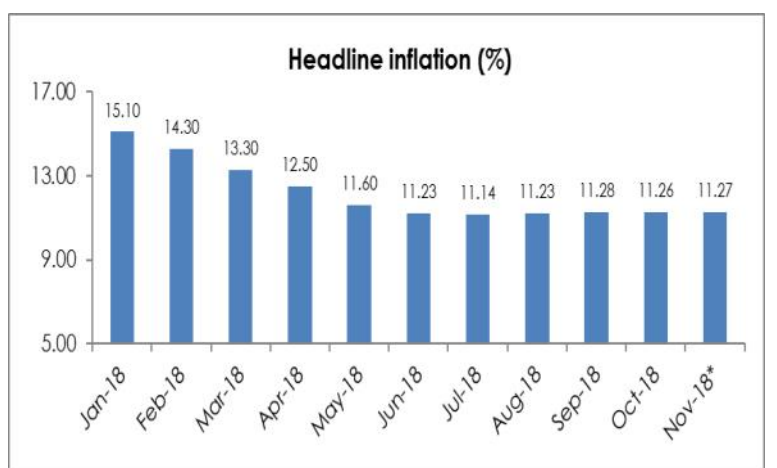


## *Headline inflation expected to inch up to 11.27% in November*

We are projecting a marginal increase in headline inflation to 11.27% in November from 11.26% in October. This rise in the general price level would be driven primarily by a boost in liquidity, arising from FGN's increased government disbursements and state payments to contractors.

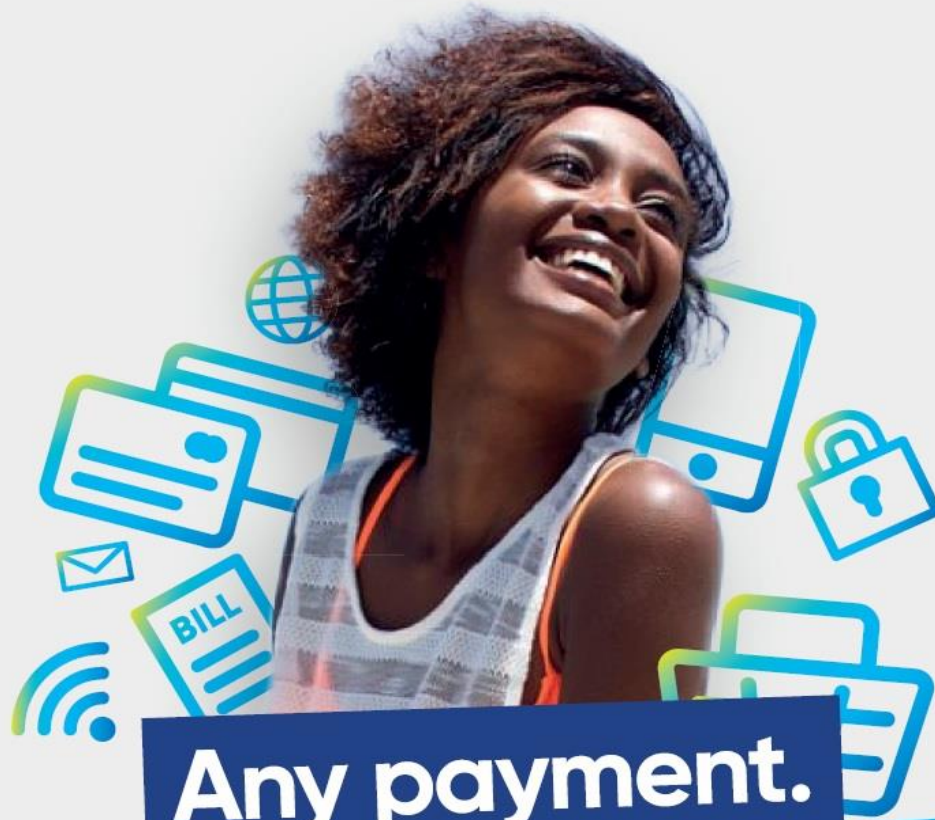
Surprisingly, prices of commodities such as tomatoes and pepper recorded a decline in the review period. This anomaly in the price movement is expected to be short-lived as increased demand for festivities will push up prices in the near term. For example, a 50kg bag of rice now costs N16,000 (3.23 % increase).



## **Monthly inflation to creep-up in November**

We also anticipate a marginal increase of 0.05% in the month-on-month (MoM) sub-index to 0.79% (9.92% annualized), on the back of a boost in naira liquidity. M2 growth has increased by 6.52% recently, annualized at 7.82%. The time lag for the transmission effect of money supply on prices is getting shorter. This is because the velocity of circulation of money is increasing as a result of a shift towards electronic payments.

<sup>1</sup> NBS, FDC Think Tank



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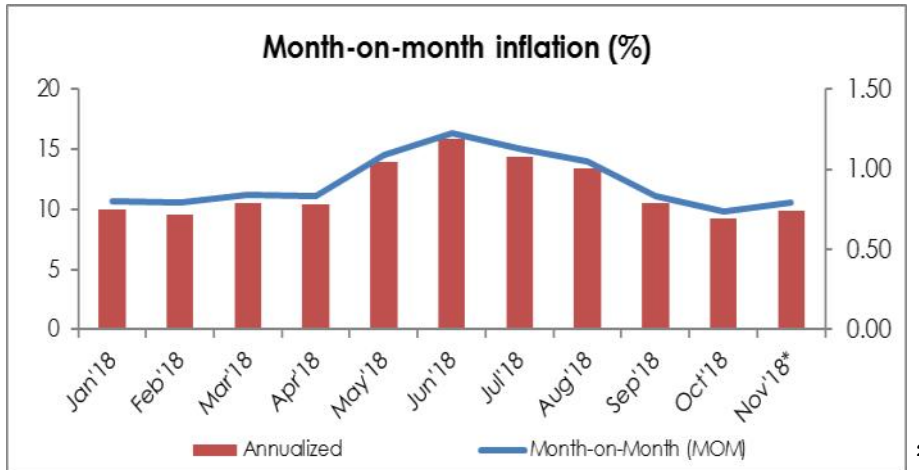


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The mitigating factors of higher inflation remain an increase in output that is higher than the M2 growth. These include:

- ◆ **Expansion in PMI:** The FBN's Purchasing Manager Index (PMI) reading was up 2.4 points to 58.9 points in November. This reflects an improvement in manufacturing sector activities, indicating higher output.
- ◆ **Improved on-grid power output:** Average on-grid power output crossed the 4,000MWh/h threshold to 4,037MWh/h. This is 7.59% above what was generated in October (3,752.23MWh/h). The impact of this is a reduction in the demand for more expensive alternatives such as diesel.















### Cost-Push Factors

- ◆ **Higher diesel price:** In spite of the improvement in power supply, the average wholesale (depot) price of diesel increased by 13.15% to N245/liter in November. This is expected to filter through to higher logistics cost, which could drive up firms' operating and distribution expenses.
- ◆ **Weaker naira:** Currency pressures are building up at the parallel market. The naira depreciated to N374/\$ at the end of the month before retreating to N368/\$. This occurred after the currency traded within a band of N360/\$-N364/\$ for eleven months. Currency depreciation would increase the cost of imported goods. Meanwhile, the effect of this is likely to be felt in December's inflation rate.

### Peer Comparison – 3 greens, 3 reds, 1 amber

The inflation trend across the Sub-Saharan African (SSA) countries under our review was mixed. Three have released their November inflation numbers. Kenya recorded an increase; Zambia a decline while Uganda's inflation rate was flat. With the exception of South Africa and Uganda, all the SSA countries under our review maintained status quo at their last monetary policy meetings.

<sup>2</sup>NBS, FDC Think Tank

Country	November Inflation (%)	November Policy rate (%)
Nigeria	11.27* 	14 
Angola	18.04* 	16.5 
Kenya	5.58 	9.0 
South Africa	5.1* 	6.75 
Ghana	9.5* 	17 
Uganda	3.0 	10.0 (Oct) 
Zambia	7.8 	9.75 

3

## Outlook

Currency pressures are building especially at the parallel market. This would increase the cost of imported goods. Also, as we move closer to the Christmas period, we anticipate a boost in aggregate demand, which is likely to drive up domestic commodity prices. In addition, the imminent minimum wage would increase the level of liquidity in the system. All these factors point to a higher inflation rate at the end of the year.

<sup>3</sup> FDC Think Tank; \*October inflation rate; \*\* November inflation forecast

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