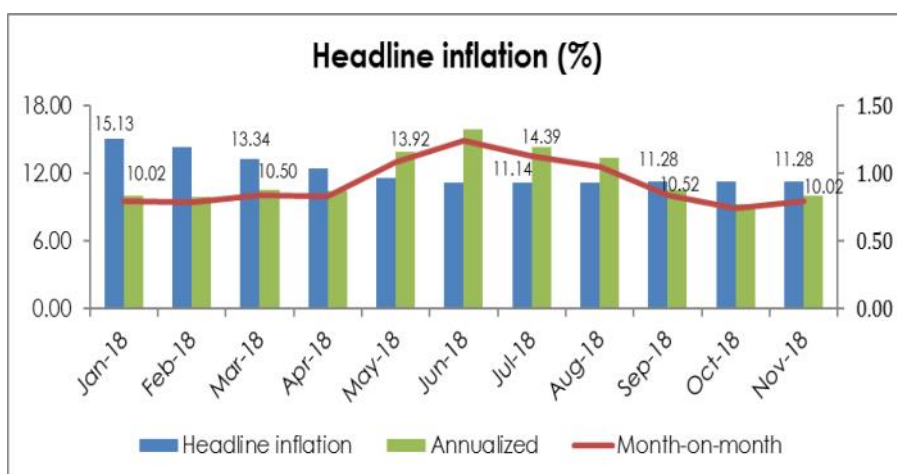


FDC Economic Bulletin

December 14, 2018

Headline inflation creeps up to 11.28%

As earlier projected, headline inflation increased by 2bps to 11.28% in November. This was mainly driven by higher food prices across the country. The end of the harvest season amid rising demand ahead of the festive period is gradually pushing up commodity prices. Also supporting this uptick is an increase in distribution costs due to the 13.15% jump in the price of diesel.



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Month-on-month inflation up to 10.02% annualized

Month-on-month inflation moved in the same direction with the headline inflation trend, increasing to 0.8% (10.02% annualized) from 0.74% (9.27% annualized) in October. This was prompted by higher food prices especially bread and cereals, fruits, vegetables and yam tubers.

Data Breakdown

Food inflation higher as output tapers

The annual and monthly food sub-index reversed the declining trend in the previous month, increasing to 13.30% and 0.9% respectively. This is not surprising as the combination of end of the harvest and increased demand for food pushed up prices of commodities especially food items such as rice. The price of a 50kg bag of rice increased by 3.23% to N16,500.

¹ NBS, FDC Think Tank



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Core inflation down

Core inflation (inflation less seasonality) fell marginally by 0.1% to 9.8%. On a monthly basis, the index was down to 0.64% from 0.80% in October. This is in spite of the 13.15% increase in the depot price of diesel. This confirms the widely held notion that the base year effects of 2017 have fully worn out.

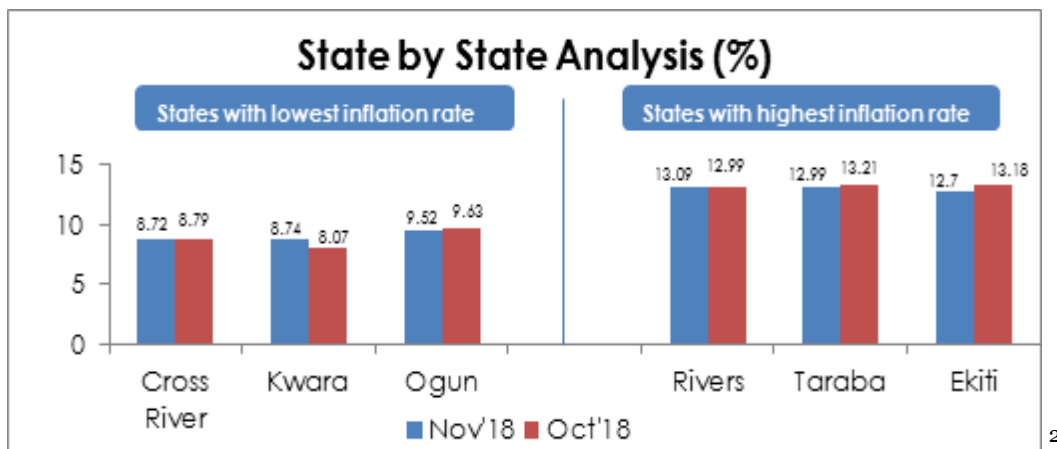
Core inflation is currently below the 364-day primary market T/bills rate of 14.45%. This signifies a positive rate of return.

Rural & Urban Indices

The year-on-year urban inflation rate declined by 0.03% to 11.61% while the rural sub-index increased marginally to 10.99% from 10.93% in the preceding month. This confirms the time-lag between food shortages in the rural and urban areas after the harvest season. i.e as harvest season ends, supply thins out first in the rural areas before extending to the urban cities. On month-on-month basis, both indices increased to 0.83% and 0.78% respectively from 0.76% and 0.72% in October.

State by State Analysis

Cross River state was the best performing state with the lowest inflation rate of 8.72%, followed by Kwara (8.74%) and Ogun (9.52%). The states with the highest inflation rates are Rivers (13.09%), Taraba (12.99%) and Ekiti (12.7%).



²NBS, FDC Think Tank

Sub-Saharan Africa

The inflation trend across Sub-Saharan Africa (SSA) was mixed. The key economies of Nigeria, Kenya and South Africa recorded an increase, Angola and Ghana declined, while Ugandan inflation rate was flat.

All the SSA countries with the exception of South Africa maintained status quo at their last monetary policy meeting

| Country | November (%) | Inflation ↑↓ | November Policy rate (%) | Policy rate ↔ | GDP Growth rate Q3'18 (%) | ↑↓ |
|--------------|-----------------|-----------------|-----------------------------|------------------|------------------------------|----|
| Nigeria | 11.28 | ↑ | 14 | ↔ | 1.81 | ↑ |
| Angola | 18.04* | ↓ | 16.5 | ↔ | -7.4 (Q2'18) | ↓ |
| Kenya | 5.58 | ↑ | 9.0 | ↔ | 1.5 (Q2'18) | ↓ |
| South Africa | 5.2 | ↑ | 6.75 | ↑ | 2.2 | ↑ |
| Ghana | 9.3 | ↓ | 17 | ↔ | 1.3 (Q2'18) | ↔ |
| Uganda | 3.0* | ↔ | 10 (Dec) | ↔ | 5.0* (Q2'18) ³ | ↓ |

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Outlook

We anticipate a further increase in the general price level in December, following a boost in aggregate demand linked to the festive celebrations and election related spending. The imminent minimum wage review is also expected to increase disposable income and boost liquidity in the system.

³ Trading Economics, FDC think Tank *October inflation numbers

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