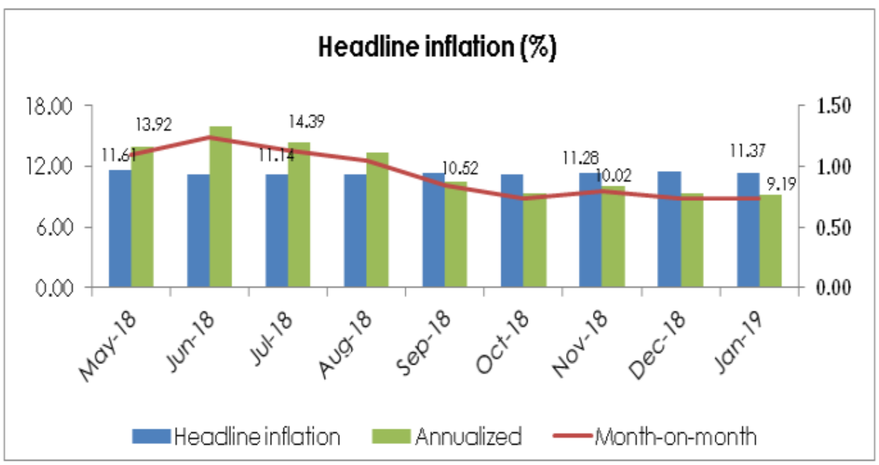
FDC Economic Bulletin

February 15, 2019

Headline inflation declined to 11.37%

As widely anticipated, Nigeria's headline inflation dipped 7bps to 11.37% in January, still above the CBN's target of 8-9%. This was primarily driven by lower food inflation (13.15%). Typically, consumers spend less on food in January due to the fall in disposable income after the Christmas celebrations and essentials such as the payment of school bills are deducted. Other inflation moderating factors include: higher OMO sales and lower FAAC disbursements.

As part of its mopping up strategy, the CBN issued more OMO bills (N2.38trn) in January, than the previous month (N1.81trn). The new issues (N2.38trn) were in excess of the maturing bills by 12.18%. This led to a sharp fall in the average opening position of the banking system to N77.7bn from N136.05bn in the previous month.



[1]

Month-on-month inflation unchanged at 0.74%

Month-on-month inflation was flat at 0.74% (9.19% annualized) in January. This was primarily due to the relative stability in commodity prices. The 5.77% decline in diesel prices to N245/liter is expected to reduce firms' logistics and distribution costs.

[1] NBS, FDC Think Tank

Data Breakdown

Food inflation down to 13.51%

Annual food price level slowed to 13.51% in January from 13.56% in the previous month. However, on a monthly basis, the index inched up to 0.83% from 0.81% in December 2018. This was largely because of an increase in the price of commodities such as fish, bread and cereals, vegetables, meat, fruits, potatoes, yam and other tubers, oils and fats, and soft drinks.

Core inflation rose to 9.9%

The year-on-year and monthly core inflation (inflation less seasonalities) increased in January. Annual core inflation inched up to 9.9% from 9.8% while the monthly index rose 0.81% from 0.50% in the previous month. This was mainly as a result of an increase in prices of household appliances and materials.

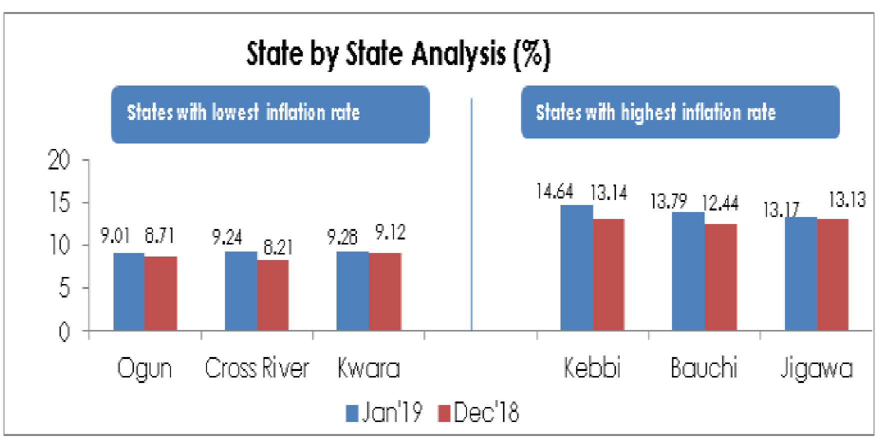
Currently, core inflation is currently below the 91-day secondary market T/bills rate of 11.84%. This is indicative of a positive rate of return.

Rural & Urban Indices trend downwards

In the review period, both urban and rural inflation declined by 0.07% to 11.66% and 11.11% respectively. On a month-on-month basis, urban inflation rose to 0.77% from 0.76% while rural inflation rate declined to 0.71% from 0.72% in December. Commodities such as tomatoes and the African star apple are usually harvested in December/January. The mixed trend in the monthly rural and urban inflation numbers confirms the time-lag between food surpluses in the rural and urban areas during harvest.

State by State Analysis – Ogun state with the lowest inflation

Ogun is the state with the lowest inflation rate (9%), followed by Cross River (9.24%) and Kwara (9.28%). The highest inflation rates were recorded in Kebbi (14.64%), Bauchi (13.79%) and Jigawa (13.17%).



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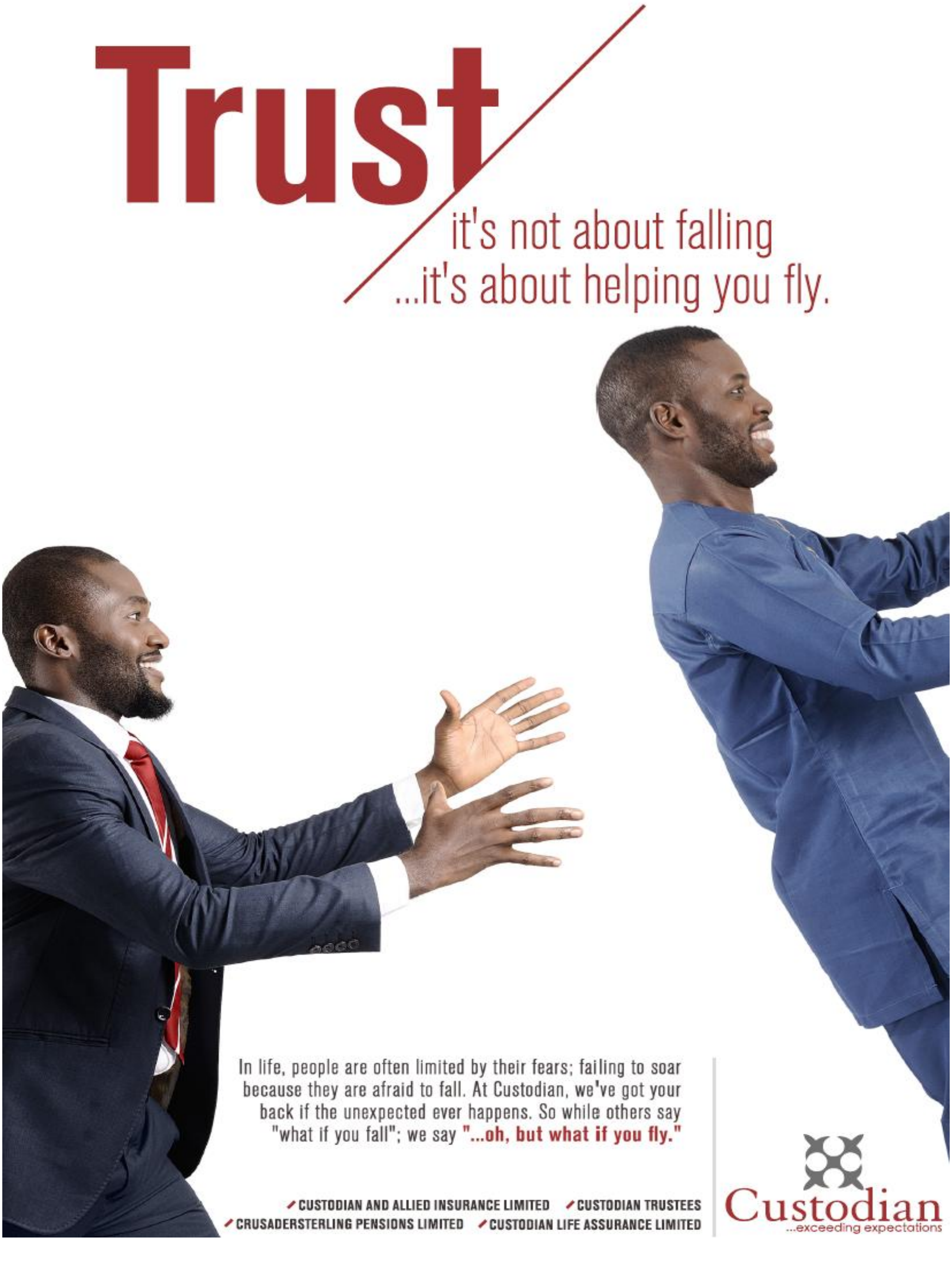
[2] NBS, FDC Think Tank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Sub-Saharan Africa (SSA)

There were mixed inflation trends across SSA countries under review - two recorded an increase while others posted a decline

With the exception of Angola and Ghana, all the SSA countries maintained status quo at their last monetary policy meetings.

Country	January Inflation (%)	January Policy rate (%)	GDP Growth rate Q4'18 (%)
Nigeria	11.37	14	2.38
Angola	18.2	15.75	-1.6 (Q3'18)
Kenya	4.7	9	6.0 (Q3'18)
South Africa	4.5 (Dec)	6.75	2.2 (Q3'18)
Ghana	9.4	16	7.4 (Q3'18)
Uganda	2.7	10 (Feb)	2.8 (Q3'18)

[3]

Outlook

Higher election spending in February as well as the slowdown in business activities as a result of security concerns would exacerbate inflationary pressures in the month. However, the CBN's commitment to mop up excess liquidity could artificially suppress this pressure. Hence, we are expecting a modest increase in inflation in February.

[3] Trading Economics, FDC Think Tank

GDP growth expands in Q4'18 (2.38%), growth still anemic

Nigeria's real GDP growth came in at 2.38% in Q4'18, up from 1.81% in the preceding quarter. Annualized, it is 1.11% higher than the average GDP growth of 0.82% in 2017. A breakdown of the GDP data showed that the fastest growing sectors were agriculture, manufacturing, information & communication and construction. The laggards were the usual suspects – real estate, mining & quarrying, finance & insurance and public administration.

Fastest Growing Sectors				**Lagging Sectors**			
Sectors	**Q3'18 (%)**	**Q4'18 (%)**	**% Change**	**Sectors**	**Q3'18 (%)**	**Q4'18 (%)**	**% Change**
Agriculture	1.91	2.46	0.55	Real Estate	-2.68	-3.85	-1.17
Manufacturing	1.92	2.35	0.43	Mining & Quarrying	-2.81	-1.23	1.58
ICT	12.09	13.2	1.11	Finance & Insurance	-4.81	-1.76	3.05
Construction	0.54	2.05	1.51	Public Administration	-0.95	-0.32	0.63 [4]

Notably, employment elastic sectors such as agriculture and manufacturing grew at a faster pace compared to the previous quarter. This was supported by a number of factors including the relative stability of the exchange rate, the imposition of a forex ban on 42 items and government interventions such as the anchor borrowers program. Also supporting this positive trend is the recently introduced differentiated dynamic cash reserve requirement regime to incentivize lending to the agric and manufacturing sectors. The faster growth in the employment elastic sectors is more likely to reduce the unemployment rate (currently at 23.1%) in the medium term if the trend is sustained.

However, the growth was not broad based, partly due to the high interest rate environment which had a negative impact on the performance of sectors such as trade, which contracted by -0.63% in 2018.

Non-oil sector still the saving grace; Oil sector in a technical recession

The non-oil sectors as a group remained the driver of economic expansion. They grew at a faster rate of 2.7% in Q4'18, contributing 92.94% to GDP from 90.62% in Q3'18. This growth was largely underpinned by the sustained expansion in ICT sector growth (13.2%), Agric (2.46%) and manufacturing (2.35%). According to

[4] NBS, FDC Think Tank

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the Nigerian Communications Commission, Nigeria surpassed its 2018 broadband penetration target (31.48%) with total active and internet subscribers expanding to 172.87mn and 111.63mn respectively in the review period. This contributed positively to the ICT sector growth. The positive correlation between broadband penetration and economic growth was also confirmed by countries such as Germany which grew at a faster rate in 2012 (17.7%) from 3.8% in 2010.

On the other hand, the oil sector remained in a technical recession having contracted for three consecutive quarters. It however recorded a marginal improvement (-1.62%) relative to -2.91% in the previous quarter. Its contribution declined to 7.06% from 9.38% in Q3'18. The negative growth was spurred by a reduction in oil production to 1.91mbpd in Q4'18 from 1.95mbpd in the corresponding period in 2017. Nigeria's oil rig count fell to 11.67 in Q4'18 from 14.67 in Q3'18.

The construction sector benefitted from election spending

Nigeria's construction sector grew by 2.05% in Q4'18 and 2.33% in Q4'18 and FY'18 respectively. This positive trend was supported by increased forex availability and pre-election spending on road and rail infrastructure. The sector's growth momentum is expected to be sustained post elections - albeit at a slower pace. This would be driven by the Federal Government's continued infrastructure drive and the approval of the 2019 budget.

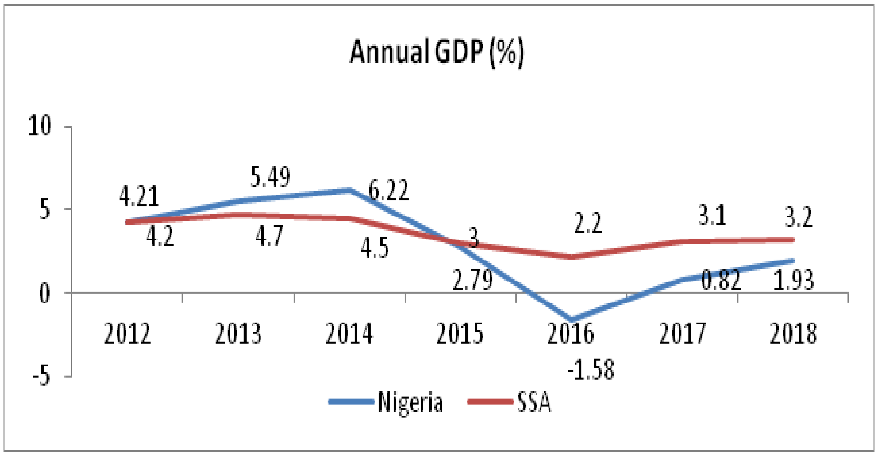
Implications on the economy and policy makers

The expansion in the GDP numbers showed an improvement in aggregate output, although labour productivity remains negative (-0.7%). The GDP statistics also suggest that Nigeria's growth is not inclusive as the economy is still growing below the population growth rate of 2.6%. Notwithstanding, an increase in the GDP growth would help to boost consumer confidence and douse investor concerns.

The fiscal and monetary authorities would also need to intensify efforts to induce investment and further strengthen economic expansion.

Sub-Saharan Africa

Nigeria's GDP growth has consistently underperformed the Sub-Saharan Africa (SSA) average of 3.2% and is still far from the ERGP target of 7% in 2020. Most of the SSA countries under our review are yet to release their Q4'18 and full year 2018 GDP statistics. In Q3'18, Ghana and Kenya were among the fastest growing economies, recording GDP growth of 7.4% and 6% respectively.



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Outlook

We expect a slower growth rate in Q1'19 due to seasonal factors - the fall in disposable income post Christmas. The shift in focus to election activities and cautious trading would also limit business transactions.

However, we expect economic momentum to pick up in FY'19 as the minimum wage implementation would boost disposable income and enhance consumer spend. The implementation of the 2019 budget would also see capital expenditure increase, thereby boosting economic growth.

Projections for 2019 could be undermined by the possibility of election related crisis and disruption to output. In addition, exogenous risks relating to oil price volatility, resulting from OPEC's inability to control output could affect growth forecasts.

[5]EIU, NBS, FDC Think Tank