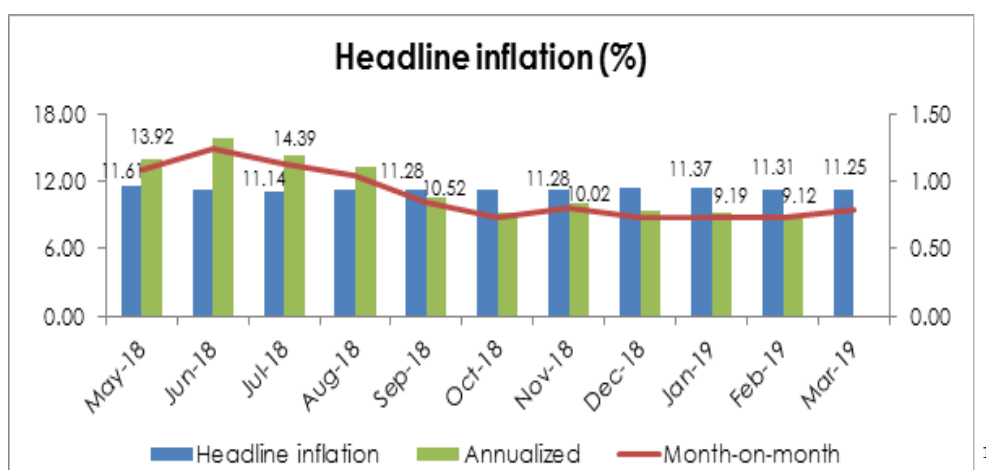


FDC Economic Bulletin

April 16, 2019

Headline inflation continued its moderating trend in March

In line with our forecast and the general analysts' consensus, Nigeria's headline inflation declined by 6bps to 11.25% in March. This is the third consecutive monthly decline in 2019 and the lowest inflation rate in the last seven months. Notably, all other sub-indices except for the month-on-month index moved in tandem with the headline inflation. The sustained moderation in the price level can be partly attributed to a number of factors– exchange rate stability, an increase in power supply and the CBN's aggressive liquidity mop-up through the stabilization securities and OMO activities.



Month-on-month inflation up to 0.79%

In contrast, the month-on-month inflation (a better reflection of current prices and inflation expectations) rose to 0.79% (9.84% annualized) in March from 0.73% (9.16% annualized) in the previous month. This signals the possibility of a reversal in the headline inflation trend in the near term.

Data Breakdown

Food inflation down to 13.45%

For the third consecutive month in 2019, the year-on-year food price index declined by 0.02% to 13.45% in March. However, the rate of change in the index has slowed. This is because the effect of the harvest has

¹NBS, FDC Think Tank



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waned and we are likely to see a reversal in the near term. On a monthly basis, the food inflation increased by 0.06% to 0.88% in March. This was primarily as a result of an increase in the prices of commodities such as bread and cereals, meat, fish, potatoes, yam and other tubers, oils and fats, soft drinks, vegetables and fruits.

Core inflation slipped to 9.5%

The annual and monthly core sub-indices (inflation less seasonalities) declined to 9.5% and 0.53% respectively in March from 9.8% and 0.65% in February. This was supported by the relative stability in exchange rate. The naira traded flat at N360/\$ at the parallel market.

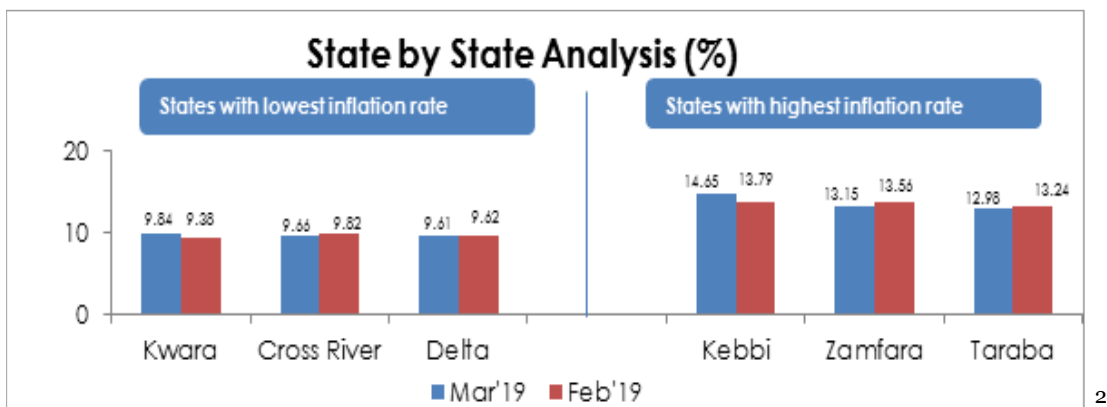
Core inflation is 79bps below the 91-day primary market T/bills rate of 10.29%. This is good news for investors as the rate of return is positive.

Rural & Urban Indices maintained downward trends

On an annual basis, both urban and rural inflation declined by 0.05% and 0.06% respectively to 11.54% and 0.99% in March. However, month-on-month urban and rural inflation increased to 0.81% and 0.77% respectively from 0.76% and 0.71% in February. The rise in the monthly rural and urban inflation reflects the planting season effect.

State by State Analysis

Delta state recorded the lowest inflation rate (9.61%), followed by Cross River (9.66%) and Kwara (9.84%). The states with the highest inflation rates are Kebbi (14.65%), Zamfara (13.15%) and Taraba (12.98%). Analysis showed that inflation was highest in states with social unrest and instability.





















²NBS, FDC Think Tank

Sub-Saharan Africa (SSA) – Mixed Inflation Trends

Inflation rate showed varying trends across the Sub-Saharan African (SSA) countries. Five countries have released their inflation numbers for the month of March – Nigeria and Angola posted a decline while Kenya and Ghana recorded an increase. However, inflation rate was flat in Uganda.

With the exception of Nigeria and Ghana, all the SSA countries under review maintained status quo on monetary policy parameters at their last monetary policy meetings. This was because inflation rates are still within the target range amid expectations of improved economic performance.

Country	March Inflation (%)	March Policy rate (%)	Policy rate	GDP Growth rate Q4'18 (%)
Nigeria	11.25 	13.5 		2.38 
Angola	17.56 	17 		-1.6 (Q3'18) 
Kenya	4.35 	9.0 		6.0 (Q3'18) 
South Africa	4.1* 	6.75 		1.4 
Ghana	9.3 	16** 		7.4 (Q3'18) 
Uganda	3 	10** 		6.6 

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Outlook

We anticipate a reversal in the headline inflation trend in subsequent months. This would be driven by both seasonal and demand-pull factors. On one hand, the commencement of the planting season would result in supply shortages. On the other hand, the implementation of the minimum wage coupled with the seasonal increase in demand associated with the Ramadan fast would exert demand pull inflationary pressures. This could be further heightened by the securitization of contractor debts (N2.3trn) and the payment of the J.V cash call arrears of \$1.5bn.

While the moderation in inflation seems to be a positive development, it is unlikely to have a significant influence on the MPC's decision at the next meeting in May. This is because policy decisions are based on expectations rather than historical data. More so, the April inflation data which is scheduled to be released on May 20 would be more impactful on the decision making process.

³Trading Economics, FDC Think Tank, *February figure, **April figure

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