

FDC Economic Bulletin

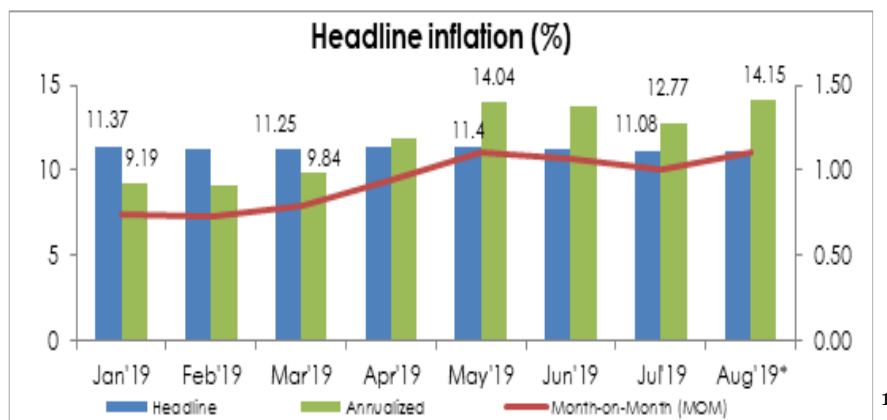
September 10, 2019

Inflation Set to Inflect Upwards

A few skeptical analysts were of the view that the declining trend of inflation was too good to be true. The new projection from our inflation survey seems to confirm the saying that “if it is too good to be true, then it must be true”. We are estimating a marginal increase in both headline and monthly inflation in August. The headline inflation is expected to inch up by 0.07% to 11.15% while the monthly inflation is projected to rise by 0.10% to 1.11% (14.15% annualized).

The trend of falling inflation is being bucked for a number of reasons including the partial closure of the land borders which led to temporary food shortages especially turkey, chicken and rice. The impact of this was a spike in the prices of these food items. The price of a 50kg bag of rice increased by almost 30% to N18,000 in August from N14,000 in July. It however curtailed smuggling of petrol and diesel, thus creating excess supply and driving down prices. The wholesale price of diesel fell by 3.15% to N215/liter.

Other inflation stoking factors that had hitherto been benign are now becoming potent. These include, adjustments in the exchange rate for computing custom duty to N326/\$, forex restriction for dairy products and general food imports. Nigeria’s annual food imports is estimated at \$3.9bn.



¹NBS, FDC Think Tank

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Core Inflation to Continue Declining but Approaching an Inflection Point

The core sub-index (inflation less seasonalities) is likely to decline marginally by 0.05% to 8.75% in August. This will be buoyed by lower diesel prices as well as the stability in the exchange rate. The wholesale price of diesel fell by 3.15% to N215 per liter, thereby reducing logistics and distribution costs. At the parallel market, the naira was stable at N360/\$.

System Awash With Liquidity

Broad money supply grew by 1.36% to N28.27trn in July. In August, M2 growth was supported by an increase in the loan to deposit ratio (LDR), higher FAAC disbursement and net OMO inflows. FAAC allocation and net OMO bills amounted to N1.56trn (5.51% of broad money supply). In a bid to boost lending to the private sector, the CBN raised the LDR to 60% and reduced Standing Deposit Facility (SDF) to N2bn. This has compelled banks to increase lending, and do so at competitive rates.

Sub-Saharan Africa – Xenophobic Tit-for-Tat Likely to Heighten Inflationary Pressures

Inflation trend across the Sub-Saharan African (SSA) countries remained mixed. Three of the SSA countries under our review have released their August inflation numbers. Whilst Kenya and Uganda recorded a decline, Zambia posted an increase. The prevalence of drought in the country affected agric output and drove up food prices, thus pushing inflation to a 3-year high of 9.3%.

Inflationary pressures in South Africa, Africa's second largest economy, have been subdued in the last 3 months due to lower fuel costs. However, the recurrence of xenophobic attacks in South Africa, which led to significant disruptions in economic activities, could be a threat to this moderating inflation trend.

Country	August Inflation (%)	August Policy rate (%)
Nigeria	11.15**	13.5 (July)
Angola	17.24*	15.5 (July)
Kenya	5	9.0 (May)
South Africa	4*	6.5 (July)
Ghana	9.4*	16 (July)
Uganda	2.1	10
Zambia	9.3	10.25 ²

²Trading Economics, *July inflation numbers, **August forecast

Outlook

A possible reversal in the inflation trend will be a consideration at the next MPC meeting. This increases the probability of further tightening by an increase in interest rates. However, the committee will be mindful of a possible worsening of the cyclical downturn in the next quarter.

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