

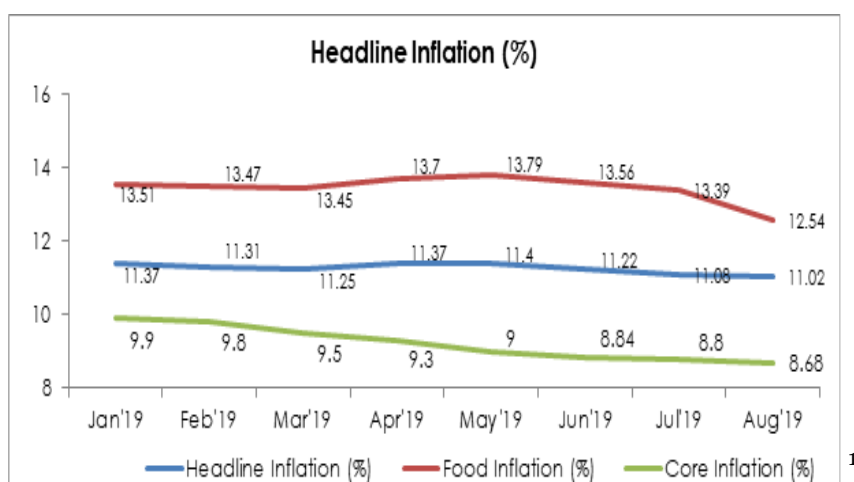
FDC Economic Bulletin

September 23, 2019

August inflation down, surprising to analysts

Surprisingly and contrary to expectations, Nigeria's August headline inflation slid to 11.02% from 11.08%. This is the 3rd consecutive monthly decline and the lowest level since February 2016. The continued fall in headline inflation was partially as a result of harvesting and declining consumer disposable income.

A breakdown of the inflation data shows that all sub-indices, except for urban inflation declined. The marginal increase in urban inflation suggests that the impact of the forex restrictions on selected food imports and the border closure is more pronounced in the urban markets. These markets are highly dependent on food items produced or imported into the country. Thus, any shortages in food supply will have a direct hit on the urban dwellers.



Data Breakdown

Month-on-month inflation marginally down by 0.02% to 0.99% in August

The monthly inflation, a more relevant measure of prices, declined in August. This index slowed by 0.02% to 0.99% (12.54% annualized), partly due to the harvest season and reduced aggregate demand. The magnitude of the decline, which was only marginal, indicates that the boost in output due to the harvest may have been limited.

¹NBS, FDC Think Tank



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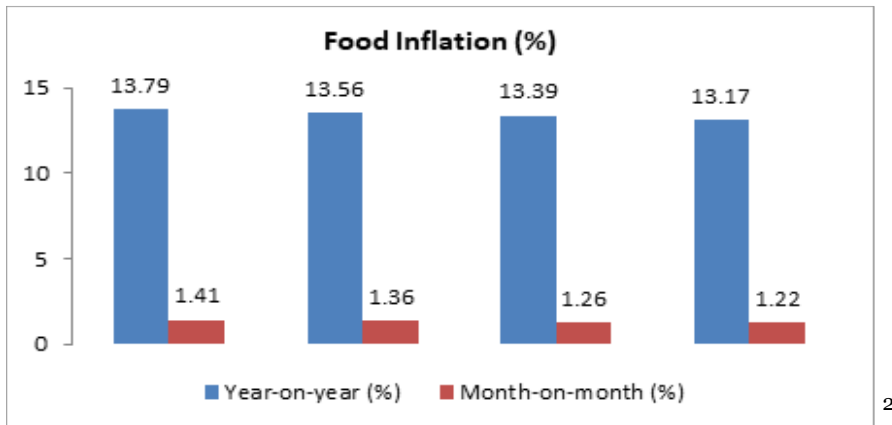


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Food inflation dipped by 0.22% to 13.17%

Food inflation, the major culprit of price level in Nigeria, slowed in August. On an annual and monthly basis, this index declined by 0.22% and 0.04%, to 13.17% and 1.22% respectively. This confirms the view that crop production is a key determinant of inflation direction.

The food items that recorded price increases were: Oils and fats, Meat, Bread and cereals, Potatoes, yam and other tubers and Fish.



Core inflation down to 8.68%

The year-on-year core index declined to 8.68% in August from 8.80% in July. On a monthly basis, it fell to 0.67% from 0.77% in July. This could be partly due to the partial closure of the Nigerian border, which curtailed smuggling of petrol products and reduced pressure on prices. The index also benefited from the CBN’s sustained intervention in the forex market, which helped to maintain currency stability. The naira traded flat N360/\$ at the parallel market.

The items that recorded the highest price increases include, cleaning, repair and hire of clothing, repair of household appliances, hospital services, glassware, tableware and household utensils, passenger transport by air and repair and hire of footwear.

Core inflation is 4.61% below the 364-day primary market T/bills rate of 13.29%. This is indicative of a positive rate of return on investment.

Rural inflation down but urban inflation up

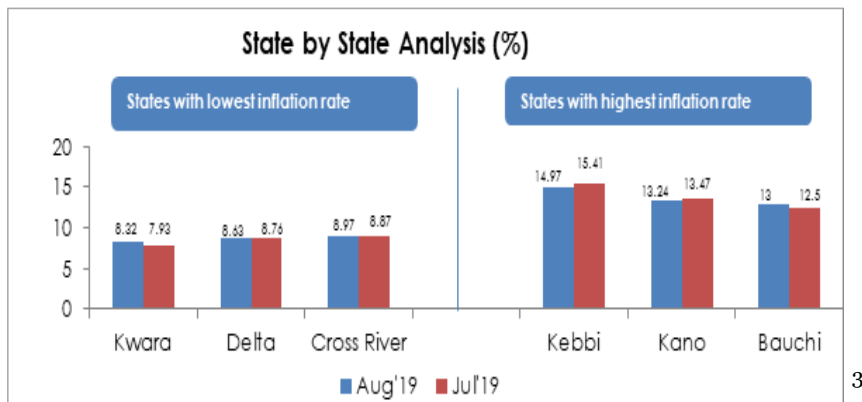
The year-on-year rural inflation rate declined by 0.03% to 10.61% in August while urban inflation increased by 0.05% to 11.48%. However, on a monthly basis, both indices fell by 0.03% to 1.04% and 0.96% respectively. The uptick in the urban price index suggests that the impact of the border closure and the

² NBS, FDC Think Tank

various restrictions on food imports is more pronounced in the urban markets. Most food items are produced in the rural areas and are moved to the cities due to the large market size. The urban markets also rely heavily on food imports. Thus, the direct impact of any shortages in food supply will be borne by the urban dwellers.

State-by-state analysis - Kwara, the best performing state

Kwara state retained its position as the best performing state with an inflation rate of 8.32%. Other states with low inflation rate were Delta (8.63%) and Cross River (8.97%). The states with the highest inflation rates are mainly in the North West – Kebbi (14.97%), Kano (13.24%) and Bauchi (13.00%).



Inflation outlook in Q4'19

At the MPC meeting last week, the MPC considered the moderation in the headline inflation for 3 consecutive months but noted that it is still above the 6-9% target. However, the option to further tighten its monetary policy was ruled out as it restricts the cost of credit and further constrains investment and output growth.

In the coming months, we expect inflationary pressures to be re-ignited due to increased seasonal demand, minimum wage implementation and forex restrictions on food imports. The critical issue is if the spike in the price level is significant enough to make the MPC change its stance from the tight situation to further tightening in November.

³NBS, FDC Think Tank

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