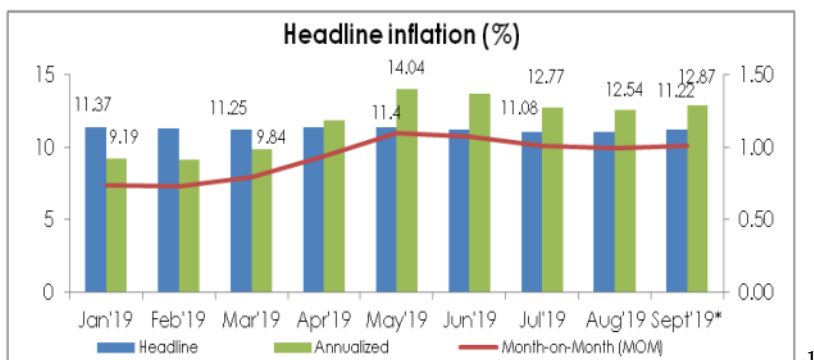


Inflation Set to Buck its Declining Trend

Our survey shows that headline inflation in September is likely to spike to 11.22%. This is coming after three months of consecutive decline. This spike in the general price level would be driven partly by the closure of the Seme border which has resulted in shortages of smuggled commodities especially rice, turkey, chicken and baking margarine. The price of a 50kg bag of rice increased by almost 30% to N24,000 per 50kg in September from N18,000 per 50kg in August. Also, consistent with this, is the monthly inflation which is projected to increase by 0.02% to 1.01% (12.87% annualized).

However, the core sub-index (inflation less seasonalities) is likely to decline to 8.60% from 8.68% in the month of August, supported by the stability of the exchange rate. The naira was relatively stable within a band of N358-N360/\$ in the parallel market during the period.



Other inflation stoking factors noticeable in the month are:

- Broad money supply grew by 5.65% in the month of August as stated in the MPC communique. Likewise, credit to the private sector rose by 2.22% to N24.83trn during the period, due to the mandatory 60% LDR. Also, there was a decline in lending rates (18-20% pa).
- The exchange rate was relatively stable across all market segments in September, supported largely by the CBN's continuous intervention in the forex market (an increase of 7.25% to \$845.11bn). However, the frequency and amount of intervention in subsequent months could be limited by the steady depletion of the gross external reserves. The gross reserves lost approximately \$2.09bn in the last month, now at \$41.52bn.

¹NBS, FDC Think Tank



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- FBN's Purchasing Managers Index (PMI) reading was up 5.3 points to 56.2 points in August. This reflects an improvement in manufacturing sector activities and is an indication of higher output.

Peer Comparison – Rising risk of global recession and domestic stagflation

The inflationary trend across Sub-Saharan Africa (SSA) was mixed. Three of the SSA countries under our review have released their October inflation numbers. Uganda and Kenya recorded declines while Zambia's inflation rate increased.

Most Central Banks in the advanced economies have resumed an accommodative stance due to global economic slowdown, US/China trade war and Middle East tensions. In line with this, emerging markets Central Banks are also taking a more accommodative stance to support growth. Most of the SSA countries under our review maintained status quo at their last monetary policy meetings, with Zambia being an outlier.

Country	September Inflation (%)	September Policy rate (%)
Nigeria	11.22** 	13.50 
Angola	17.50* 	15.50 (October) 
Kenya	3.83 	9.00 
South Africa	4.30* 	6.50 
Ghana	7.80* 	16.00 
Uganda	1.90 	9.00 (October) 
Zambia	10.50 	10.25(August) 

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Outlook

In a bid to boost lending to the private sector, the CBN raised the LDR by 5% to 65%. This will compel banks to increase lending to the private sector. Another pressure point for inflation is the impact of the arrears on the minimum wage and the implications of the consequential costs on general prices. Also, as we move closer to the Christmas period, we anticipate a boost in aggregate demand, which is likely to drive up domestic commodity prices in the coming months.

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

In addition, if growth numbers are released on November 25th as scheduled by the NBS and it is tepid, then the probability of the country slipping into stagflation becomes higher. Stagflation is a combination of undesirable economic outcomes (stagnant growth and rising inflation). This will be a front burner issue for the MPC at its next meeting on November 25/26.



...It ain't over till the fat lady sings...

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