FDC Economic Bulletin

October 15, 2019

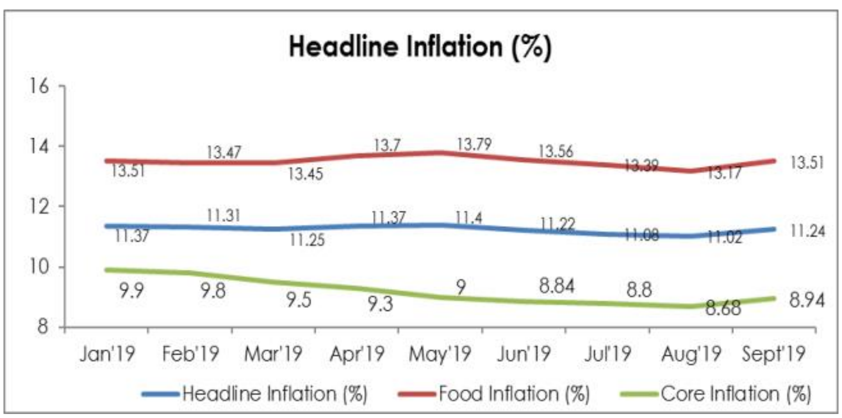
Unintended consequences of border closure take its toll

The temporary closure of the border in Nigeria has led to a surge in customs revenue and reduced smuggling in the short run. The national import bill should theoretically be lower and the road to self-sufficiency should be assured.

'Be careful what you wish for, you may just get it'

However, the law of unintended consequences has caught up with this laudable objective. Shortages of some critical imports at a time of Christmas stockpiling has driven up the price level to 11.24% after 3 months of declining inflation. Not only headline inflation, but all other sub-sets and baskets were affected. Core inflation, food, urban and monthly inflation all surged. The last time that this happened was 23 months ago.

Analysts were all in agreement in their forecasts that inflation in September was upward bound. The principal factors responsible for this increase were cost-push and shortages at a time of seasonal stockpiling. However, money supply aggregates played a role in the stoking of inflationary embers. M2 grew by 2.87% in August. The NBS data shows that the prices of some products increased - Bread and cereals, Fish, Meat, Potatoes, yam and other tubers, Vegetables and Oils and fats



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[1] NBS, FDC Think Tank

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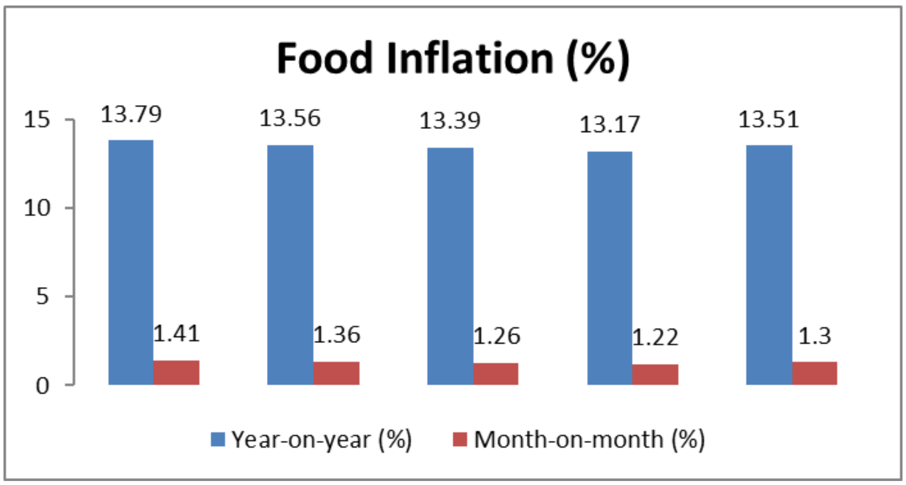
Data Breakdown

Month-on-month inflation marginally up by 0.05% to 1.04% in September

Month-on-month inflation, a more relevant measure of prices, moved in the same direction with headline inflation, increasing to 1.04% (13.25% annualized) from 0.99% (12.54% annualized) in August. This was prompted by higher food prices especially for smuggled commodities such as rice and frozen foods.

Food inflation jumps by 0.34% to 13.51%

In the food sub-index, annual and monthly inflation reversed its declining trend. It increased to 13.51% and 1.30% respectively. This is not surprising as the combination of border closures and broad money supply growth pushed up prices of commodities especially food items such as rice and frozen foods. The food items that also recorded price increase were: Bread and cereals, Fish, Meat, Potatoes, yam and other tubers, Vegetables and Oils and fats.



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Core inflation up to 8.94%

The year-on-year core index increased to 8.94% in September from 8.68% in August. On a monthly basis, it rose to 0.89% from 0.67% in August. This is despite the stability in the exchange rate. The naira traded flat at N360/$ at the parallel market.

The items that recorded the highest price increase include cleaning, repair and hire of clothing, glassware, tableware and household utensils, garment, repair of household appliances, hospital services and other articles of clothing accessories.

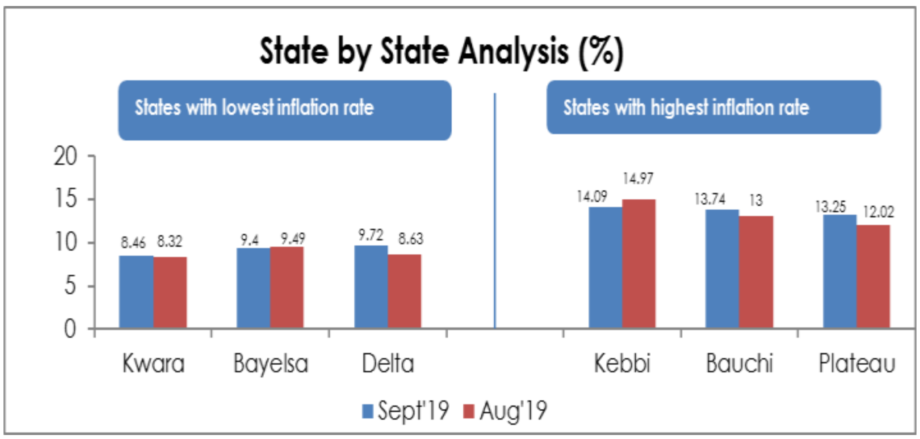
[2]NBS, FDC Think Tank

Rural & urban inflation rises

On an annual basis, year-on-year urban and rural inflation rose by 0.30% and 0.16% respectively to 11.78% and 10.77% in September. Similarly, the monthly urban and rural inflation indices increased to 1.13% and 0.96% respectively from 1.04% and 0.93% in August. This reflects an increase in aggregate demand for locally produced commodities.

State-by-state analysis – Kwara remains the best-performing state

Kwara state retained its position as the best-performing state with an inflation rate of 8.46%. Other states with low inflation rates were Bayelsa (9.40%) and Delta (9.72%). The states with the highest inflation rates are mainly in the North West – Kebbi (14.09%), Bauchi (13.74%) and Plateau (13.25%).



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What next?

Growth numbers are scheduled to be released on November 25th by the NBS. If the GDP growth comes in tepid and underperforms, it will be a front burner issue for the MPC. In addition, if the oil prices fall below $58pb and gross external reserves slide further (currently $41.12bn), the MPC could lean towards resuming the tightening cycle at its next meeting in November 25/26.

[3] NBS, FDC Think Tank