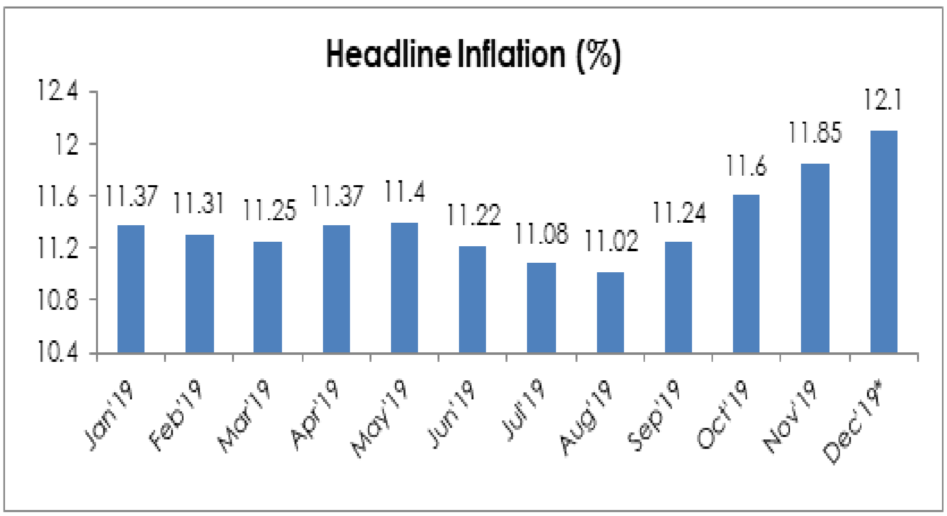
FDC Economic Bulletin

January 10, 2020

Headline inflation projected to increase by 0.25% to 12.10% in December

Our survey indicates a likely increase in the headline inflation to 12.10% in December from 11.85% in November. If our projection is correct, it will be the 4th consecutive month of rising inflation. The last time this happened was in 2016 when the economy suffered from a severe growth contraction leading to a recession. In recent times, the spike in the year-on-year headline inflation is largely due to money supply saturation, lower interest rates, increased seasonal demand and base year effects of the border closure. The impact of the CBN's unorthodox policies has been a sharp fall in interest rates and a spike in the credit to the private sector. The average yield on T/bills declined sharply to 4.83% in Dec'19 from 12.82% in Nov'18 while credit to the private sector spiked by 16.29% to N26.41trn in Nov'19.



[1]

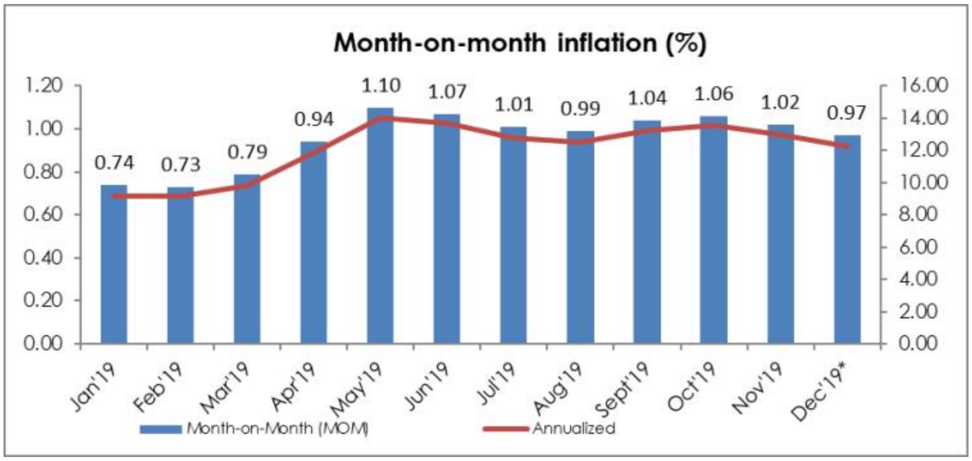
To open the land borders now or when??

There has been a divergent view amongst analysts as to when the land borders should be re-opened. The proponents of early border re-opening believe it is the antidote to rising inflation. Others are of the view that the re-opening of the land borders would be to the detriment of domestic manufacturers and an incentive to smuggling.

[1] NBS, FDC Think Tank

Month-on-month inflation to slide to 0.97%

The monthly price index is a measure of current price realities. The index is likely to decline by 0.05% to 0.97% (12.25% annualized) in November. This is the 2nd consecutive monthly decline, suggesting that Nigerians are probably bypassing the border closure.



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Other inflation stoking factors

Beyond the border closure impact, other inflation induced factors were noticed in the month. These include liquidity surfeit due to the CBN's LDR mandate and minimum wage implementation as well as a marginal depreciation of the currency.

Money Supply Saturation

The level of market liquidity largely influences the direction of inflation. An increase in money supply without a corresponding boost in output mounts pressures on commodity prices. In November, broad money supply (M2) increased by 4.99% to N28.42 trillion in November and it is expected to increase further in December as banks continue to lend more to the private sector to meet up with the CBN's LDR directives. Also some states have commenced the payment of the new minimum wage.

Lower Interest Rates

Economic theory shows that low interest rates have a positive relationship with consumption but a negative relationship with savings. The CBN in recent times has left the anchor rate (MPR) unchanged at 13.5%p.a while adopting unorthodox measures to depress interest rates. In the last six months, lending rates have declined by more than 400 basis points. A reduction in interest rates encourages consumers and corporates

[2]NBS, FDC Think Tank

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Contact us: 01-4485500; 0700-34778-2668228 / firstcontact@firstbanknigeria.com / complaints@firstbanknigeria.com / RC 6290 to borrow more with an attendant boost in money in circulation. Credit to the private sector grew by 16.29% in November (N26.41 trillion), up from 6.96% in July (N24.29 trillion) when the LDR was initially increased to 60%. Currency in circulation increased to N2.2 trillion in November from N2.0 trillion in July

Exchange rate Pass Through Effects

Currency pressures are gradually mounting. In December, the naira weakened to N363/$ at the parallel market. Although, it appreciated slightly to close the month at N362/$. Similarly, the currency touched a 12-month low of N364/$ at the IEFX window. The slight weakness in the currency is likely to have an adverse effect on core inflation. Core inflation is projected to increase to 9.2% from 8.99% in November.

Higher diesel prices

The price of diesel increased by 2.33% to N220/litre in the last few days. This is expected to increase firms' logistics and distribution costs which could reflect in January inflation numbers.

Peer Comparison – inflationary pressures across Sub-Saharan Africa – 6 Reds, 1 Green

Of all the Sub-Saharan African countries under our review that have reported their December inflation, only South Africa recorded a decline. Just like Nigeria, food price movement was largely responsible for inflation direction in most of the SSA countries. While food prices increased in Zambia, Kenya, Ghana and Uganda, it declined in South Africa.

In spite of the rising inflation trend, most of these countries left their monetary policy parameters unchanged at their respective meetings in December.

Country	December Inflation (%)		December Policy rate (%)	
Nigeria	12.10**	↑	13.50 (Nov)	↔
Angola	16.32*	↑	15.50 (Dec)	↔
Kenya	5.82	↑	8.50 (Dec)	↔
South Africa	3.6	↓	6.50 (Dec)	↔
Ghana	8.2	↑	16.00 (Dec)	↔
Uganda	3.6	↑	9.00 (Dec)	↔
Zambia	11.7	↑	11.50 (Dec)	↑

[3]

[3]Trading Economics, FDC Think Tank

Outlook: Rising inflation could force a monetary policy U-Turn on interest rates

The mandate of the monetary policy authorities and CBN is to maintain macroeconomic and price stability. December inflation will most likely be released before the monetary policy meeting later this month. If the numbers increase as projected, it will be a key consideration at the meeting. Rising inflation could force a monetary policy U-turn on interest rates earlier than anticipated. The IMF is forecasting December inflation of 12.2%.