FDC Economic Bulletin

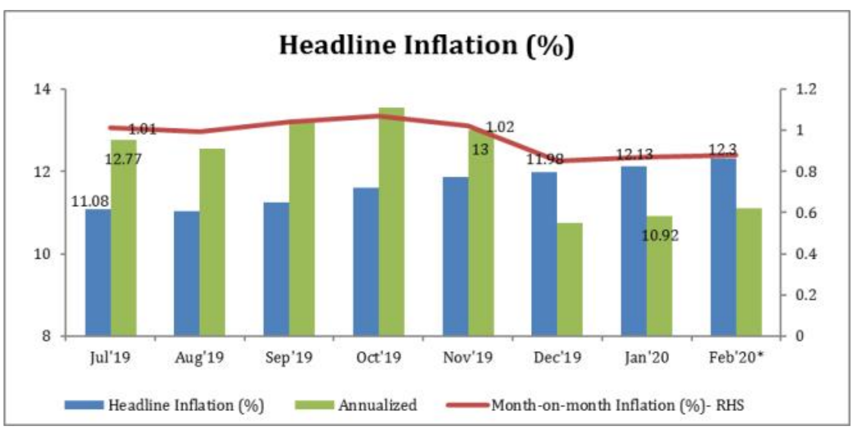
March 09, 2020

Inflation to spike again to 12.30%

We are projecting a 0.17% increase in the Year-on-year inflation to 12.30% for February. This will be the 6th consecutive monthly increase and a 22-month high. While inflation has maintained an upward trajectory, the rate of increase in the index has declined, indicating that the base year effect is waning. In addition, the CBN's unorthodox policies have seen interest rates declined sharply by an average of 10%. This has led to a significant drop in interest income and a squeeze in consumers purchasing power. The income elasticity of demand suggests that a squeeze in income will lead to a reduction in the quantity of goods that would be demanded.

In the past years, food inflation has been the major culprit of rising inflation in Nigeria and is expected to jump to 14.98% from 14.85% in January. The impact of the partial closure of the land borders is taking a toll on food prices and creating shortages. All the other inflation sub-indices are expected to move in tandem with the headline inflation. Month-on-month inflation (a better reflection of market realities) is projected to increase to 0.88% (11.09% annualized) from 0.87% (10.92% annualized) while core inflation is likely to rise by 0.05% to 9.40%.

The other inflation stoking factors include higher logistics costs, VAT hike and lower interest rates. The average lending rate fell sharply by approximately 500bps to 15%, increasing money supply. Broad money supply was up 4.99% to N28.42trn in November 2019.



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[1]NBS, FDC Think Tank

FBN PMI at a 6-month low

The Purchasing Managers index, which measures the health of the manufacturing sector, fell for the second straight month to 51.7 points in February from 53.6 points in January. More importantly is that all the five sub-indices declined with the output level declining the most and the suppliers delivery times in the positive region. The reduction in the output level can be largely attributed to lower supply of raw materials due to insecurity in the North.

OMO restrictions boost system wide liquidity

The fallout of the restriction of OMO purchases to banks and foreign investors was an increase in system wide liquidity as matured OMO bills for individuals and local corporates were not ploughed back into the money market. Currency in circulation spiked by 10.91% to N2.44trn in November 2019.

Peer Comparison – Mixed movement in Inflation – 5 Reds, 1 Green, 1 Amber

Most SSA countries are likely to witness falling inflation due to a sharp drop in the price of petroleum and lower energy costs. Transport and energy costs have been one of the major drivers of inflation in Sub-Saharan Africa in the past.

Central Banks in advanced economies are leaning more towards an accommodative monetary policy to cushion the effect of the Covid-19 virus on aggregate demand. The US Fed cut benchmark interest rates by 50bps to 1.0-1.25%p.a. - the highest cut since the 2008 financial crisis. This will most likely reduce the debt service burden of African countries. There is an expectation that the Fed may cut another 50 basis points at the next meeting on March 17/18.

Country	February Inflation (%)		February Policy rate (%)	
Nigeria	12.30**	↑	13.50 (Jan)	↔
Angola	16.9(Dec)	↑	15.50 (Jan)	↔
Kenya	6.37	↑	8.25 (Jan)	↓
South Africa	4.50(Jan)	↑	6.25 (Jan)	↓
Ghana	7.8 (Jan)	↓	16.00 (Jan)	↔
Uganda	3.40	↔	9.00	↔
Zambia	13.9	↑	11.50	↔

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[2]Trading economics, **means FDC forecast, FDC Think Tank

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Concluding Thoughts

The upward inflation trajectory and the continuous depletion of the external reserves will be major considerations at the MPC meeting on March 23/24. This increases the chance of a more tightened monetary policy stance.