FDC Economic Bulletin

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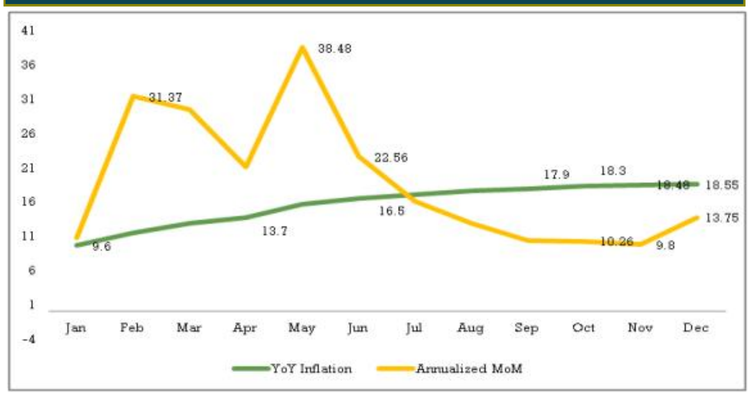
Inflation dynamics leave some puzzled as headline rate climbs to 18.55%

Headline Inflation has defied analyst consensus creeping to another 11-year high. At this inflation rate, Nigeria is the 6th highest inflation economy in SSA. Last week, Angola, another oil producer announced an inflation rate of 41.95%. Structural and cost push factors have generally stoked inflationary pressure in most oil producing nations. Venezuela is now potentially the country with the highest inflation rate in the world . In 2015, inflation in Venezuela was 122%.

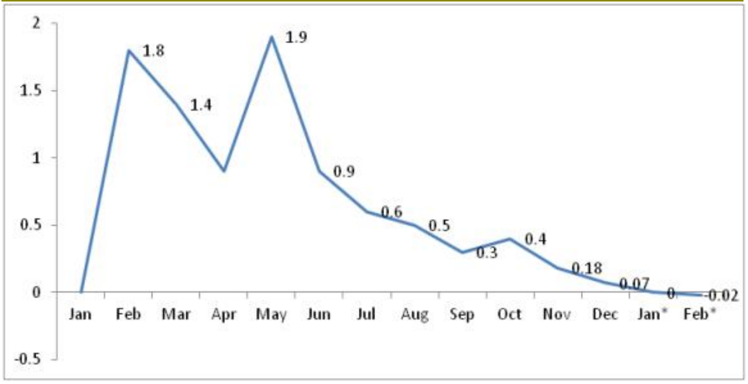
Chart 1: Headline Inflation vs Month-on-Month Inflation (%)



Source : NBS, FDC Think Tank

Inflation is defined as the persistent increase in the prices over a period. A decline in inflation rate does not necessarily mean a reduction in prices, rather it only illustrates a slowing down in the pace of rising prices. An analysis of headline inflation in 2016 shows this declining trend in price movements. Therefore a point of inflection (where the inflation trajectory changes) is likely to manifest in the nearest future.

Chart 2: Declining Trend in Headline Rate



Source : NBS, FDC Think Tank

Further decomposition of inflation statistics reveals a decline in core inflation. Inspite of the declining impact of base year effects, food inflation rose predominantly due to price increases in bread and cereals, meat, fish and oil and fats. One of the factors responsible for this menace can be attributed to the increasing prices of diesel and alternative power for processing and logistics. The difference between the NBS and FDC statistics is marginal at 0.25%. Therefore it is safe to say that we are beginning to see a reduction in the rate of change of prices even though inflation increased.

NBS December Consumer Price Breakdown

The food basket increased to 17.39% from 17.2%. However, a 0.1% decline was recorded in the non-food basket to 18.1% from 18.2% in the previous month. Movements in the food basket were attributed to price increases from major food groups such as bread and cereals, meat, fish and oil and fats. Surprisingly, the core basket declined for the first time in 15 months. This is in spite of the uptick in transport costs (air, road and sea) and energy costs.

Although urban inflation increased marginally to 20.12% in December from 20.1%, rural inflation on the other hand declined to 17.2% from 18.33% in the previous month. This reinforces the impact of higher logistics costs on inflation as urban inflation is typically rural inflation plus transportation costs.

New oil price environment

Oil prices are trending upwards due to efforts across OPEC and non-OPEC members to cut production levels to rebalance the market. In previous analysis, this has been cited as a win scenario for Nigeria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especially in its quest to curtail rising inflation. This is because higher oil prices, conditioned on the frequency of militant activity in the Niger Delta, means higher fiscal and forex revenue, which in turn facilitates a recovery in struggling output levels.

However, what we can observe of recent is higher costs of production on the part of oil importers. Landing costs of PMS stands at N165/ltr according to NNPC reports and are expected to rise given higher oil prices. Therefore, what we see is a surge in the average price of petroleum products. The government has resumed its role in bearing the burden of higher energy costs via subsidies. In fact reports show that the NNPC recorded losses of N121 billion in November 2016. This is not sustainable in the medium to long-run however, because it comes at an opportunity cost to more productive spending, which will elevate output levels. In addition it also prolongs the inevitable, which is a re-evaluation of the petrol price ceiling.

Inflation across Sub-Saharan Africa

Inflationary movements in sub-Saharan Africa were relatively mixed amongst Nigeria's counterparts. Countries such as Angola, Botswana, Rwanda, Senegal and Tanzania recorded price increases. This comes in contrast to declines in inflation recorded in Ghana, Ethiopia, Kenya, Zambia and Ivory Coast, with the latter entering a state of deflation with an inflation rate of -0.2%. Key decisions are to be made this month in some of these countries as their individual monetary policy committees are to meet to deliberate on the direction of monetary policy.

Country		December 2016	November 2016
Angola	⇧	41.95%	41.15%
Botswana	⇧	3%	2.9%
Ethiopia	⇩	6.7%	7%
Ghana	⇩	15.4%	15.5%
Ivory Coast	⇩	-0.2%	0.4%
Kenya	⇩	6.35%	6.68%
Namibia	⇔	7.3%	7.3%
Rwanda	⇧	11%	9.1%
Senegal	⇧	2.1%	0.2%
Zambia	⇩	7.5%	8.8%
Nigeria	⇧	18.55%	18.48%

Outlook

Although price movements still maintain an upward trajectory, we are optimistic of a possible reversal in this direction in the near future. This is attributed once again to waning base year effects that cannot be ignored. This is also due to reduced spending power as consumers recover from expenses from the festive season and school fees requirements. However, consumers have to be weary of rising energy prices especially now when the frequency of blackouts has increased.