

# FDC Economic Bulletin

April 13, 2017

## *Headline inflation eases to 17.26% in March*

Headline inflation slowed by 0.52 percentage points to 17.26% in March, a continuation of the trend witnessed in February. As expected, base year effects continued to have a downward impact on the consumer price index. March 2016 inflation rate increased to 12.8%. However, month-on-month inflation increased by 0.23 percentage points to 1.72% in March, resulting in an annualized inflation rate of 22.71%.

Although analyst consensus missed the nominal, they were correct in the direction. This was mainly due to an unusual development in the forex market, which experienced volatility in March. The rapid appreciation of the naira was not reflected in prices as manufacturers did not pass through the gain in the naira to the market.

## **Breakdown of the inflation data**

An analysis of the NBS inflation report shows that both the food and core indices declined by 0.09 and 0.60 percentage points, respectively. The food index eased to 18.44% in March, from 18.53% in February. The fastest price increases were recorded in bread, cereals, meat, fish, potatoes, yam, and wine. However, the commodities which recorded slowest price increases were soft drinks, fruits, coffee, tea and cocoa. The planting season shortages continue to affect the supply of staple food. Diesel, the major fuel used for transporting food stuff from the farm to cities, increased year-on-year by 60.4% to a nationwide average of N234.55 in March. This was a contributory factor to the muted decline in the food index.

Core inflation declined significantly to 15.4% from 16.0% in February. The highest price increases in the core index were recorded in dwelling, electricity, clothing, stationeries and fuel.

The urban and rural sub indexes recorded slower increases in price level with the urban index easing to 18.27% from 18.57% and the rural index slowing to 16.47% from 16.98%.



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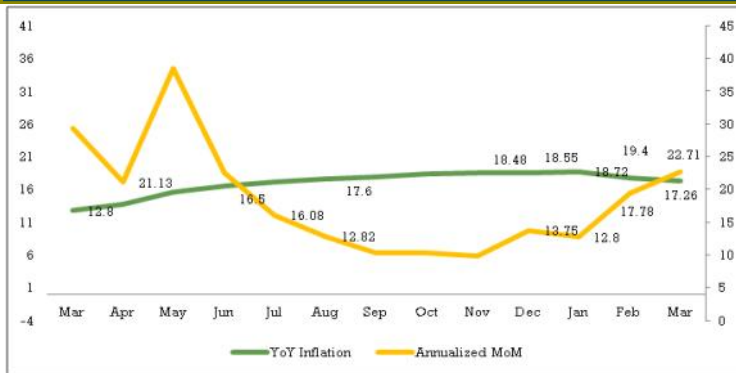
- Salt (Refined and Iodized)
- Seasoning (Cubes and Tablets)
- Tomato Paste
- Vegetable Oil

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



Source : NBS, FDC Think Tank

## Outlook

The current decline in inflation rate due to base year effects is expected to continue in the following months. The 60-90 day transmission lag of the CBN’s intervention in the forex market should manifest in April. However, power output from the grid has declined below 3,000 MW in mid April. Diesel prices are inching up. These will taper the impact of base effects on consumer price levels in the coming months.

The slowing inflation and a focus on growing the real economy may persuade the MPC to hold policy rates despite negative real interest rates and currency depreciation pressures.

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