

# FDC Economic Bulletin

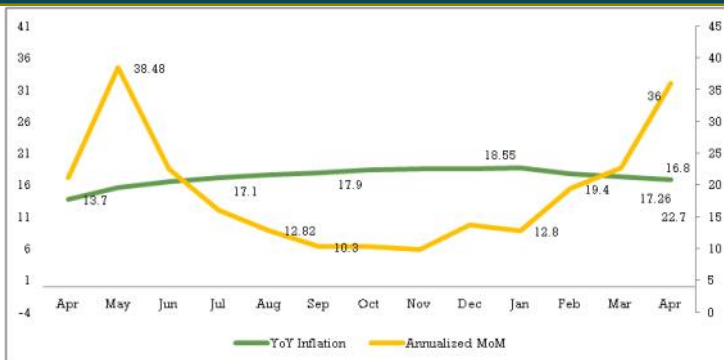
May 03, 2017

## Headline Inflation to dip to 16.8%

Our forecast for the month of April is a 0.46% taper in the headline inflation rate to 16.8%. This can be attributed to the persistent waning of base year effects as well as the CBN's sustained intervention in the forex market. However, recent developments may undermine this trend.

The sharp decline in the price of diesel to an average of N190/ltr has helped reduce producer prices. In addition to this, a rise in industrial activity as recorded by a significant increase in the CBN PMI to 51.1 from 47.7, highlights a recovery in output levels which is easing inflationary pressures.

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



Source : NBS, FDC Think Tank

The industrial relations atmosphere has become more combative. Wage review demands have ranged from the normal to the absurd. Gombe state is promising to pay 212% more i.e. N56, 000, whilst Anambra state is adamant and sticking to the current levels at N18, 000. The minimum wage revision effectively makes Nigerians 43% richer in dollar terms further reinforcing inflationary impact.

The NBS is to release its inflation numbers next week just before the MPC are to meet. The committee is to focus on key variables, inflation and GDP, at its meeting. However the exchange rate market and the soundness of the banking system are also to be considered.

Money supply remains a bone of contention irrespective of the current trend of naira illiquidity in the market (attributable to funding of dollar positions). According to economic thought, a surge in money

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supply leads to an increase in price level, thus posing a major threat to the current declining trajectory of inflation.

## Outlook

We anticipate that the impact of waning base year effects will become less potent in the months ahead. Hence, forex market activity and supply side factors are to become the main drivers of inflation. We expect the CBN to maintain its interventionist stance in the FX market as oil prices are still trading in a relatively high price environment. To further reinforce this is the OPEC's agenda to ensure balance in the oil market and therefore the outcome from its meeting this May is likely to be favourable for prices.

In addition to this, we are less optimistic about a downward revision in policy rate. The hawks still outnumber the doves in the committee and as such the shift towards an accommodative stance is likely to be stalled until recovery in economic fundamentals is sustained.

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