FDC Economic Bulletin

May 16, 2017

Headline inflation eases marginally to 17.24% in April

Headline inflation once again declined for the third consecutive month albeit marginally by 0.02% to 17.24% in April. This marginal decline in the inflationary rate highlights the fact that the effect of base year effects are waning. However a welcome development is the decline in the month-on-month inflation rate to 1.60% (20.89% when annualized) from 1.72% in March.

Commodity prices remain sticky downwards and this is driven by two important factors. Firstly, corporates aim to recover losses and cuts made to profit margins sustained for months. Although the CBN has been consistent with its injections into the FX market, prices of many goods have remained stubbornly high. Secondly, output growth, although recovering as seen with improved PMI numbers, remains below accelerated levels needed to force prices downwards. This is attributed to the new trend of naira illiquidity, subdued levels of capital expenditure and a still fundamentally flawed exchange rate market.

Breakdown of the inflation data

According to the NBS inflation report, the food index increased in April to 19.30% from 18.44% the previous month. This indicates that the slowdown in March was likely a blip in the directional movement of this sub-index. The major contributors to the surge in the food basket were bread and cereals, meat, fish, potatoes, yam and other tubers, milk, cheese and eggs, coffee, tea and cocoa. The crop season is over and as such planting season shortages have begun to manifest which is driving the increase in prices of some agric commodities.

Core inflation continues to move in tandem with headline inflation. The index recorded a decline of 0.6% to 14.8% from 15.4% in March. The highest contributions to the core index were recorded in wines and spirits, clothing materials and other articles of clothing, liquid fuel, fuel and lubricants for personal transport equipment, solid fuels, audio-visual photographic and information processing equipment.

The urban and rural sub indexes moved in opposite directions. The urban index slowed to 17.62% from 18.72% in the previous month while the rural index increased to 16.69% from 16.47% in March.


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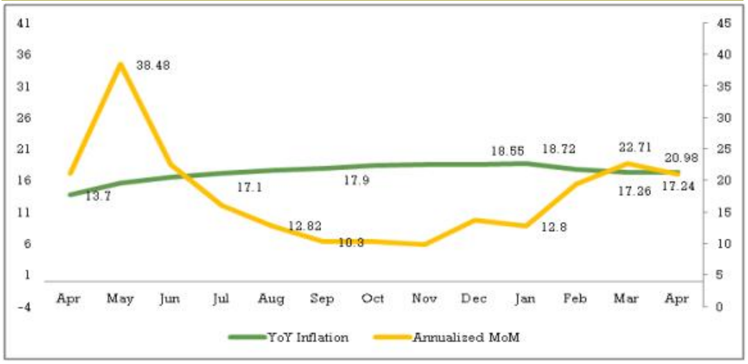
Chart 1: Headline Inflation vs Month-on-Month Inflation (%)



Source : NBS, FDC Think Tank

Outlook

Our analysis leads us to believe that waning base year effects is losing its potency in steering inflation trajectory and as such the month of May is to be driven solely by supply and demand side factors.

The Monetary Policy Committee is meeting next week. Given that the ratio of hawks to doves is tilting towards the hawks, we anticipate that a status quo on monetary parameters will be sustained. This is because inflationary pressures persist in spite of the sustained decline in year- on-year inflation. The planting season is still in play; the effect of policy induced shortages on some key commodities continues to linger (beans and rice). The Ramadan fast will commence soon and we expect food prices to also increase. Finally, the 2017 budget has been passed and awaiting presidential assent. We expect budgetary disbursement to have demand-pull effect on consumer prices.