FDC Economic Bulletin

July 17, 2017

Headline inflation declines marginally to 16.1% in June

Headline inflation for June dipped marginally to 16.1% from 16.25% in May. This was the precise forecast of the FDC Think Tank. The direction of the inflation data was also in line with consensus opinion. It is also noteworthy that this is the fifth consecutive decline in inflation in 2017. The decline in inflation corroborates the view that base year effects have probably worn off and that the stable exchange rate is consistent with the expectations of economic agents.

The numbers show that core inflation declined by 0.5% to 12.5%. This is the eighth back-to-back slide in this sub-index. Core inflation is inflation less seasonality and is more relevant to policymaking decisions.

Breakdown of the inflation data

Core sub-index

The core sub-index declined to 12.5% from 13% the previous month. Diesel prices were much lower in the review period, trading lower on average at N160/ltr from N170/ltr the previous month. The highest increases in the core index were recorded in clothing, energy, motor transport, air transport, wines and spirits.

Food basket – food price increases whist inflation declines

The food basket rose to 19.91% from 19.27% year-on-year in the month of May. Major contributors to the increase in price level of the food basket included meat, fish, bread and cereals, potatoes, yam and other tubers. Imported food inflation declined by 110bps in the month of June to 13.14% from 14.24% in the previous period; illustrating the impact of exchange rate gains in the market.

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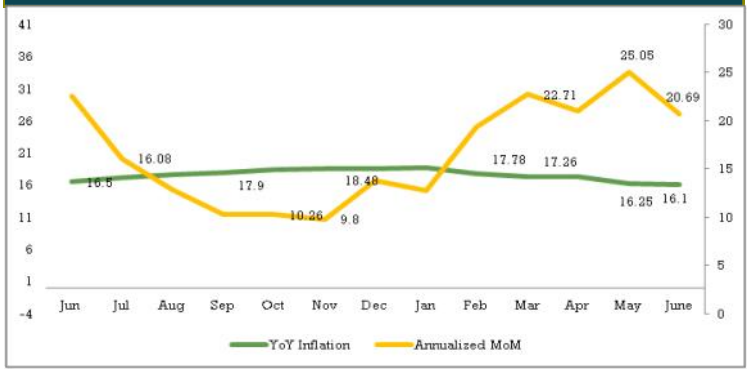
Rural, Urban sub-index

The urban and rural sub indexes had the same directional movement. The urban index slowed to 16.15% from 16.34% in the previous month while the rural index also declined to 16.01% from 16.02% in May.

Month-on-month inflation

MoM inflation declined to 1.58% (20.69% annualized) relative to 1.88% recorded in the previous month. This illustrates the relative stability in the retail market and increased activity in the manufacturing sector. Here, increased output is encouraging relative stability in prices.

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



Source : NBS, FDC Think Tank

Outlook

We expect further weakness in the influence of base year effect on inflation dynamics in the coming months. Therefore structural factors are likely to drive inflation. These structural factors include the interest rate environment, investment appetite in the country, energy prices etc. Exchange rate gains are to remain a dousing factor in the extent to which inflation will increase. The harvest season is fast approaching and as such, price increases as a result of seasonality, are expected to ease.

The monetary policy committee is to meet this month and it is widely expected that the committee will maintain the status quo. However, with five months of inflationary decline, there might be a case for the doves to seek a token gesture from the hawks in the committee in the form of a slight reduction in the CRR to 22.5%pa.

That said, it is important to note the inflation and exchange rate risks attendant to the N2.7trn promissory issuance scheme of FGN. The risks may crystallize if and when holders discount the instrument ahead of maturity.

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