FDC Economic Bulletin

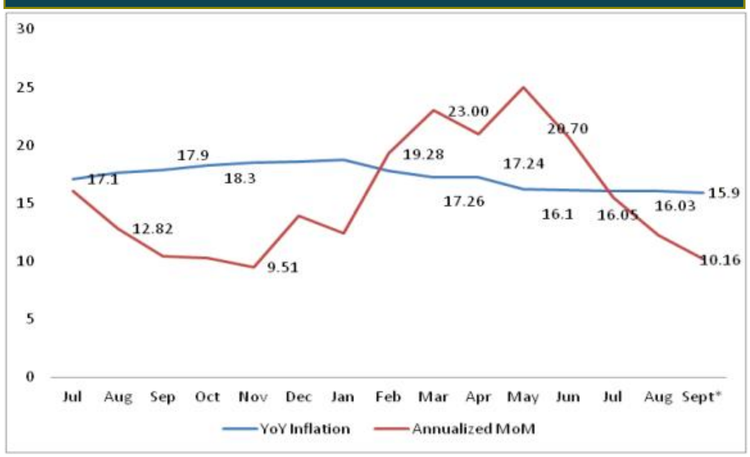
October 11, 2017

Headline inflation to taper off at 15.99% in September

We are projecting a slight decline in year-on-year headline inflation to 15.99% in September. This is a 0.02% decrease from the previous month, making it the eight consecutive monthly decline in 2017. This sustained but marginal reduction can be partially attributed to the effect of tight liquidity in the system, evidenced by a contraction in money supply by 11.06% to N21.85trn in August. We noticed a widespread ease in commodity prices, usually associated with early harvest.

We also expect month-on-month inflation to decline to a one year low of 0.81% (10.16% annualized) from 0.97% (12.28% annualized) in August. This reduction is partially due to a slight appreciation of the naira and availability of forex in the market during the period under review. This has been complemented by an improvement in power supply, which increased from an average of 3,352.97MW/hr to 3,432.97MW/hr in September. On the negative side, diesel price peaked at N190/liter during the month.

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



[1]

Inflationary pressure eased within the SSA, as inflation averaged 13.1% partly due to policy changes, increased output and a reduction in petrol prices. Most Central Banks have held rates to prevent the risk of inflation. Like other SSA peers, Nigeria has used tight monetary policies to ensure price stability.

[1] NBS, FDC Think Tank

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Outlook

The MPC maintained the status quo for the seventh consecutive time. A further moderation in inflation coupled with anticipated positive growth numbers in Q3 '17 would heighten the pressure to adopt a pro-cyclical posture in November. This would be through adopting a more accommodative stance; by way of a reduction in the MPR, CRR or liquidity ratios. The DMO has already moved to reduce the cost of government borrowing by reducing yields on 182 days and 364 days T-bills by 131bps and 128bps to 15.44% and 15.72% respectively.

We believe the threat of higher inflation is looming with the commencement of the electoral cycle. This is because the incumbent government will roll out a series of people-friendly disbursements and initiatives. This might push the CBN to maintain a contractionary monetary policy to prevent a relapse in inflation levels.