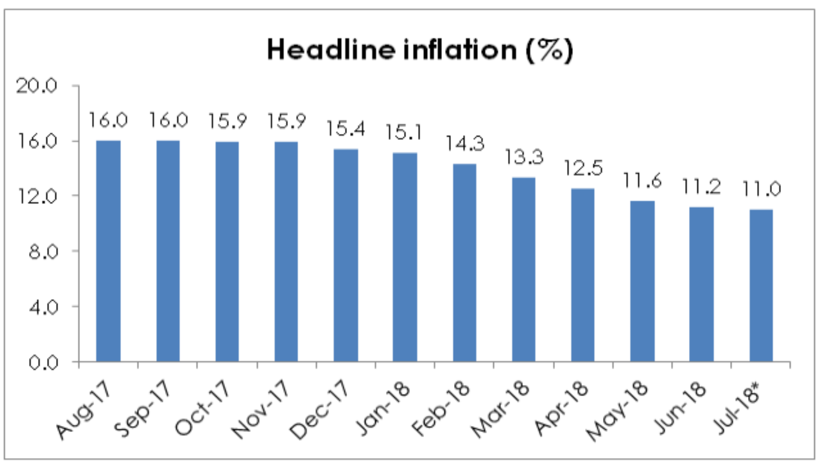
FDC Economic Bulletin

August 10, 2018

Headline inflation to moderate further to 11% in July

Headline inflation is projected to continue its moderating trend in July, declining by 19bps from 11.23% in June to 11%. This will mark the 18th consecutive monthly fall to a 29-month low. This apparent sustained moderation in headline inflation is partly as a result of base year effects. The macroeconomic conditions in 2017 are significantly different from the current state (2018). Some of the principal differences are the availability of forex and destocking of inventories.

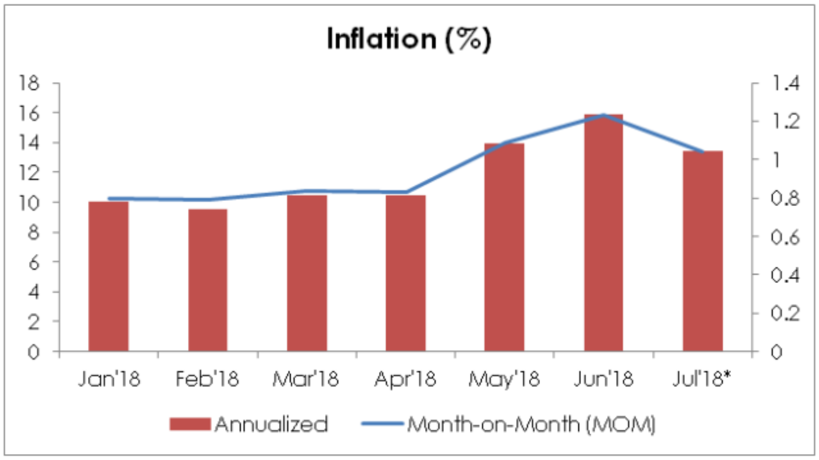
The waning of these base year effects, meaning that the conditions of the two years are becoming similar, is a reason for the projections that inflation will soon begin to increase again. The food and core sub-indices are expected to move in tandem with headline inflation.



[1]

Notably, the month-on-month (MoM) inflation, which is more reflective of seasonalities, is expected to decline by 19bps to 1.04% in July. This was largely due to the reduction in the prices of some of the commodities in the food basket like yam, cassava (garri) and tomato, as the harvest season has commenced. The trend in MoM inflation has shown a higher level of volatility, peaking mainly during the planting season (April-June).

[1] NBS, FDC Think Tank



[2]

During the month of July, there were some noticeable price moderating factors which include:

- Relative improvement in power supply from 3,588MWh/h in June to 3,619MWh/h. This is expected to have a positive impact on aggregate output.
- Decline in the average wholesale (depot) diesel prices from N217/litre in June to N207/litre in July. This reflects a reduction in logistics costs, which could drive down the operating expenses of firms.
- Reduction in naira liquidity as a result of the delay in FAAC disbursement and the CBN's mopping up exercise. This is evident by the fact that opening position of banks declined by 24.4% to N235.9bn in July.
- The marginal appreciation in the parallel market exchange rate from N362/$ at the end of June to N360/$. Ample forex supply and exchange rate stability is expected to taper imported inflation.

However, some of the threatening factors remained the effect of the Apapa gridlock which could increase the inventory carrying costs and demurrage.

Sub-Saharan Africa

Nigeria is the largest economy in Sub-Saharan Africa (SSA), representing 17.2% of the continent's nominal GDP ($2.19trn) in 2017. The sustained moderation in the country's inflation brings it close to the continent's average of 10%. Of all the SSA countries under our review, Kenya, Uganda and Zambia have released their inflation numbers for the month of July and recorded an increase. In June, South Africa and Ghana's inflation rates trended upwards while Nigeria and Angola (the oil producing states) slowed. All the SSA countries, with the exception of Angola and Kenya, left their monetary policy stance unchanged.

[2] NBS, FDC Think Tank

NEXTZON

...the next frontier, covering Africa from Nigeria

Since 2005, Nextzon has been offering world-class advisory and consulting services to organizations, supporting them for phenomenal success.

STRATEGY. VENTURES. GOVERNANCE. E-BUSINESS.
SME DEVELOPMENT. PUBLIC SECTOR CONSULTING. RECRUITMENT

Website: www.nextzon.com Email: info@nextzon.com
Address: 1 Racheal Nwangwu Close, Lekki Phase 1, Lagos, Nigeria.

Country	July Inflation (%)		July Policy rate (%)	
Nigeria	11.0**	↓	14	↔
Angola	19.52*	↓	16.5	↓
Kenya	4.35	↑	9.0 (June)	↓
South Africa	4.6*	↑	6.5	↔
Ghana	10*	↑	17	↔
Uganda	3.1	↑	9.0 (May)	↔
Zambia	7.8	↑	9.75 (May)	↔

[3]

Concluding Thoughts

The sharp decline in the gradient of the inflation curve from 0.99% in March to 0.19% in July could imply that inflation is about to bottom out. Hence, a reversal in the trend is imminent. The implementation of the 2018 budget as well as pre-election spending would boost liquidity, thereby heightening inflationary pressures.

The Central Bank of Nigeria (CBN) has indicated that it could increase interest rates in response to higher inflation ahead of the general elections in 2019.

[3] FDC Think Tank; *June inflation rate; ** July inflation forecast