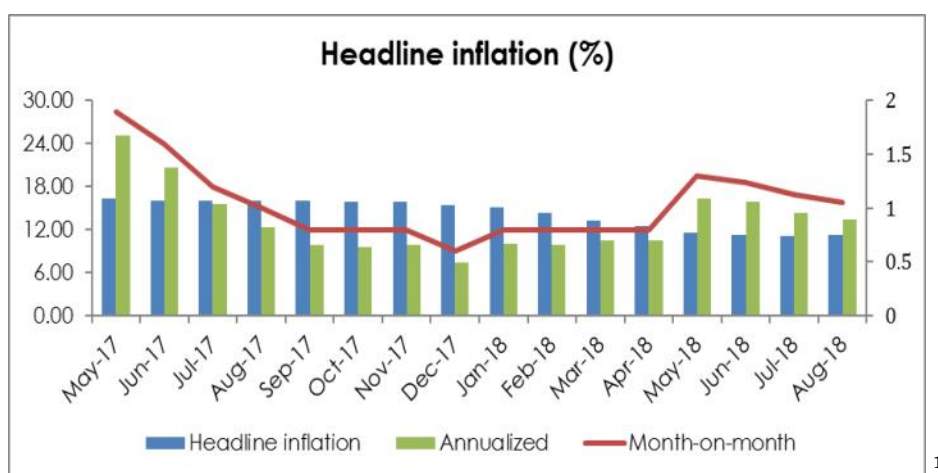


FDC Economic Bulletin

September 14, 2018

Headline inflation defies gravity, increases to 11.23% in August

For the first time in 18 months, Nigeria's headline inflation bucked the declining trend. It increased to 11.23% in August from 11.14% in July. While this was expected, the rate of increase (0.09%) was sharper than anticipated. The major factor responsible for the rise is food inflation (13.16%).



Conversely, month-on-month inflation fell by 0.08% to 1.05% (13.38% annualized) in August, primarily due to the slowdown in the core sub-index. The relative stability in the exchange rate had a positive impact on the cost of importing raw materials and equipment.

Data Breakdown

Food inflation

In August, the (year-on-year) food sub-index rose to 13.16% from 12.85% in July. Month-on-month food index also inched up by 0.02% to 1.42% during the review period. This increase was buoyed by higher demand during the Eid-Kabir celebrations. The disruptions in the food belt in North Central Nigeria also supported the rise in the food sub-index. The commodities that recorded the highest increase were: bread, cereals, potatoes, yam & other tubers, meat, vegetables, fish, fruit and oils & fats. The increase in diesel prices filtered through to higher food prices. The average price of diesel nationwide rose by 1.79% to N207.98/litre in August.

¹ NBS, FDC Think Tank



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Core inflation

Year-on-year core inflation (inflation less seasonalities) dipped by 0.2% to 10.0% in August. Core index (month-on-month) also declined to 0.78% from 0.81% in July. This was in spite of the increase in energy prices (diesel, kerosene and petrol). Exchange rate stability supported the slowdown in the index.

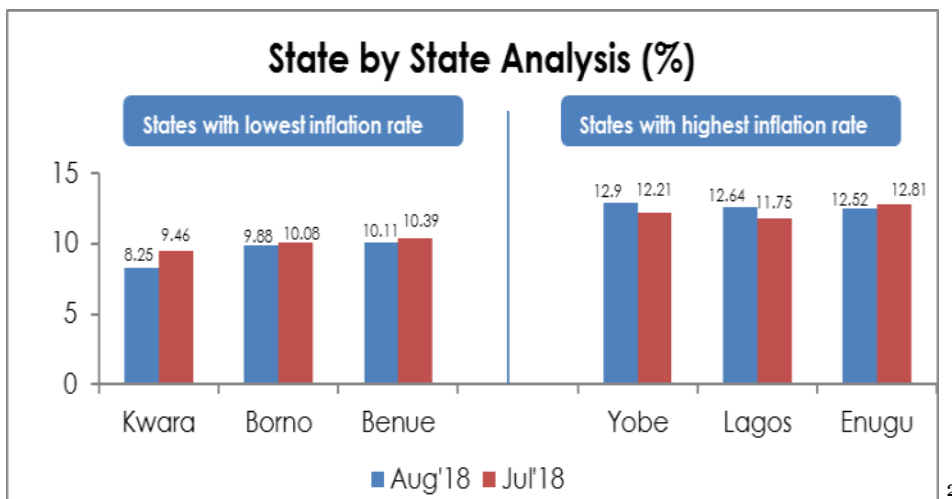
Core inflation is now 100 basis points below the 91-day primary market T/bills rate of 11%, signifying a positive rate of return.

Rural & Urban Indices

Urban and rural inflation increased marginally (year-on-year) to 11.67% and 10.84% respectively. On a monthly basis, both indices declined to 1.0% and 0.96% respectively.

State by State Analysis

Kwara state reclaimed its position as the state with the lowest inflation rate (8.25%), followed by Borno (9.88%) and Benue (10.11%). The states with the highest inflation rates were Yobe (12.9%), Lagos (12.64%) and Enugu (12.52%).





















Sub-Saharan Africa

With the exception of South Africa, all the Sub-Saharan African (SSA) countries under our review have released their inflation numbers for August. While Angola and Kenya recorded a decline, Ghana and Uganda recorded an increase.

Four of the SSA countries under our review maintained status quo at their last monetary policy meeting.

²NBS, FDC Think Tank

Country	August Inflation (%)	August Policy rate (%)	GDP Growth Q2'18 (%)
Nigeria	11.23 	14 	1.5 
Angola	18.56 	16.5 ** 	-4.30 (Q4'17) 
Kenya	4.04 	9.0 *** 	5.7(Q1'18) 
South Africa	5.1* 	6.5 ** 	-0.7 
Ghana	9.9 	17** 	6.8(Q1'18) 
Uganda	3.8 	9 	6.4(Q1'18) ³ 

Outlook

The MPC would be meeting on September 24/25. The reversal in the inflation trend and the pressure on external reserves will embolden the hawks in the MPC, who are calling for another cycle of tightening. The rationale will be to curb capital flight and maintain price stability. If this happens, it could lead to higher cost of borrowing and reduce credit to the private sector and GDP growth.

³Source: Trading Economics, * July inflation numbers, **July Policy rate, ***June Policy rate

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