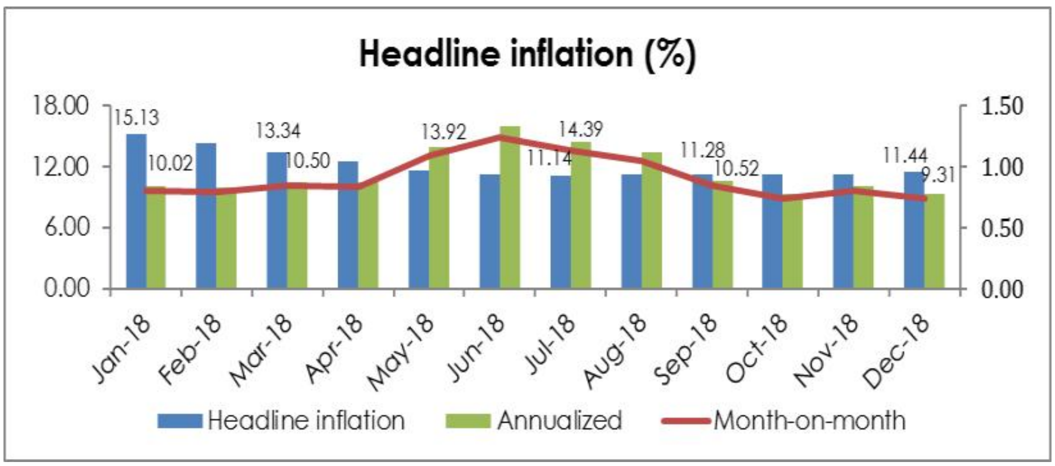
FDC Economic Bulletin

January 16, 2019

Headline inflation up to 11.44%

In line with our forecast and the general consensus, headline inflation increased by 0.16% to 11.44% in December. While this increase was widely anticipated, the rate of increase was sharper than expected. The rise in the price level was as a result of the demand pull effect of festive spending. Notably, the slope of the inflation curve is becoming steeper, signifying that the price momentum could persist in the near term. This rise will be one of the major considerations at the next MPC meeting this month. Being the meeting just before the general elections, we expect the committee to maintain status quo on all monetary parameters. As projected, the average inflation rate in 2018 is 12.14%, 4.4% lower than 16.54% in 2017.



[1]

Month-on-month inflation down to 0.74%

The monthly inflation index declined by 0.08% to close the year at 0.74% (9.31% annualized). This was due to an increase in manufacturing activities as evidenced by the December PMI figure which rose 2.2% to 60.2 points.

Data Breakdown

Food inflation rose to 13.56%

Year-on-year food inflation was up 0.26% to 13.56% in December. The commodities that recorded price

[1] NBS, FDC Think Tank

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https://m.me/ubachatbanking *Leo@ubagroup.com* *CFC (+234-1-2807400)* increases were soft drinks, fish, bread and cereals, oils and fats, coffee, tea and cocoa, meat, milk, cheese and egg, vegetables, potatoes, yam and other tubers. On the other hand, the month-on-month food price index fell to 0.81% from 0.9% in November.

Core inflation flat at 9.8%

Annual core inflation (inflation less seasonalities) remained flat at 9.8% in December. On a monthly basis, the core index declined to 0.5% from 0.68% in the previous month. The usual end of the year fuel scarcity was not witnessed in December 2018.

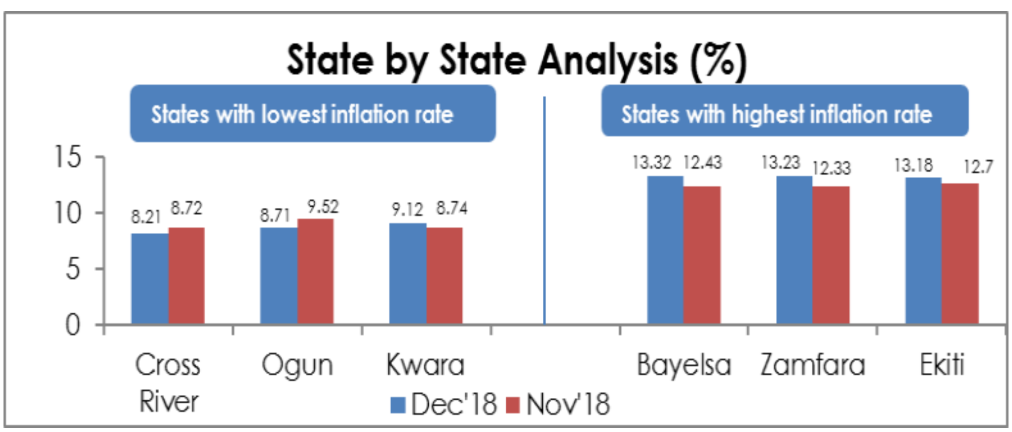
Core inflation is currently below the 364-day primary market T/bills rate of 14.5%. This signifies a positive rate of return.

Rural & Urban Indices follow the upward trend

The year-on-year urban and rural inflation rate rose to 11.73% and 11.18% respectively from 11.61% and 10.99% in November. The increase in the urban inflation after 2-months of decline shows that the impact of the end of harvest is now being felt in urban areas. On a month-on-month basis, both indices declined to 0.76% and 0.72% respectively from 0.83% and 0.78% in November.

State by State Analysis – Cross River continues to have lowest inflation rate

Cross River is the state with the lowest inflation rate (8.21%), followed by Ogun (8.71%) and Kwara (9.12%). The states with the highest inflation rates are Bayelsa (13.32%), Zamfara (13.23%) and Ekiti (13.8%).



[2]

[2]FDC Think Tank; *November inflation rate; **December inflation forecast

Sub-Saharan Africa – Rising inflation now becoming a trend

The average inflation rate across countries in Sub-Saharan Africa (SSA) declined to 9.2% in 2018 from 12.2% in 2016. Of the six SSA countries under our review, five recorded an increase while one posted a decline. Rising inflation is now becoming a trend in SSA. This is not far-fetched as most SSA countries are now in the planting season.

All the SSA countries except South Africa maintained status quo at their last monetary policy meetings.

Country	December Inflation (%)	November Policy rate (%)	GDP Growth rate Q3'18 (%)
Nigeria	11.44 ↑	14 ↔	1.81 ↑
Angola	18.60 ↑	16.5 ↔	-1.6 ↑
Kenya	5.71 ↑	9.0 ↔	6.0 ↓
South Africa	5.2 (Nov) ↑	6.75 ↑	2.2 ↑
Ghana	9.4 ↑	17 ↔	7.4 ↑
Uganda	2.2 ↓	10 (Dec) ↔	2.8 ↑

[3]

Outlook

There is usually a lull in economic activities in January due to lower disposable income and fall in consumer spending. However, the President has agreed to send the minimum wage increase bill to the National Assembly on January 23. The implementation of this bill comes with a boost in nominal income especially if the effective implementation date is backtracked to October, when the upward review was approved. The money illusion effect of higher nominal income would prompt an increase in aggregate demand, which would be accompanied by higher commodity prices. Hence, we anticipate a further rise in January inflation numbers.

[3] FDC Think Tank; Trading Economics