

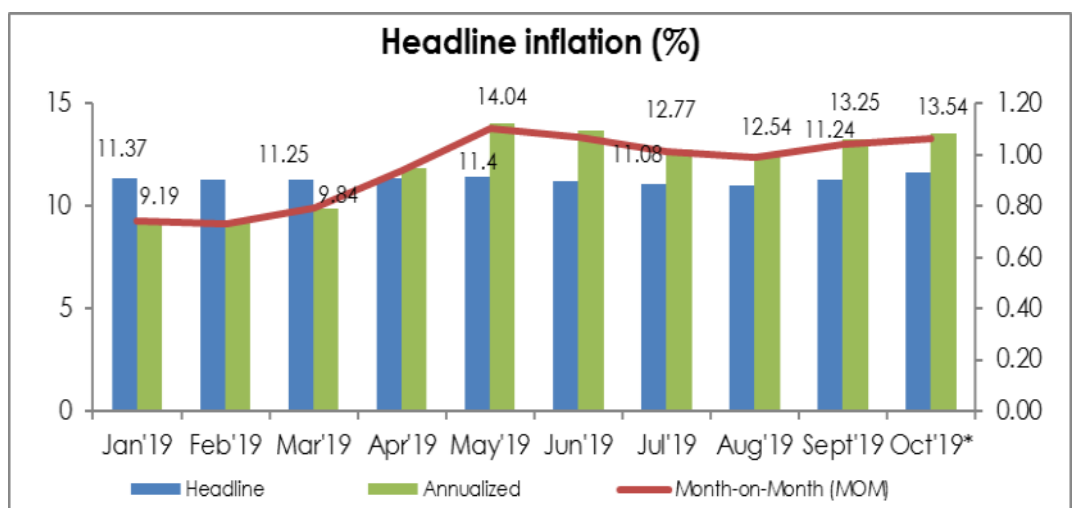
FDC Economic Bulletin

November 08, 2019

The steam is sizzling out

Based on our survey, headline inflation is expected to continue its upward trajectory in October. The index is estimated to soar by 0.36% to 11.60%. The factors driving inflation remain supply shocks with underlying cost push pressures. The impact of the border closure was further exacerbated by unusual heavy rainfall in October, which had a negative impact on harvest. Money supply growth also played a crucial role in stoking inflationary pressures. M2 grew by 2.22% in September and is expected to increase by 5% in October as banks increase lending in compliance with the CBN's 65% Loan-Deposit-Ratio (LDR) directive. Average opening position of the interbank money market spiked by 75.41% to N326.04bn.

The month-on-month inflation (a more relevant measure of prices) is projected to inch up to 1.06% (13.54% annualized). All other inflation sub-indices are expected to move in tandem with the headline inflation.



Money supply growth fuelling inflation

Money supply has a direct relationship with the general price level. In September, broad money supply (M2) grew by 2.22% to N27.66trn. It is expected to increase by 5% in October as banks increase lending to creditworthy customers in compliance with the CBN's 65% LDR directive. Credit to the private sector was up 12.15% to N25.47trn in September.

¹NBS, FDC Think Tank

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Output parameters - PMI falls to 54.1 points

The Purchasing Manager Index (PMI), a measure of the health of the manufacturing sector, declined by 3.74% to 54.1 points in October. Lower output without a corresponding fall in the supply of money could result in much money chasing fewer goods, thus signaling heightened inflationary pressures in subsequent months.

Peer Comparison – inflationary pressures across Sub-Saharan Africa

The inflation trend across the Sub-Saharan African (SSA) countries revealed that inflationary pressures are beginning to mount. Of the six SSA countries under our review, three have released their October inflation numbers, all posting increases. The rise in inflation was bolstered by higher prices for food, housing and utilities.

Contrary to monetary easing in most advanced economies due to global economic slowdown, trade war and geopolitical tensions, most of the African central banks left their monetary policy rates unchanged.

Country	October Inflation (%)		Policy rate (%)	
Nigeria	11.35**	↑	13.50	↔
Angola	16.08*	↓	15.50	↔
Kenya	4.95	↑	9.00	↔
South Africa	4.10*	↓	6.50	↔
Ghana	7.60*	↓	16.00	↔
Uganda	2.50	↑	9.00	↓
Zambia	10.70	↑	10.25	↔

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Outlook: Festive season and consumer expectation

Typically, consumer prices tend to increase towards the end of the year due to rising demand for goods and services for the Christmas festivities. This, at a time when the border closure has created some shortages, will further push up prices. The monetary policy committee will meet this month. We expect the rising

²Trading Economics, * September inflation numbers, **October forecast

inflation trend to be a major consideration. More importantly, the committee will be interested in inflation expectations as it strives to achieve a single digit inflation rate.



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