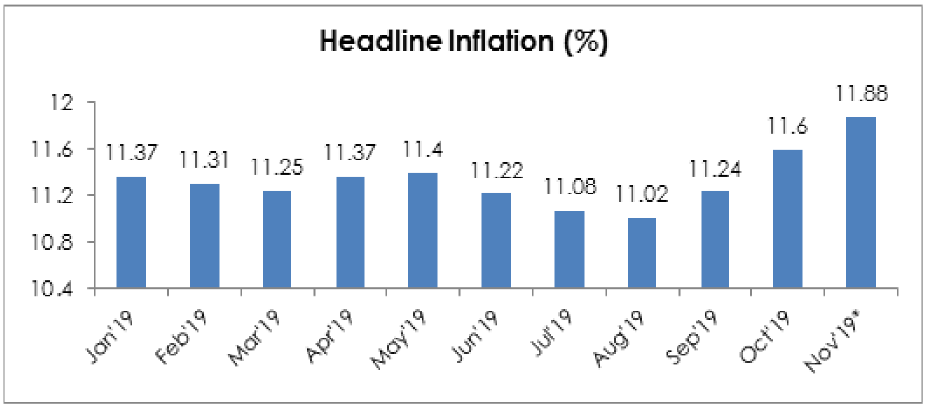
FDC Economic Bulletin

December 12, 2019

Inflation, Rolling with the Punches

"Border closure, Lower interest rates…"

Based on our survey, headline inflation for November is projected to increase to 11.88% from 11.61% in October. In the last six months, headline inflation has increased for three months. If our projections are accurate, it will be the fourth month of rising inflation.



[1]

In recent times, there have been more factors stoking inflationary pressure, despite the recent growth in output recorded in Q3 (2.28%). Factors such as the border closure, lower interest rates and increased liquidity have impacted negatively on the consumer price index. The border closure has led to a spike in the prices of commodities such as rice, chicken, and turkey while lower interest rates are a disincentive to save. The average yield on T/bills is now 4.24% below headline inflation, resulting in negative real rate of return. Hence people are likely to spend rather than save. This has increased the demand for goods. The level of liquidity has also increased as reflected in the 3.95% increase in the credit to private sector.

Although, the CBN have achieved the dual objectives of lower interest rates and higher loan extension to the private sector, heightened inflationary pressures and the steady depletion of the external reserves could trigger a change in policy in the near term.

Month-on-Month Inflation Expected to stay flat at 1.06%

The month-on-month inflation (a more relevant measure of prices) is projected to remain flat at 1.06%

[1]NBS, FDC Think Tank

0700 500 0000, 01 270 1323, 0708 065 3700

@ecobank_nigeria
@EcobankNGR

ENGcontactcentre@ecobank.com

ecobank.com

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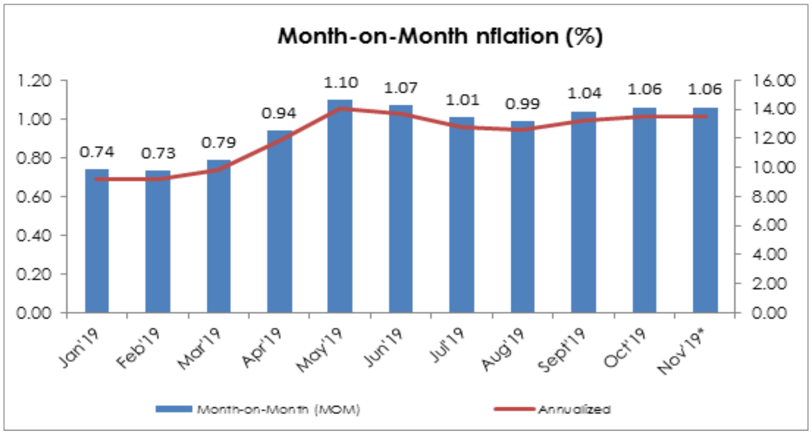
(13.49% annualized) in November. Commodity prices moved in different directions in November, while tomatoes and pepper declined, garri and rice recorded price increases.



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Determinants of Inflation

Money Supply

Money supply is a key determinant of the general price level. In October, M2 grew at an annualized rate of 2.07% to N27.63trn. We anticipate a further increase in broad money supply in November as banks increase lending to credit worthy customers in a bid to meet up with the CBN's 65% LDR directives. In November, OMO maturities surpassed total OMO sales (N849.31billion), resulting in a net inflow of N1.05trillion.

Interest Rates

While the anchor rate (MPR) has been left unchanged at 13.5%p.a since March 2019, the CBN's unorthodox policies have seen lending rates declined by an average of 400 basis points in the last four months. Lower interest rates incentivize consumers and corporates to borrow more, thus increasing the amount of money in circulation. This is evidenced by the spike in credit to the private sector to N25.80trn in October from N24.82trn in August. Currency in circulation increased to N2.06trn in October from N2.02trn in August.

Exchange rate

The exchange rate was relatively stable across all market segments in November. At the parallel market, the naira traded between N359/$-N360/$. Exchange rate stability is expected to have a positive impact on core inflation which is expected to decline marginally to 8.86% from 8.88% in October.

[2]NBS, FDC Think Tank

Peer Comparison – inflationary pressures across Sub-Saharan Africa

Regional inflationary trends have been increasing in the past months. Three of the six SSA countries under our review have released their inflation figures for November, all posting increases. Rising food prices was a common factor responsible for the uptick in inflation. With the unfavourable weather condition across the African region, flood and storms have affected farm produce in countries such as Kenya and Uganda, leading to reduced food supply and higher prices.

With the exception of Kenya and Uganda, all the SSA countries under our review kept their benchmark interest rates unchanged at their respective MPC meetings.

Country	November Inflation (%)		December Policy rate (%)	
Nigeria	11.89**	↑	13.50 (Nov)	↔
Angola	16.1*	↔	15.50 (Nov)	↔
Kenya	5.56	↑	8.50 (Nov)	↓
South Africa	3.7*	↓	6.50 (Nov)	↔
Ghana	7.7*	↑	16.00 (Nov)	↔
Uganda	3.0	↑	9.00	↓
Zambia	10.8	↑	10.25 (Nov)	↔

[3]

Outlook: Festive demand to heighten inflationary pressures

We expect commodity prices to increase in the next few weeks due to increased seasonal demand. The increase in price could be further exacerbated by the impact of border closure. In addition, the minimum wage payment especially in Lagos will boost consumer disposable income and increase aggregate demand. Hence, headline inflation will most likely increase in December.

[3]NBS, Trading Economics, FDC Think Tank