FDC Economic Bulletin

January 17, 2020

Headline inflation creeps up to 11.98% in December 2019

As widely anticipated, Nigeria's headline inflation (year-on-year) increased by 0.13% to 11.98% in December from 11.85% in November. This marks the 4th consecutive month of rising inflation. The last time this happened was in 2016 when Nigeria was neck deep in a recession. The average inflation for 2019 was lower at 11.39% compared to 2018's average of 12.15%.

All the sub indices excluding month-on-month inflation moved in tandem with the overall inflation rate. Core inflation increased by 34bps to 9.33%, food by 19bps to 14.67%, urban by 15bps to 12.62% and rural inflation by 11bps to 11.41%. The underlying drivers of the rise in the consumer price index in December consisted of the following.

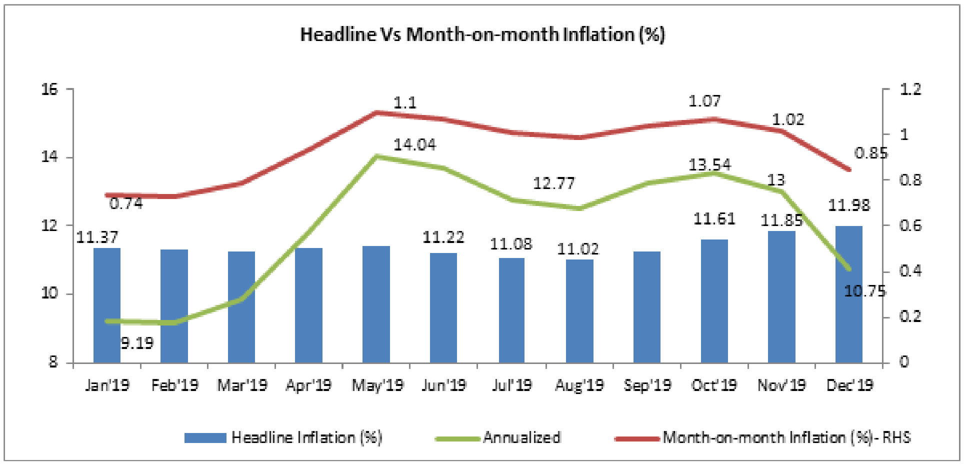
- **Demand pull factors**- liquidity surfeit- Money supply increased by 4.99% to N28.42trn while credit to the private sector grew by 16.3% (way above the CBN's target of 9.41%) to N26.41trn.[1] The boost in money supply occurred as a result of the CBN's unorthodox policies. This also resulted in lower interest rates which are a disincentive to save. What is not saved is spent. Hence there was an increase in consumer spending. Also, the payment of the new minimum wage spurred consumer spending.
- **Seasonality-** December is typically characterized by increased activities due to the festivities and higher consumer demand.
- **Supply shocks-** the impact of the land border closure affected key commodities in December such as rice and turkey.
- **Cost push-** diesel, the fuel used to power the trucks from farms to the markets, recorded a 9.5% increase in price to N230 per litre. The exchange rate also came under pressure, briefly depreciating to N363 and N364 against the dollar at the parallel market and IEFX window respectively.

[1] November figure

Inflation Data Breakdown

Month-on-month inflation down to 10.75% annualized

Month-on-month inflation moved in the opposite direction with the headline inflation trend, decreasing to 0.85% (10.75% annualized) from 1.02% (13.0% annualized) in November. This is the 2nd consecutive monthly decline.



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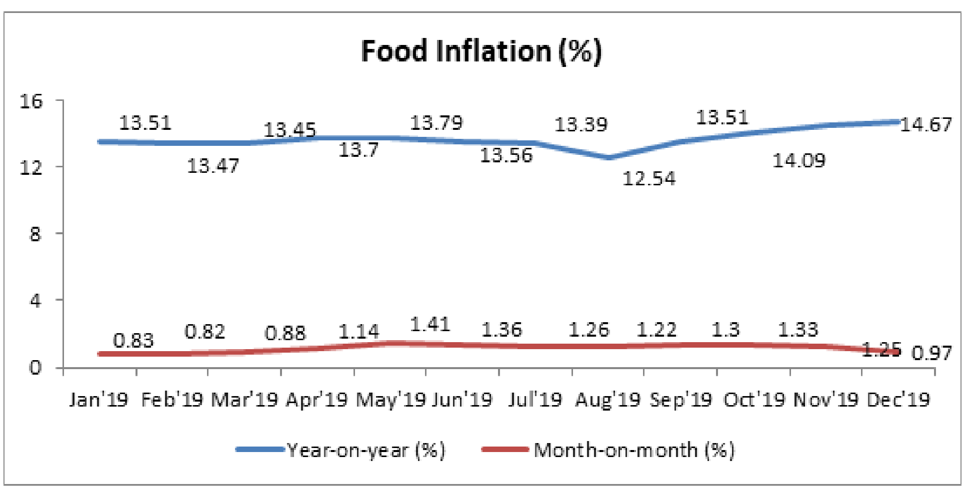
Food inflation and Core inflation on an upward trend

The food sub-index (Y-o-Y) increased to 14.67% from 14.48% in November. Major contributors to the increase include bread and cereals, meat, fish, potatoes, yam and other tubers. However, M-o-M, the sub-index slowed to 0.97% from 1.25% in November. The average food inflation rate in 2019 of 13.73% was a decline from 14.44% in 2018.



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[2]NBS, FDC Think Tank
[3]NBS, FDC Think Tank

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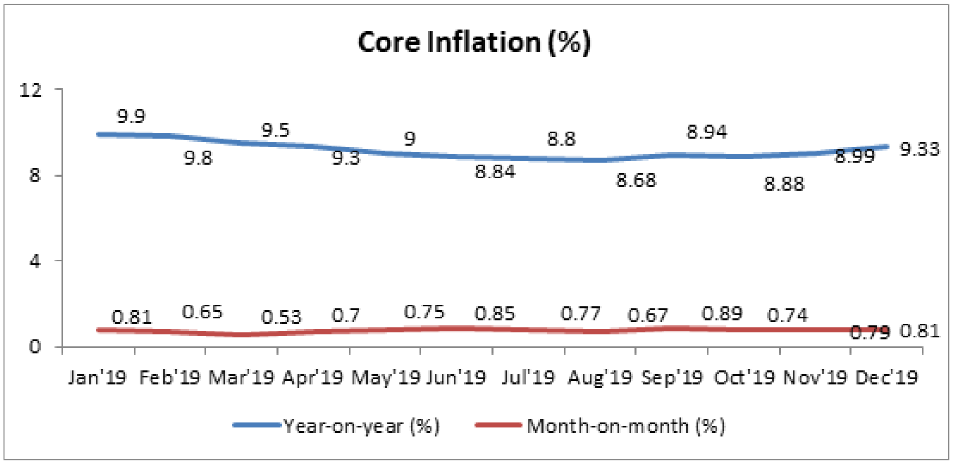
The core sub-index (inflation less seasonalities) increased to 9.33% from 8.99% in November. M-o-M core inflation also increased to 0.81% from 0.79% in the previous month due to increased cost of logistics (higher diesel price). On the average, core inflation rate in 2019 was much lower at 9.15% compared to 10.54% in 2018.



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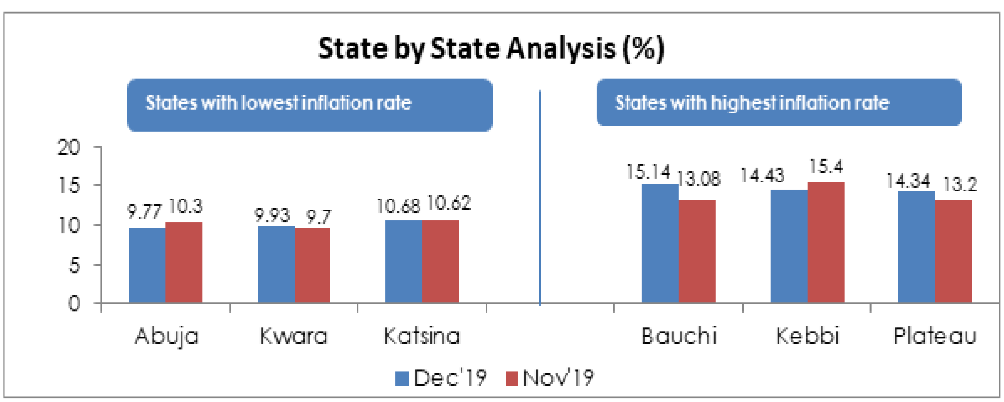
Rural & Urban Indices

Rural and urban inflation rate (year-on-year) increased to 11.41% and 12.62%, from 11.3% and 12.47% in November respectively. However, M-o-M, both rural and urban indices declined to 0.82% and 0.9% respectively.

State by State Analysis

Abuja recorded the lowest inflation rate of 9.77% in December followed by Kwara (9.93%) and Katsina (10.68%). Bauchi on the other hand recorded the highest inflation rate of 15.14%, followed by Kebbi (14.43%) and Plateau (14.34%).



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[4]NBS, FDC Think Tank
[5]NBS, FDC Think Tank

Outlook

We anticipate a buildup of inflationary pressures in subsequent months, driven by the lingering effect of supply bottlenecks (border closure, forex restrictions), higher logistics and distribution costs and the VAT increase to 7.5% that will be implemented February 1. The demand pull effect of the liquidity surfeit would also impact on consumer prices and disposable income. The expectation of higher costs of goods increases the possibility of a change in the CBN's current stance to a tightening position in the first quarter of the year. This may mean that the era of lower interest rates is slowly coming to an end.