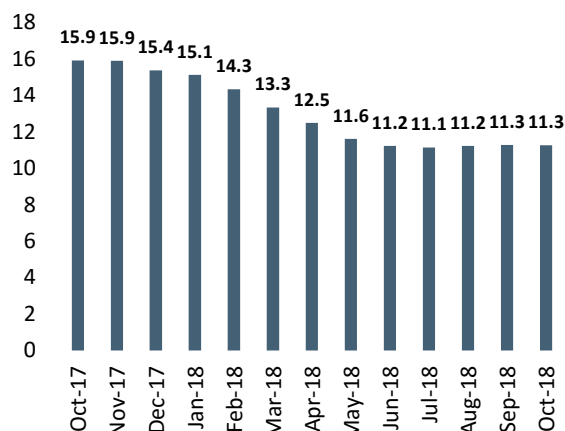
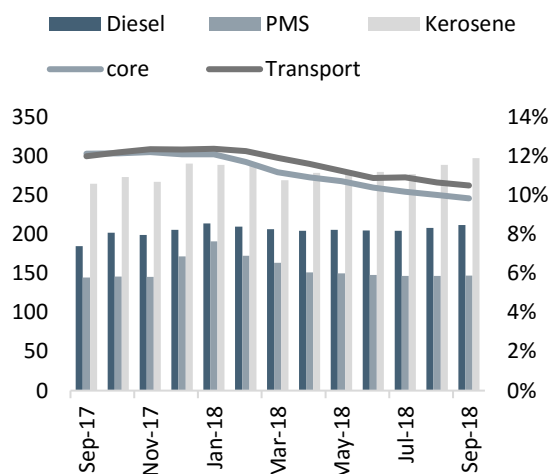


**Inflation rate – Actual (YoY)****Avg. energy prices (₦/litre) vs. Core & Transport Inflation (% YoY)****Olamide Adeboboye**Olamide.adeboboye@arm.com.ng**Disclosure & Disclaimer** – [Click here](#)**Core Inflation posts a surprise outing in October****Inflation**

- Nigeria's headline inflation for the month of October came in at 11.26% YoY (ARM forecast: 11.30% YoY), representing a 2bps decline from 11.28% reported in the month of September. The decline was driven by softening food prices, which more than outweighed the 4bps increase in core inflation – the first since December 2017.
- The food index firmed during the month to 13.28% YoY, 3bps lower than the previous month. Surprisingly, core inflation increased by 4bps to 9.88% – mirroring the uptick in the housing, water, electricity, gas and other fuel basket (HWEFG), health and alcoholic beverages segment. Prices in these baskets ticked up by 7.28%, 9.70%, 9.62% – jointly accounting for 41% of the inflationary pressure in the core basket.
- On a MoM basis, while food prices dipped by 0.82% – in line with our expectation – core inflation trended higher to 0.80%, 16bps higher than the prior month. On food, we believe the ongoing harvest season in both the northern and southern region supported the moderation in prices. According to FEWSNET¹, preliminary report of agricultural performance survey by NAERLS² revealed favorable harvest of most crops, particularly major cereals like maize and millet. Also, the report revealed millet and maize harvest this year is 17% and 15% higher than the five-year average respectively. Elsewhere, FEWSNET noted that the favorable harvest has led to releases of older stock by traders, thereby driving market supplies higher and moderation in food prices.

¹ Famine Early Warning Systems Network² National Agricultural Extension and Research Liaison Services

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- For Core, the surprise uptick in prices mirror pressures in most baskets – excluding HWEGF and Education. To be specific, core inflation ticked higher 16bps to 0.8%, with surprises from clothing and footwear (+3bps), transport (+3bps), household equipment (+2bps), health (+2bps) and miscellaneous good (+154bps) – jointly accounting for 46% of the core basket. Clearly the uptick seen in these sub core baskets overshadowed the impact of a moderation in HWEGF (-2bps) and Education (-1bps) – which accounts for 41% of the core basket. From our checks on energy prices, we believe higher diesel prices and the gridlock in Apapa drove the pressure in transport inflation which we think filtered into the other sub components.
 - In terms of monetary policy impact, while the moderation in inflation aligns with the interest of the Apex bank, the weak economic growth picture and resumption of pressures on core prices will dominate deliberations at the ongoing MPC meeting. We expect the committee to maintain status quo, leaving monetary policy rate unchanged at 14%.