

Economic Report | Inflation
Food inflation: what goes up must come down...or not?
Economic Snapshot
July 2017 Inflation Data/Indices

	MoM	YoY	Prev YoY
Headline	1.2%	16.1%	16.1%
Food	1.5%	20.3%	19.9%
All Items Less Farm	1.0%	12.2%	12.0%
Imported food	1.1%	14.1%	14.2%
Energy	0.3%	11.6%	14.2%

Currency Markets

	Latest	Daily Chg	YTD
USDNGN	355.5	0.2%	-0.1%
EURNGN	425.6	0.5%	29.7%
GBPNGN	462.5	-0.3%	19.5%
JPYNGN	325.0	0.3%	21.6%

Monetary Aggregates – June 2017

	(₦'bn)	MoM	YoY
M2	21,674	-1.4%	-1.8%
CPS	21,978	0.2%	2.5%
NCG	4,425	5.0%	39.6%
NFA	8,468	-0.8%	19.2%
NDC	26,404	1.0%	7.2%

External Position

	Latest	QoQ	YoY
Trade Balance (\$'mn)	185.73	-21.5%	N/A
External Reserves (\$'mn)	31,599	0.95%	3.68%
Foreign Debt (\$'mn)	13,808	21.1%	23.3%

Growth Data – Q1 2017

	(₦'bn)	%of total	YoY
Real GDP	15,861	100%	-0.5%
Agriculture	3,385	21.3%	3.4%
Oil	1,411	8.9%	-11.6%
Services	5,975	37.7%	1.0%
Wholesale and Trade	2,819	17.8%	-3.1%
Manufacturing	1,543	9.7%	1.4%

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In line with the trend over the past five months, headline inflation declined 5bps from prior reading to 16.05% YoY in July. Whilst the YoY reading was heavily dictated by another moderation in core inflation—consequent on the oft noted dissipation of electricity and PMS price hikes from the sub-basket, the 37bps contraction in MoM headline reading to 1.21% emanated from decelerations in both core (-32bps) and food (-49bps) inflation momentum. The temperance in core inflation was most evident in the HWEFG sub-basket, which experienced its sharpest moderation in 12 quarters in the review month. At the other end, the decline in MoM food inflation—the second in as many months—largely reflected an almost ubiquitous step-down in price momentum in key food segments such as farm produce (-44bps), imported food (-44bps), and processed food (-106bps) with the latter two possibly indicating some lagged impact of improved dollar supply.

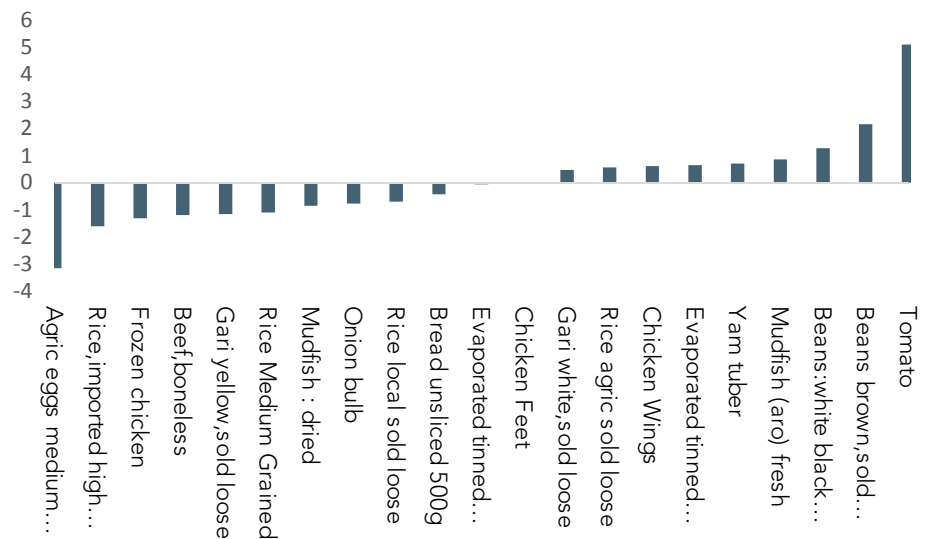
Transport inflation sees first moderation of 2017

While we retain our view on pass-through of currency gains on food inflation, we note that although MoM transport inflation experienced its sharpest moderation in over 11 months in July¹, it remained sizably higher than trend levels to suggest that cost of food transport was still on the high side. To this end, our correspondence from within the bureau suggest that pressures on the transport front reflected high cost of car/truck maintenance which neutered gains from lower diesel and PMS prices.

¹ -36bps to 0.9%

Beyond this supply-side shock, the intersection of lean seasons of both Southern and Northern Nigeria was unable to stall the MoM food inflation moderation. According to FEWSNET, this slowdown in food inflation can be traced to modest increases in national production of rice and wheat following CBN's blacklist of imported substitutes for these agricultural produce. This also translated to a decline in prices of other key produce including bread (-0.43% MoM) and frozen chicken (-1.3% MoM) in the month of July.

Figure 1: Changes in selected food prices over July 2017 (MoM %)



Source: NBS, ARM Research

All roads lead southwards for Nigerian inflation

Going into the month of August, we expect another moderation in transport inflation owing to sustained declines in MoM PMS and diesel prices. This, as well as the conclusion of lean season in the southern part of the country, underpins our expectation for further temperance in food inflation in August. This view is bolstered by continued growth in domestic production of hitherto imported food items following CBN's continued FX rationing for imported goods. Elsewhere, we also expect core inflation to decelerate in the absence of fresh supply shocks—with declining inflationary pressures from energy and transportation prices bolstering our case. Against this backdrop, we now look for MoM headline reading of 1% for August (July: 1.58% MoM). However, reflecting the high base effects in the

earlier part of the year, our projected MoM reading translate to a largely unchanged YoY inflation of 16.04% for August.

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