

Economic Report | Inflation
Nigerian Inflation – A word on recent flood disasters
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	362.1	0.9%	14.8%
EURNGN	426.9	-0.4%	28.7%
GBPNGN	478.4	0.5%	22.3%
JPYNGN	325.0	-0.3%	20.8%

Monetary Aggregates – July 2017

	(₦'bn)	MoM	YoY
M2	22,200	2.4%	-1.5%
CPS	22,172	0.8%	-1.1%
NCG	4,987	12.7%	66.0%
NFA	8,743	3.3%	15.6%
NDC	27,160	2.9%	6.8%

External Position

	Latest	QoQ	YoY
Trade Balance (\$'mn)	84.76	-9.6%	N/A
External Reserves (\$'mn)	31,812	25%	4.8%
Foreign Debt (\$'mn)	13,808	21.1%	23.3%

Growth Data – Q2 2017

	(₦'bn)	%of total	YoY
Real GDP	16,307	100%	0.5%
Agriculture	3,745	23.0%	3.4%
Oil	1,449	8.9%	1.6%
Services	5,974	36.6%	-0.5%
Wholesale and Trade	2,787	17.1%	-1.6%
Manufacturing	1,529	9.4%	0.6%

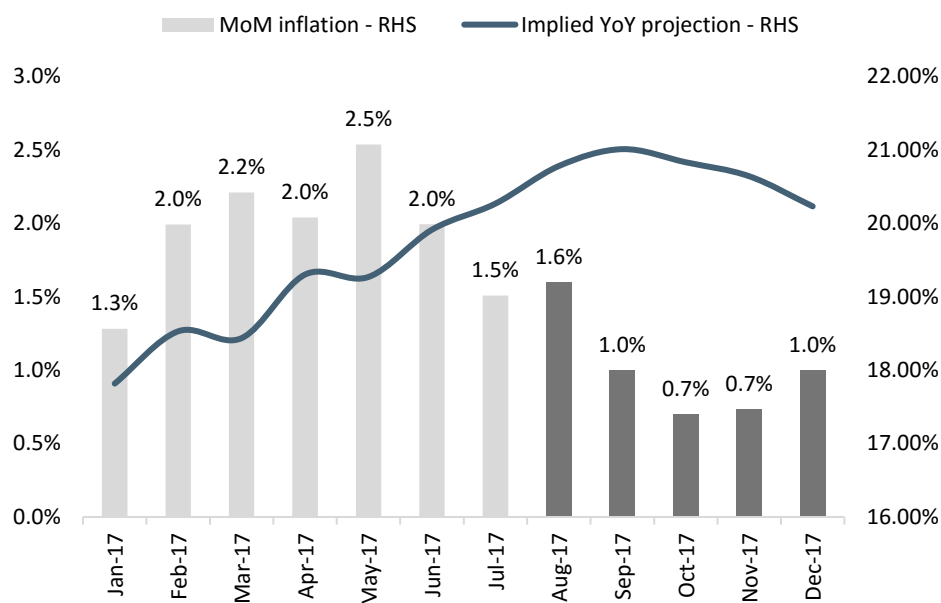
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Food pressures will be obvious in the near term...

In early August, Nigeria awoke to severe flooding in Benue and Katsina states, which has also subsisted into September. According to reports, many properties were damaged and thousands (~100,000) were rendered homeless following the overflow of the Benue river. Unlike the 2012 flood tragedy, the recent flooding did not have a largely ubiquitous spread. However, its intersection with lean season in the North, front loaded festive-induced demand pressures (i.e. Eid-el-Kabir celebration) as well as a single month human displacement of ~100,000 people in the nation's "food basket state" suggest that prior expectation for another food inflation moderation in August is now a tall order.

Precisely, hinging on expected moderation in transport inflation and end of lean season in the southern part of the country, we had forecasted a 41bps moderation in food inflation to 1.1% MoM for August—a feat which would have translated to 8bps moderation in YoY food inflation to 20.19% in the coming reading. In fact, recent flood disaster lingered longer than was earlier feared and our communication with sources within the bureau suggest that transport inflation could, once again, remain sticky despite moderations in diesel and PMS prices.

On other fronts, our latest market research points to renewed retail price pressures across some commodity names with rice prices up 3% MoM in urban communities as Islamic faithfuls front loaded demand in anticipation of Eid-el-Kabir in August. Thus, contrary to previous expectation, we now see scope for food pressures in the month of August and settle for a MoM reading of 1.6%—aided by comparisons with prior periods of notable floods. This implies an August YoY food inflation of 20.78% (vs. 20.27% YoY in July). Farther out, the extension of flooding into September looks set to limit pass-through from commencement of main harvest in the South (MoM: September 2017E: 1.0%; historical average: 0.68%). For October through December, our expectation for food inflation is also slightly ahead of trend levels (+3bps higher than the average over the three years leading to 2016 at 0.81% MoM) with Nigerian Metrological Agency having highlighted potential impact of shorter length of growing season in many parts of the country. Consequently, we now look for average food inflation of 19.75% YoY over 2017 and 20.23% by December.

Figure 1: Historical food inflation and forecast



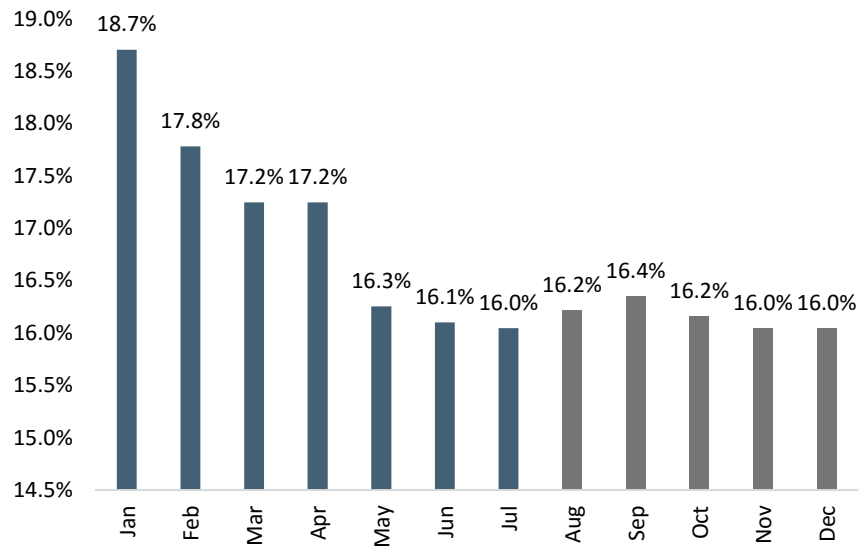
Source: NBS, ARM Research

...but expect sustained trajectory on the core front

NNPC's ongoing strategic interventions in the supply and distribution of petroleum products have continued to lead to contraction in energy prices across the country—with movements in cooking gas, diesel, and PMS prices particularly notable. According to NNPC, ongoing efforts have, so far, led to robust engagements with critical downstream stakeholders such as Major Oil Marketers Association of Nigeria (MOMAN), Nigerian Association of Road Transport Owners (NARTO), Petroleum Tanker Drivers (PTD) as well as Independent Petroleum Marketers, leading to the resolution of salient issues. In addition to this, engagements with CBN have facilitated the expansion of PMS foreign exchange intervention scheme to include diesel and aviation fuel. Put together, these interventions raise scope for continued deceleration in core inflation—both in August and farther out. To be clear, planned electricity tariff increase for high-end users is yet to be implemented while potential review of school fees (for some secondary and tertiary institution) is unlikely to have significant say on the core basket in coming readings. In view of the mentioned, we now have a more benign average MoM core inflation of 0.68% August through December (+0.70% MoM in August). These assumptions translate to YoY core inflation of 12.04% for August (vs. +12.21% YoY in July) while the December reading should print at 11.7%.

On balance, we see scope for food inflationary pressures to weigh on the coming CPI reading for August despite moderations on the core side of things. Precisely, we now look for headline inflation of 16.22% YoY in August 2017 (vs. +16.04% YoY in prior forecast) with our projected mean inflation for full year at 16.7% YoY.

Figure 2: Historical headline inflation and forecast



Source: NBS, ARM Research

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