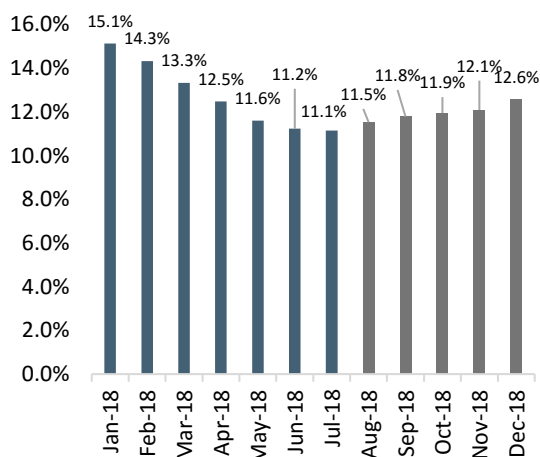
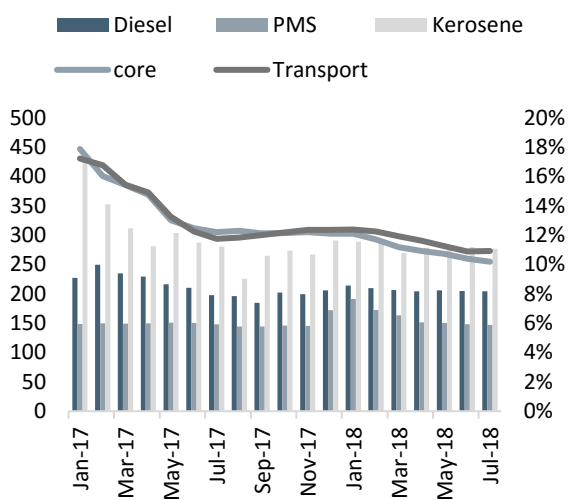




Inflation rate – Actual and Forecast (YoY)



Avg. energy prices (₦/litre) vs. Core & Transport Inflation (% YoY)



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Inflation declines in July, but upside risk abounds

Inflation

- In line with our expectation, Nigeria's headline inflation for the month of July came in at 11.14% YoY (ARM forecast: 11.13% YoY), representing a 9bps decline from 11.23% reported in the month of June. Broadly, amidst still favourable base effects, the decline was driven by softening consumer prices in the food and core basket with MoM inflation declining 17bps and 22bps respectively, driving headline MoM to decline 11bps to 1.13% (June: 1.24%).
- We note that June's headline MoM inflation was strikingly high as prices, particularly food, was pressured by the higher demand associated with the Ramadan season. Hence, given that the Ramadan ended in June, it appears consumer prices normalized to previous levels which explains the decline in MoM headline inflation.
- Elsewhere, MoM core inflation slowed to 0.81%, 22bps lower than 1.03% in the prior month. The decrease reflected declines in education (-10bps to 0.91%), clothing (-7bps to 0.82%) and HWEGF inflation (-5bps to 0.71%). Particularly on HWEGF, which accounts for 31% of core inflation, the decline was due to lower energy prices especially PMS (-90bps to N146.80) and diesel (-32bps to N204.32). This also reflected in transport inflation which declined 1bp to 0.90% in the review month.

- **Higher haulage cost to pressure MoM headline inflation:** Going forward, we expect pressures on MoM inflation following the recent ~400% hike in the cost of container haulage from the Apapa port terminal to importers warehouses around the country. The association of haulage operators made the move to hike cost of haulage due to the bad state of the road leading to the Apapa port

which has resulted in constant gridlock and reduced turnaround time for the haulage operators thus impacting on revenues.

- In terms of impact, we expect the passthrough of the higher haulage costs by importers to instigate price increases on imported food, clothing & footwear, and processed food inflation which account for 13%, 7.7% and 4% of headline inflation. We highlight that clothing & footwear consumed locally is largely imported which informs our expectation of an uptick in its MoM inflation. On processed food, many local consumer manufacturers import a sizeable portion of their raw materials. Hence, with the hike in haulage, we expect feed through into the final product prices. We reiterate that base effects will dissipate over the rest of the year which implies that pressure on the MoM front will now reflect in headline inflation. Given this, we have revised our inflation forecast higher for the rest of the year and now expect August headline inflation to print at 11.5% YoY (previous: 11.1% YoY) with 2018 average at 12.4% YoY.