

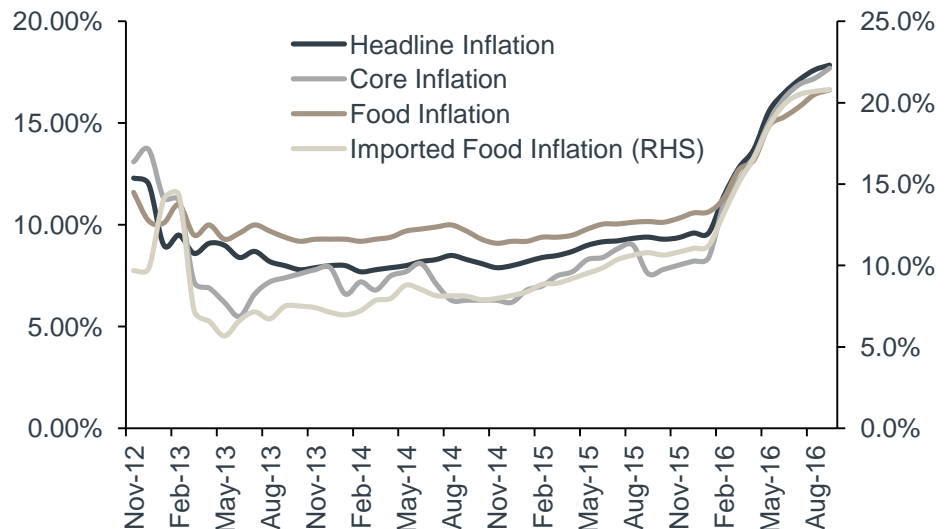
Inflation Hits 17.9% in September.

Rises at Slowest Rate Since January

Nigeria's Consumer Price Index (CPI) rose to 17.9% (on a year-on-year basis) in September, 24bps higher than August's figure. This marks the eleventh consecutive month of uptrend in the CPI, and broadly validates our expectation for the month – dousing consensus by 10bps. This again speaks to the fact that the structural headwinds impacting general price level remain unresolved. Worthy of mention here are (1) sustained impact of high electricity tariff nationwide; (2) pass through effect of a weak currency; and (3) increased transportation cost due to higher fuel price. Specifically, all Classification of Individual Consumption by Purpose (COICOP) which contribute to the headline index recorded increases during the review period; with Communication and Restaurants and Hotels recording the lowest rates of uptrend (of the 12 divisions) – growing by 5.6% and 9.6% respectively.

In what adds to evidence that the momentum of price increases experienced thus far this year may be slowing, however, the headline index rose by 0.8% m/m in the reference period, indicating a 21bps deceleration from last month's 1.0%. The continued slowdown of monthly price increases may bolster the Monetary Policy Committee's resolve to maintain its current tightening policy stance – in its next meeting -- despite calls for a rate cut (to stimulate growth).

Figure 1: Headline Inflation and its Components



Source: NBS, Cordros Research

14 October 2016

Rising Imported Food Inflation Further Pressures Food Inflation

Food inflation again succumbed to the persistent rise in imported food inflation (which rose y/y and m/m), as well as an uptick in other necessary inputs to producing major local staples. The food sub-index specifically rose by 16.6% y/y (vs. 16.4% in August). We sense that the increased volatility of the LCY, particularly at the parallel segment of the FX market (the NGN touched a new record low of N480 against the greenback during the review period), added to pressure on the food sub-index. During the month, the highest price increases were recorded in the Meat, Fish, and Bread & Cereals groups. On a month-on-month basis, the food sub-index increased by 0.8% (vs. 1.2% in August). This deceleration in the pace of increase, in our view, is partly supported by the 0.6% m/m moderation in average PMS prices to N146/litre which may have resulted in lower transportation cost. For information, a number of product groups within the food index recorded falls in the rate of price increases, including Fish -- which had previously been a key driver -- as well as Oils and Fats, and Fruits

Outlook: We reemphasize our view that in the near term, food prices, local and imported, will remain reflective of the persistent pressure on the domestic currency. Specifically, we expect this risk to be elevated by the conventional year-end buying frenzy, most especially on food and drink items. While the commencement of the harvest season offers some comfort, we believe that constrained farming activities – owing primarily to higher-than-average flooding in most parts of the country, and security apprehensions particularly in the northern region – during the planting season, may significantly trim output. Corroborating this view is a report by FEWSNET, guiding to continued large food security emergency in northeast Nigeria even in the post-harvest period.

Core Inflation Accelerates Further to Reach 17.7%

Core inflation remained pressured, jumping by 17.7% y/y during the month, 50bps up from August's 17.2%. The y/y spike in the core component of the CPI can be generally attributed to the (1) 53% y/y, 25.8% y/y and 21% y/y increases in average national prices of petrol, diesel and kerosene respectively; (2) ripple effect of the 40% nationwide hike in electricity tariff in February; and (3) pass through impact of forex volatility. Specifically on forex, we note the potential increases in the prices of major items following the free fall of the naira. Halting a 3-month period of moderation in the m/m growth rate, the Core index rose by 1.0% (a slight uptick relative to the 0.9% recorded in the preceding month). The highest increases were recorded in the Electricity, Solid Fuels and Liquid fuels groups.

Outlook: We expect energy prices to continue to push core inflation higher, as the impact of 45% increase in electricity tariff lingers through the year; while PMS, diesel and kerosene prices are vulnerable to naira fluctuation and foreign currency illiquidity. On fuel, we refer to the recent concerns expressed by the Major Oil Marketers Association of Nigeria (MOMAN) over the current episode of FX scarcity which may restrict fuel importation by its members particularly ahead of the Christmas and New Year festivities. Further out, the heightened volatility of the LCY, in the parallel market, in particular, portends additional risk which could stem from renewed agitation by oil marketers for a hike in petrol prices amid sizeable depreciation of the NGN against the USD.

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