

14 November 2016

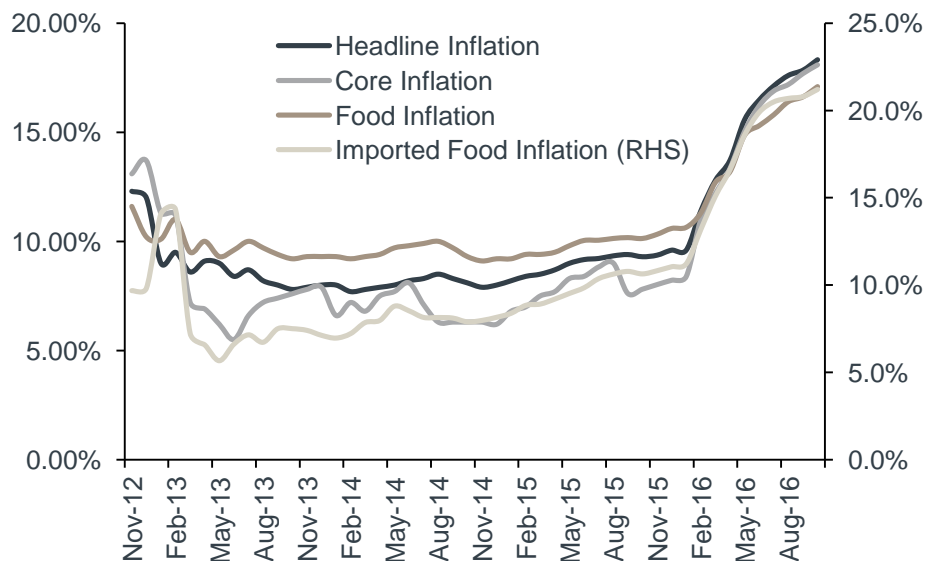
Inflation Rises to 18.3% in October.

Bucks Month-on-Month Moderation in Growth Rate

Nigeria's Consumer Price Index (CPI) rose further to 18.3% y/y in October, 48bps higher than the 17.9% recorded in September. This marks the twelfth consecutive month of increase in the CPI and came in line with consensus, albeit 10bps ahead our estimate. The jump in headline inflation largely reflects base effects, as m/m increase was a modest 0.83%, from 0.82% the preceding month. It should be noted again that the CPI continues to reflect a host of structural factors that have impacted prices this year. We reemphasize (1) sustained impact of high electricity tariff nationwide; (2) pass through effect of a weak currency; (3) increased usage of expensive diesel fuel following persistent gas supply shortage; and (4) increased transportation cost due to higher fuel price. During the review period, increases were recorded across almost all major divisions which contribute to the Headline Index; Communication and Restaurants and Hotels recorded the slowest pace of growth, rising at 5.7% and 9.4% year-on-year respectively.

Although the headline index bucked its 4-month successive deceleration in m/m rate of increase, the relative stability suggests that the Monetary Policy Committee (MPC) will likely maintain its current policy stance in its final meeting of the year, next week.

Figure 1: Headline Inflation and its Components



Source: NBS, Cordros Research

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Food Inflation Increases Further

Food inflation increased at a faster pace, despite slower increase in the imported component. The food sub-index particularly stood at 17.1% (16.6% previous), having increased by 0.86% m/m, compared to 0.93% m/m increase in September. Relative to last year, both imported and domestic food prices remain highly elevated as the naira continues to depreciate. However, given that imported food inflation increased at a slower pace, we surmise that the faster increase in local food prices may have been responsible for the faster m/m increase in food inflation. During the period, all major food groups which contribute to the food sub-index increased, with the highest price increases recorded in Bread & Cereals, Fish and Meat groups (similar to the previous month). However, Fruits – at 11.5% -- recorded the slowest pace of increase.

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. More so, locally, there is little to expect from the current harvest season owing primarily to constrained farming activities (following the higher-than-average flooding in most parts of the country, late onset of the rainy season and early cessation of rain in some parts of the country, dry spells in the North, and security apprehensions – particularly in the northern region) during the planting season. Cementing 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 Spikes to Hit 18.1%

Core inflation stood at 18.1 during the period under review, 40bps up from September's 17.7%, with all key divisions which contribute to the index recording increases. Relative to last year, core inflation remains high, given impact of the (1) 56% y/y, 23% y/y and 29% 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) continued pass through of forex volatility. On a month-on-month basis, the Core sub-index increased by 0.75% in October, indicating a 21bps moderation in the rate of increase relative to September (0.96%). The highest increases were noted in Housing, Water, Electricity, Gas and Other Fuels as well as, fuels and lubricants for personal transport equipment and Education.

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 statements from the NNPC admitting that it can no longer sustain the sale of petrol at N145/litre given the prevailing exchange rate. Further out, the lingering 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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