

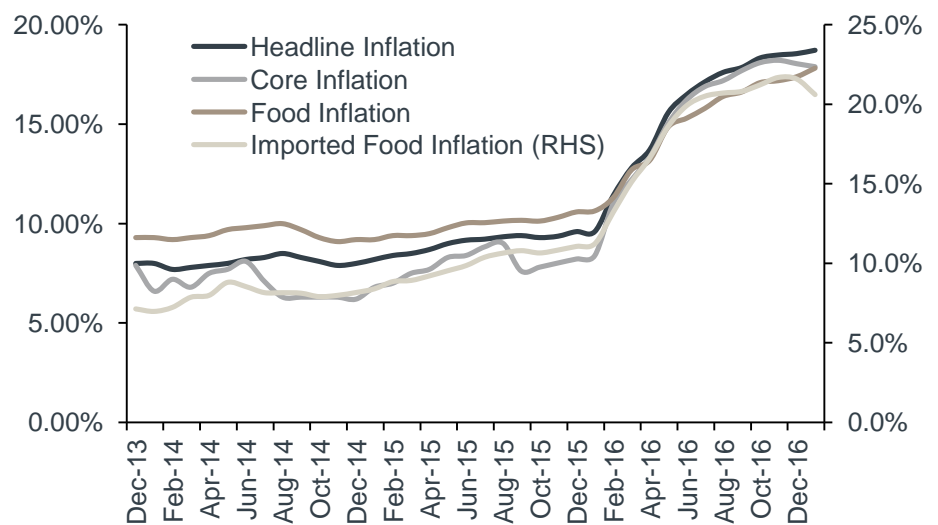
15 February 2017

## Nigeria's Headline Inflation Accelerates to 18.72% in January. Highest in 11 Years

The National Bureau of Statistics (NBS) released its Consumer Price Index (CPI) report for the month of January today. The headline inflation accelerated to 18.72% year-on-year (vs. 18.55% in December 2016), 10bps higher than a Bloomberg-compiled median estimate of 18.6%. This marks the 14th consecutive month of uptrend in the CPI and the highest since September 2005. It is noteworthy that the CPI continued to reflect the lingering impact of structural shocks in the domestic economy. We refer to (1) the sustained impact of high electricity tariff nationwide – despite epileptic supply; (2) pass through effect of a weak currency; and (3) increased transportation cost due to higher fuel price. Notably, all classification of Individual Consumption by Purpose (COICOP) which constitutes the headline index increased during the review period, with Communication, Restaurants and Hotels recording the slowest growth at 5.1% and 8.4% year-on-year respectively.

On month-on-month (m/m) basis, the headline index increased 1.01% (vs. 1.06% in December 2016). Despite the moderation in the m/m rate of increase in January, the 1.01% rise was higher than the sub 1% rates recorded between September and November 2016. The Monetary Policy Committee stated at the meeting in January that it remains committed to lowering the policy rate when the conditions – subsiding inflationary pressures – become favourable.

Figure 1: Headline Inflation and its Components



Source: NBS, Cordros Research

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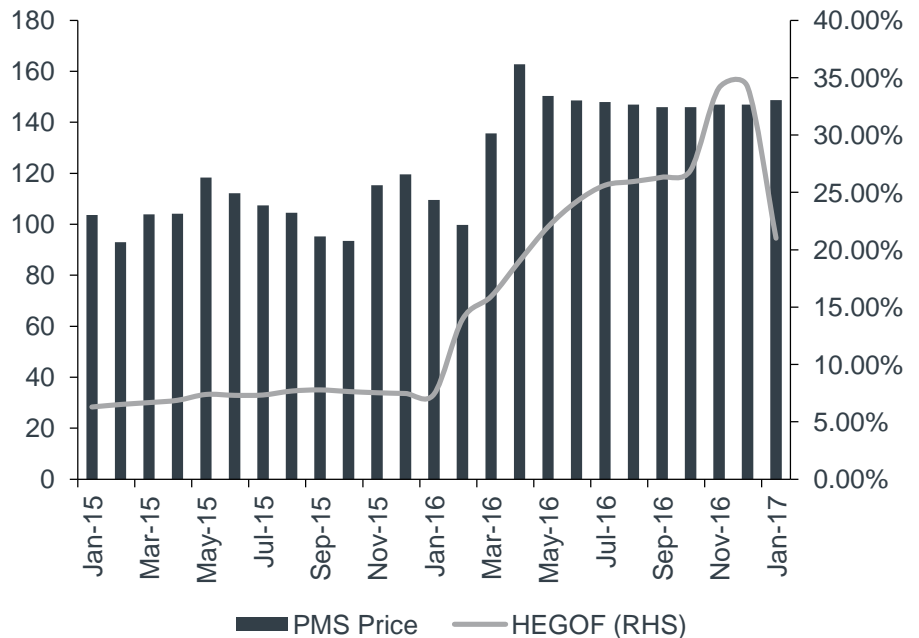
**Food Inflation Maintains Uptrend**

Food inflation increased at a faster pace (17.82% vs. 17.39%), despite a fall in the imported component (20.6% vs. 21.58%). The rise in the food index could be attributed to (1) the continued weakness of the local currency (the NGN depreciated by 2% against the USD to N498 at the parallel segment, from N490, during the period); and (2) a surge in transportation cost – within and inter-city, transport cost rose by 58.35% y/y and 31.02% y/y respectively during the review period. Notably, bread, fish, cereals, meat, potatoes, oil & fats, yam and other tubers recorded the highest price increases. On m/m basis, however, food inflation increased at a slower pace – 1.29% vs. 1.33% in December 2016.

**Core Inflation Rises at a Slower Pace**

Core inflation increased 17.9% y/y, lower than 18.1% y/y in December 2016. Although all key components of the core index increased, we highlight the following drivers (1) 22.56% y/y, 35.7% y/y and 87.12% y/y increase in the average national prices of diesel, petrol and kerosene respectively; (2) 58.35% y/y, 31.02% y/y, 31.33% y/y, 22.34% y/y increase in average transport fare within cities, intercity, air and sea transport; and (3) school resumption induced price hike in educational materials. Thus, it was unsurprising to see gas, electricity, liquid fuel, passenger transport by air, and fuel and lubricants for personal transport equipment experience the largest increase in this segment.

Figure 2: PMS Price (N/litre) and Housing Water, Electricity, Gas & Other Fuels (HEGOF)



Source: NBS, Cordros Research

*15 February 2017***Outlook**

As we prognosticated in our 2017 Outlook report, “Nigeria in 2017: In Search of the Missing Link”, the possibility of general price level moderating this year appears very slim, as the causal structural factors that pushed general prices higher in 2016 remain through the most of this year. Nonetheless, guided by the monthly moderation in the rate of price increases during most of H2-2016, it is highly likely that the peak of cost push inflation had been attained in 2016. Thus, in the absence of new supply shocks (highlighted below), we expect the headline index to commence the base-effect driven moderation from the release of February figures.

Potentially, both domestic and imported food prices remain highly vulnerable to lingering currency challenges. While we look forward to improvement (relative to 2016) in dollar liquidity – on higher oil earnings – we still hold that the LCY will remain pressured as FX demand continues to significantly outweigh supply.

In addition, energy prices will continue to play host to core inflation. In particular, the susceptibility of PMS, diesel and kerosene prices to naira fluctuation and FCY illiquidity portends additional risk for general price level. On this, we refer to recent statement from the Petroleum Marketers Association of Nigeria (IPMAN), raising alarm over potential fuel scarcity on claims that private depot owners now sell petrol above pump price, a situation which may force marketers to increase their pump prices especially in far areas. Corroborating this, data from the NBS’ Premium Motor Spirit Price Watch for the month of January reveal that average PMS price was higher than the N145/litre official price in 29 states of the country – with Borno (N164/litre), Oyo (N161.00/litre) and Ebonyi (N156.47/litre) recording the highest prices – while average prices in 8 states, including the FCT, were within the official range – with the lowest prices recorded in Kogi (N144.67/litre), Ekiti & Imo (N144.64/litre) and Abuja (N144.20/litre). In December 2016, 20 states sold above the official average price while 17 states sold within the official price range.

*15 February 2017*

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