

# Food Index Pressure Persists as Headline Inflation Rate Beats Consensus at 17.24% in April.

The National Bureau of Statistics (NBS), yesterday, released its Consumer Price Index (CPI) report for the month of April, showing that the CPI increased by 17.24% y/y, recording the third consecutive deceleration in the rate of increase – a marginal 2 bps down from March’s 17.26%, and 36 bps ahead of both Bloomberg’s median estimate and Cordros’ forecast of 16.9% apiece. Worthy of note is the fact that the marginal downtrend (relative to February and March) in April inflation suggests that the impact of base effects on the headline index is beginning to wane. On month-on-month basis, after increasing at a faster pace for two successive months (see chart below), the headline index increased by 1.60% in April, 12 bps lower than the 1.72% recorded the previous month. Whilst this, at a first glance, provides solace over rising m/m inflation rate, it bears noting that the 1.60% is well-ahead of the 1.06% average recorded under the regime of consistent m/m decline through H2-16.

Figure 1: Headline Inflation and its Component

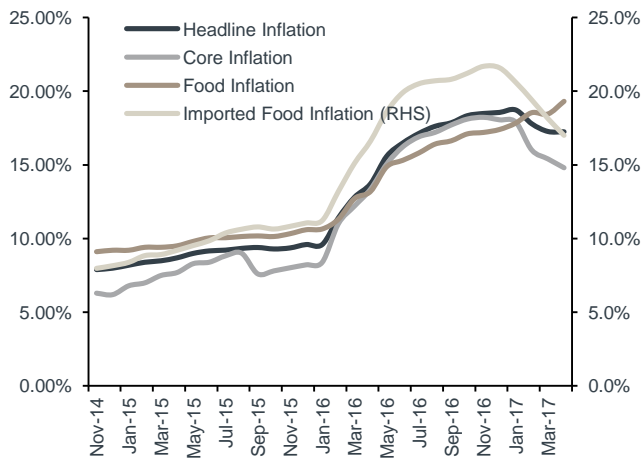
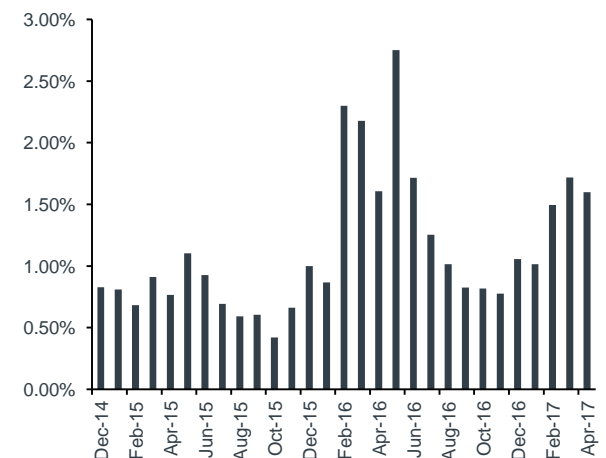


Figure 2: Headline Inflation (Month-on-month Trend)



Source: NBS, Cordros Research

Still, as was the case in March, all classification of Individual Consumption by Purpose (COICOP) which constitutes the headline index increased during the month under review, with notable price increases reported in the following major divisions: solid fuels, bread and cereals, meat, liquid fuels, clothing materials, other articles of clothing and clothing accessories, and fish.

Ahead of next week’s meeting, the persisting inflationary pressure, evident in the sizeable m/m rate, makes the case for central bank’s Monetary Policy Committee (MPC) to again hold the line on its policy stance.

### Food Inflation Rises at a Faster Pace

The composite food index, which measures food inflation, increased by 19.30% y/y (compared to 18.44% y/y in March), despite (1) a 116 bps moderation in imported food inflation to 17.0% y/y, from 18.14% y/y, and (2) the high base of 2016. The increase recorded in this segment reflects (1) rising transport cost (interstate bus transport, intercity bus transport, and water transport costs increased by 59.29% y/y, 34.21% y/y, and 15.57% y/y) which has a direct link to the prices of agricultural produce and (2) a 33.37% y/y increase (driven by currency weakness) in the prices of 25 selected food items in the NBS Selected Food Prices Watch for April. During the month, the price increases were most notable across the following items: bread, cereals, meat, fish, potatoes, yams and other tubers, coffee, tea and cocoa, milk cheese and eggs and oils and fats. On a month-on-month basis, the food sub index rose by 2.04%, down by 17 bps from 2.21% recorded in March. This was perhaps due to the slight moderation of average food prices, most likely linked to the appreciation of the naira at the parallel segment of the currency market (N397/USD average in April vs. N433/USD average in March). Notably, the prices of 25 selected food items reported in the NBS Selected Food Prices Watch for the month fell by 0.94% during the month, compared to the 6.07% increase recorded the previous month.

**Sustained Slower Increase in Core Inflation**

Core inflation increased at a slower pace (for the fifth consecutive month) in April, rising by 14.80%, versus 15.4% in February. In addition, we attribute the tapering of inflation in this segment to the 7.9% y/y fall in the national average PMS price (from N162.8/litre to N149.9/litre), and the reduced rate of increase in the year-on-year prices of diesel (50.67% y/y vs. 60.44%) and cooking gas (28.93% y/y vs. 33.27% y/y). During the month, the prices of solid fuel, liquid fuel, clothing materials and other articles of clothing, lubricants for personal transport equipment, audiovisual, photographic and information processing equipment, wines and spirits recorded the highest increases. Also, on a m/m basis, the core index increased at a slower rate of 1.10%, 22 bps lower than the 1.32% reported the previous month.

**Outlook**

The persisting inflationary pressure, marked by still-high month-on-month inflation rate, validates our view that the cost-push factors that pressured general prices in 2016 are unresolved. It bears noting that the significant base effect driven moderation in inflation expected earlier in the year may be constrained, barring notable improvement in the m/m inflation from levels seen in the last two months (see scenarios in the chart below). And while mindful of the risk of negative surprises in relation to FX (notwithstanding the seemingly tamed volatility), the likely increase in electricity tariff (with investors' lobby seemingly at advanced staged) may add to offsetting the expectations of a meaningful base-effect decline in the headline inflation. On power tariff hike, we note the possible implication of the planned injection of c.N2.4 trillion (in five years) by the FGN – which it plans to recover by hiking the present Multi-Year Tariff Order (MYTO) electricity tariff, presumably July this year – as an option to revive the ailing power sector under the Power Sector Recovery Plan (PSRP).

Figure 3: y/y and m/m inflation expectations (Bear Scenario)

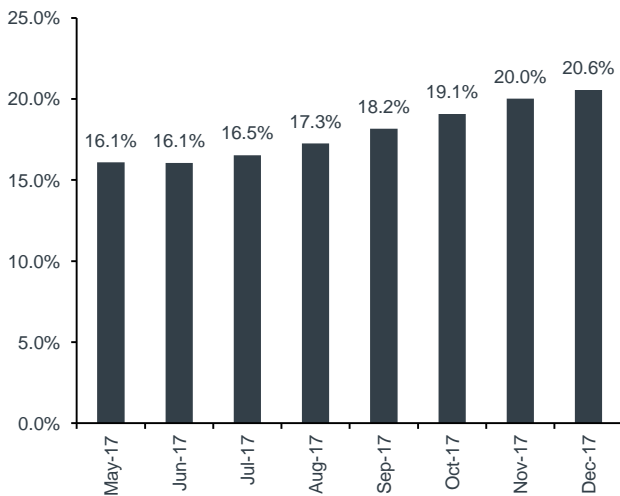
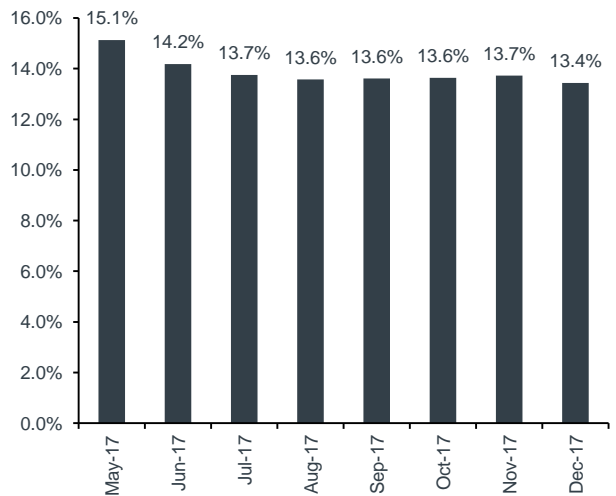


Figure 4: y/y and m/m inflation expectations (Bull Scenario)



Source: Cordros Research

On food prices, dry season harvest is underway across the country, with generally favorable results being reported in most areas. Particularly, according to a FEWSNET report, early green harvest of yams and maize are expected to be near-normal. In addition, area cultivated has equally increased, driven by elevated staple food prices and increased government funding and support. Also, seasonal forecasts for the rainy season through September/October indicate likelihood for average to above-average cumulative precipitation. While these suggest increased yield on the horizon, the transmission to significantly lower food prices may be less material, considering the obvious downward sticky nature of prices.

Meanwhile, for the month of May specifically, we estimate the CPI to rise at a slower pace of 16.04% y/y – primarily driven by significant base effect – while increasing at a faster pace of 1.68% m/m. Recall that, following the FGN's deregulation of the downstream sector of the petroleum industry in May 2016, which heralded a jump in the price of PMS to N145/litre (from N86.5/litre), inflation rate during the period recorded the highest m/m (2.75%) acceleration while y/y rate equally surged by 186bps (highest during the year) to 15.58%.

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