Inflation Watch

January Inflation Rate to Drop Marginally

Inflation Rate: 11.40%

Not all that goes up comes down. At least we have one example in the price movement of general consumer goods and services in Nigeria. The measurement used by the National Bureau of Statistics (NBS) to record movements in the price of consumer goods and services – the Consumer Price Index (CPI) - has been going up since October 2011. This is one of the reasons Nigerian workers are agitating for an increase in the national minimum wage (NMW), saying that their salaries are now worth less than before because of the increase in general prices. A new NMW has been approved; the country is now waiting for the final passage by the National Assembly before it is signed into law.

Food prices published by the FAO increased in January 2019.

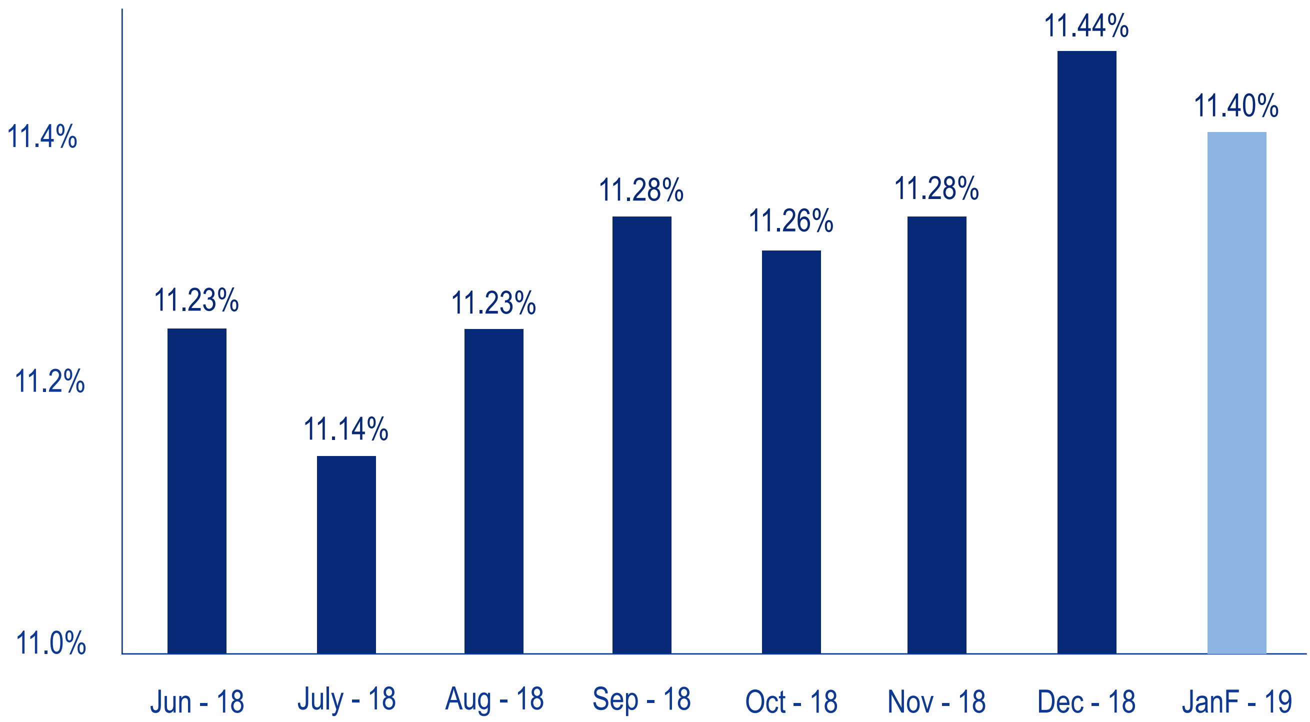
FSDH Research expects the January 2019 inflation rate to drop to 11.40% from 11.44% recorded in December 2018. The drop is not because the prices of consumer goods are dropping, but because the CPI increased faster in January 2018 (0.8%) than in January 2019 (0.78%). So the headline may be misleading to suggest prices have actually dropped. The NBS is due to release the inflation report for the month of January on Friday, 15 February 2019. This will come after the release of their report on Tuesday, 12 February 2019 which will show how Nigeria's economy performed in Q4 and FY 2018. Recall, FSDH Research estimates that the Nigerian economy would grow by 1.94% in 2018.

Nigeria is not alone when it comes to an increase in consumer prices. The number that measures the movement in food prices, as published by the Food and Agriculture Organization (FAO) for the month of January 2019, shows that food prices increased on the international market. The drop in global food production, limited export supplies and strong demand worldwide are the main reasons for the increase in food prices. Despite its double digit inflation rate, Nigeria's inflation story is better than some other oil-rich countries. It is incredible that the inflation rate in Venezuela is 1,698,488%.

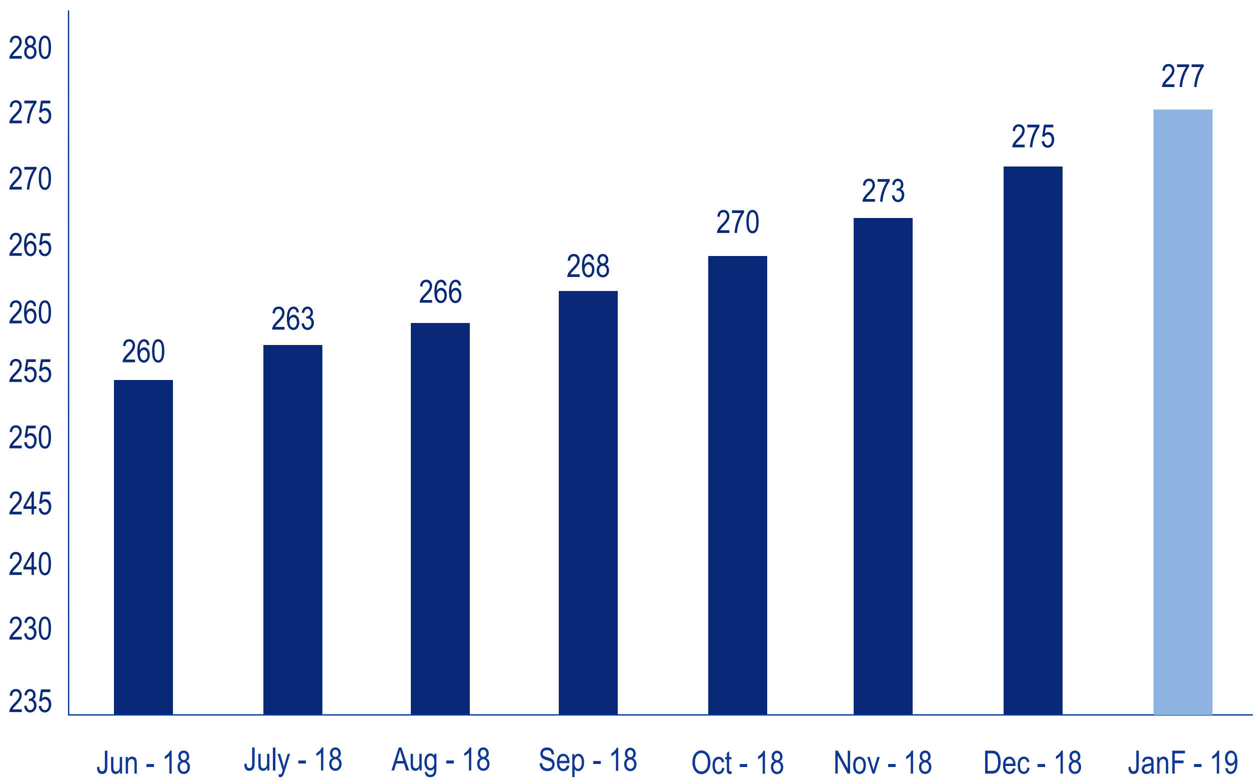
Current inflation rate is higher than the 6%-9% that the CBN targets for the country.

Should the Central Bank of Nigeria (CBN), who has the responsibility to ensure price stability (maintain low inflation rate that will stimulate economic activity), be worried about the double digit inflation? FSDH Research believes it should be worried for three reasons. Firstly, the current inflation rate is higher than the 6%-9% that the CBN targets for the country. Secondly, our outlook of the inflation rate as from June 2019, indicates that inflation may move up sharply as we expect adjustments to the price of Premium Motor Spirit (PMS) and electricity tariff. Thirdly, and perhaps the most important reason, is that the tools the CBN usually uses to control rising inflation may not be very effective under the current situation. This is because the drivers of the expected increase in the inflation rate require different methods.

Year-on-Year Inflation Rate



Composite Consumer Price Index (CCPI)



Sources: National Bureau of Statistics (NBS), Food and Agriculture Organization (FAO) of the United Nations and FSDH Research

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