

## Inflation Rate to Inch Up

The National Bureau of Statistics (NBS) is expected to release the inflation rate for the month of April 2015 on May 18, 2015, based on the Data Release Calendar available on the Bureau's website as at the time of this report. The latest inflation rate for the month of March 2015 stands at 8.5%, higher than 8.4% recorded in the month of February 2015. Our inflation rate forecast for the month of March released in our monthly Inflation Watch Report was 8.6%. The March inflation rate figure was the fourth consecutive month of increase in the Headline Index to reach the highest inflation rate recorded for the year. According to the NBS, the monthly Composite Consumer Price Index (CCPI) for All Items for the month of March stood at 168.4 points, an increase of 0.9% from February 2015. The CCPI 12-month average for March 2015 stands at 8.2%, higher than 8.1% recorded in February 2015. The NBS noted that while the pace of increase in food prices held firm for the second consecutive month, the faster increase in the Headline Index was driven by increases in the non-food Classification of Individual Consumption by Purpose (COICOP) divisions, the only exception being Communications, Recreational and Culture Divisions which increased at a slower pace.

A cursory look at the movement in the food prices at the international level, as measured by the Food and Agriculture Organization (FAO) Food Price Index (FFPI) for the month of April 2015, shows that the Index averaged 171 points, 1.2% lower than the revised value in March 2015, and 19.2% lower than the April 2014 figure. According to the FAO, the 2015 April average puts the FFPI at its lowest level since June 2010. Dairy prices fell the most, sugar, cereals and vegetable oils prices also declined. However, meat prices rose in April, the first increase since August 2014. As against the appreciation recorded in the Dairy Price Index in the last two consecutive months, the Index fell by 6.74% from March 2015 to April 2015. Milk powders and butter were the main commodities affected. The FAO Cereal Price Index declined by 1.31% from the previous month, due to the continued fall in the prices of wheat. The FAO Sugar Index averaged 185.5 points, down by 1.27% in April 2015, reaching its lowest level since February 2009. The FAO Vegetable Oil Price Index was down by 0.96%, driven by a fall in prices of palm oil, the key commodity in the Index. On the other hand, the FAO Meat Index appreciated by 1.69% on the strength of higher prices for bovine and ovine meat from Oceania, where herd rebuilding restricted exports. Also, moderately higher import demand in China, Japan, the United States and Vietnam is the main factor underpinning the market.

Our analysis of the foreign exchange rate of the local currency indicated that the value of the Naira depreciated against the US Dollar marginally by 0.06% from US\$/N199.11 by the end of March to US\$/N199.23 at the end of April. The fall in the international prices of food helped to counter the effect of the depreciation in the value of the Naira. However, we still hold the view that the effect of the devaluation in the value of the Naira in the month of February 2015 is an ongoing process that will continue to trickle down and reflect in the local prices.

Furthermore, an analysis of the average prices of a basket of consumer goods selected from across the country monitored by FSDH Research in April 2015 shows that there were a combination of decreases and increases in the prices of essential food items during the period. Food items such as sweet potatoes, fish, yam, vegetable oil, Irish potatoes and tomatoes recorded increases of 11.67%, 7.69%, 6.67%, 5.56%, 3.44% and 1.45% respectively. However, the price of onions, meat, garri and beans recorded decreases of 4.17%, 3.70%, 2.50% and 1.03% respectively. Meanwhile the price of rice and palm oil remained unchanged. The movement in the prices of food items during the month resulted in 0.76% increase in our Food and Non-Alcoholic Index to 173.71 points. We also noticed an increase in the prices of Housing, Water, Electricity Gas and other Fuel between March and April 2015.

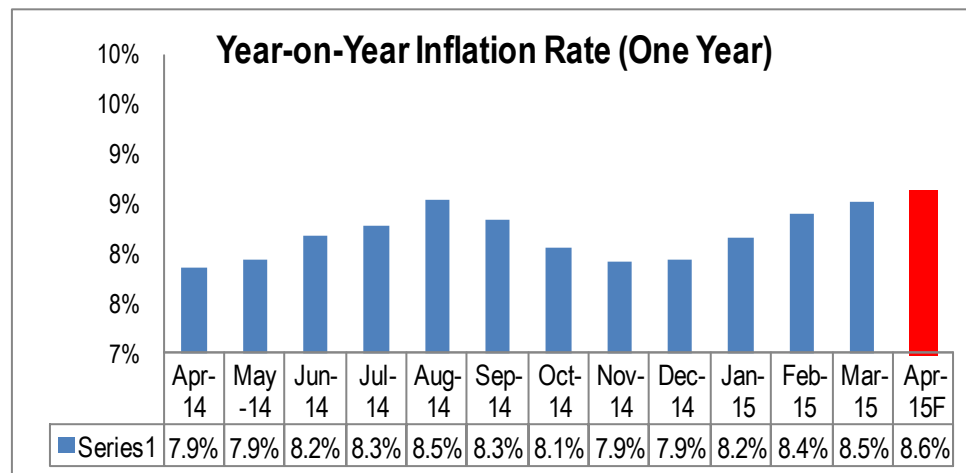
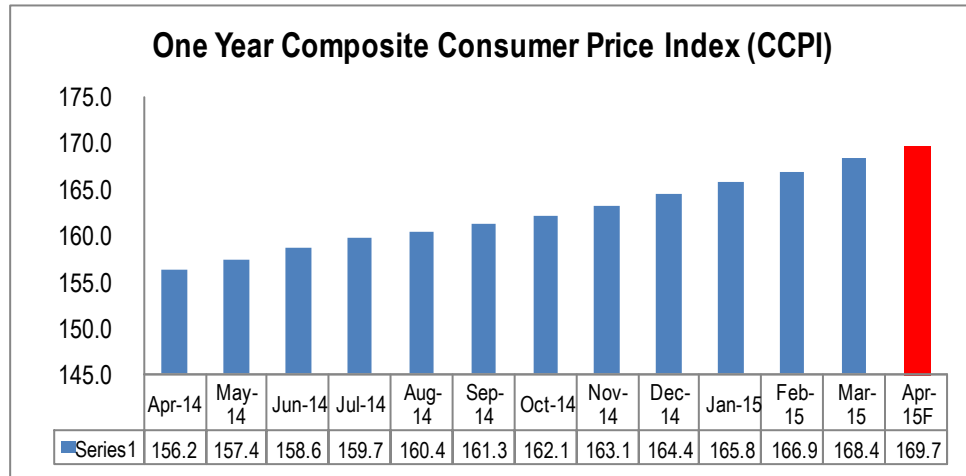
Our model indicates that the price movements in the consumer goods and services in April 2015 would increase the CCPI to 169.69 points, representing a month-on-month increase of 0.75%. We estimate that the increase in the CPI in April will produce an inflation rate (year-on-year) of 8.6%, higher than the figure recorded in the month of March. Looking ahead, the inflation rate for the month of May 2015 is expected to be higher than the April 2015 figure.

***Inflation Rate: 8.6%***

***The FFPI dropped by 1.2% in April, compared with March 2015.***

***The Naira depreciated against the US Dollar marginally by 0.06% in April 2015.***

***The inflation rate in the month of May is expected to be higher than the April figure.***



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