

## **Inflation Rate to Drop on Base Effect:**

We expect the February 2017 inflation rate (year-on-year) to drop to 16.95% from 18.72% recorded in the month of January 2016. The drop in inflation rate is expected after 15 months of consecutive increase. We expect the drop to come mainly as a result of base effect. The National Bureau of Statistics (NBS) is expected to release the inflation rate for the month of February 2017 on March 15, 2017 based on the data release calendar on its website.

The monthly Food Price Index (FPI) that the Food and Agriculture Organization (FAO) released today shows that the Index averaged 175.5 points, 0.52% higher than the slightly revised value for January 2017, and 17.24% higher than the February 2016 figure. With the exception of vegetable oil, the increase in the FPI represented increases in all categories of commodities used in the calculation of the FFPI. The FAO Cereal Price Index increased by 2.52% from the previous month and represents an eight-month high. The sustained increase recorded in the cereal price Index is as a result of the rise in the prices of wheat, maize and rice. The FAO Meat Price Index was up by 1.06% as prices of bovine and ovine meat increased sharply while those of poultry and pig meat changed marginally. The FAO Dairy Index appreciated marginally by 0.64% from January 2017, and recorded the highest level since August 2014. Butter and whole milk powder were the major drivers of the Index. The FAO Sugar Price Index was up by 0.61% in February on the heels of reports of low production conditions in the main sugar producing regions of Brazil, India and Thailand. On the flip side, the FAO Vegetable Oil Price Index was down by 4.09%. The Index is however, still 19% up from last year. Easing global import demand put downward pressure on the prices of palm oil and soy.

Our analysis indicates that the value of the Naira depreciated at the inter-bank market while it appreciated at the parallel market. The Naira lost marginally by 0.08% at the inter-bank market to close at US\$/N305.50 while it gained 11.94% at the parallel market to close at US\$/N448 at the end of February. The intervention of the CBN via increase in supply of foreign exchange for some invisible items lifted the value of the Naira in the parallel market. The effect of the appreciation in the value of the Naira at the parallel market may reflect on the prices of commodities in March 2017.

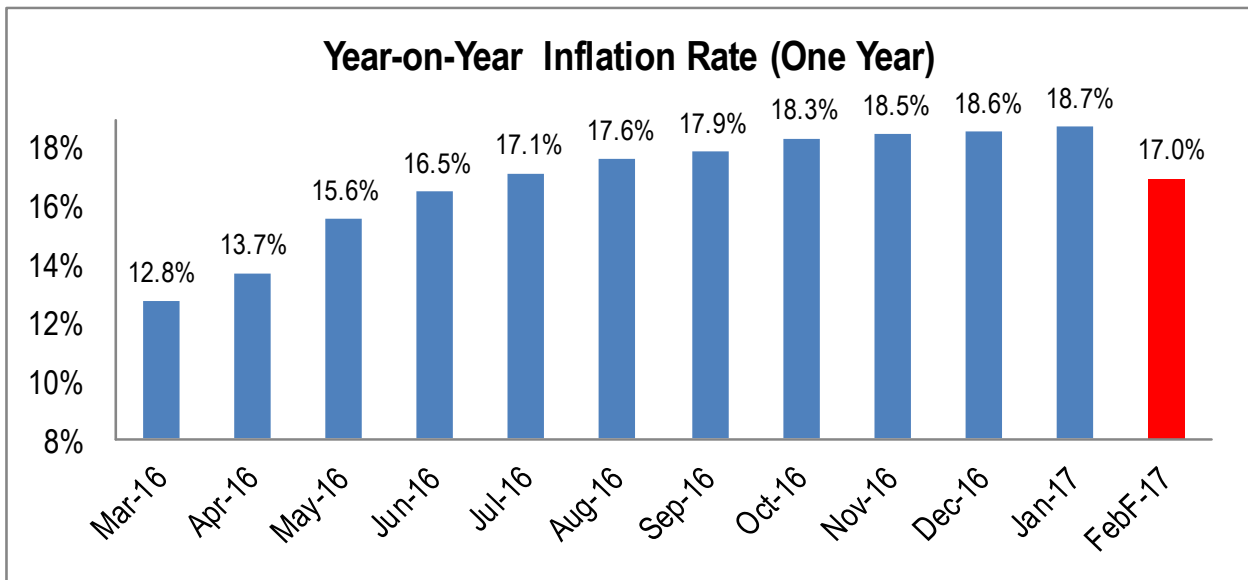
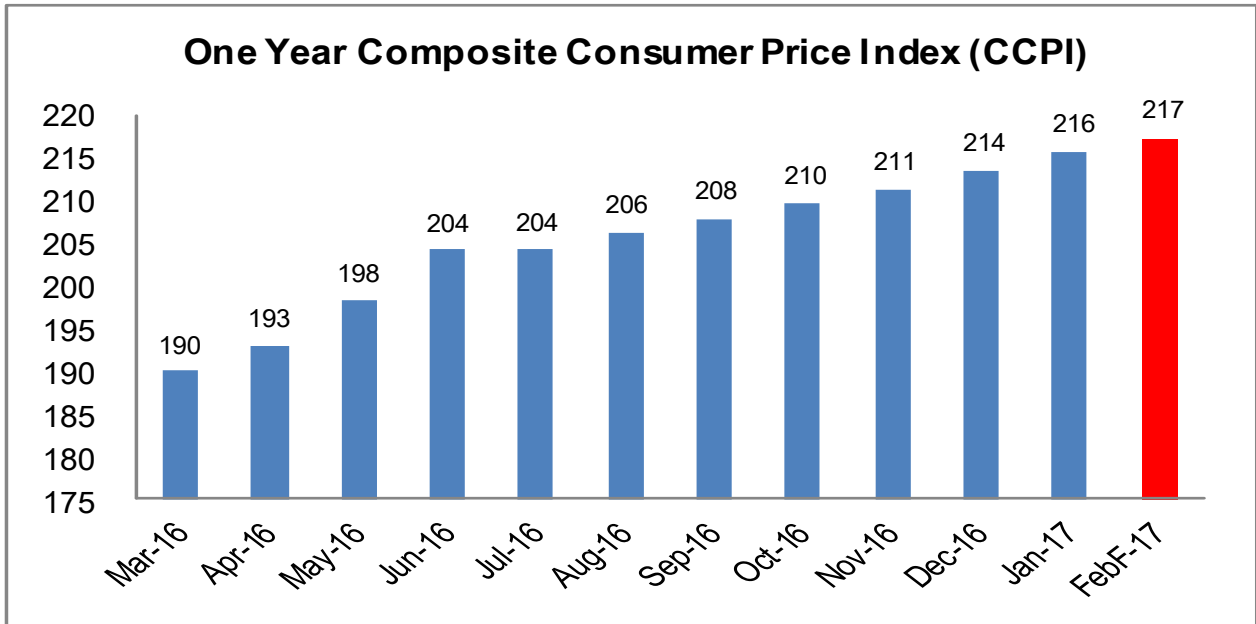
The prices of food items that FSDH Research monitored in February 2016 moved in varying directions. The prices of tomatoes, sweet potatoes, meat and garri were up by 16.23%, 11.11%, 5.13% and 4.17% respectively; meanwhile, the prices of palm oil, Irish potatoes, rice, onions, beans and fish were down by 8.33%, 7.41%, 5.33%, 3.33%, 3.33% and 0.72% respectively. The prices of vegetable oil and yam remained unchanged. **The movement in the prices of food items during the month resulted in 0.85% increase in our Food and Non-Alcoholic Index to 222.31 points.** We also noticed increases in the prices of Housing, Water, Electricity, Gas & Other Fuels divisions between January 2017 and February 2017.

Our model indicates that the price movements in the consumer goods and services in February 2017 would increase the Composite Consumer Price Index (CCPI) to 217.41 points, representing a month-on-month increase of 0.78%. We estimate that the increase in the CCPI in February will produce an inflation rate of 16.95% lower than the 18.72% because of the sharp increase in the CCPI in February 2016.

**Inflation rate: 16.95%**

*The FPI was up in February by 0.52% compared with the slightly revised value in January 2017.*

*The CCPI would increase by 0.78% month-on-month in February.*



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