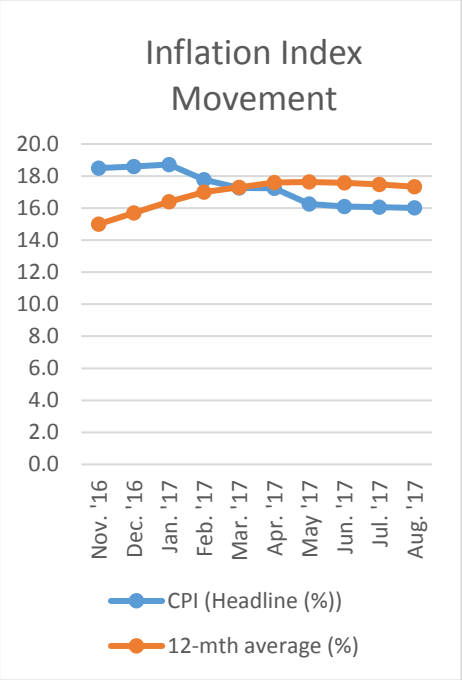
Friday, September 15, 2017

September Inflation eases to 16.01% on the heel of weak food index

CPI measures the average change over time in prices of goods and services consumed by people of a defined state or country for day-to-day living.



The Headline Index (CPI) is made up of the Core Index and Farm Produce Index.

Review of NBS Release:

Latest data from the National Bureau of Statistics (NBS) on Consumer Price Index (CPI) for August 2017 showed a further drop in rate to 16.01% year-on-year (YoY). The headline inflation index released on Friday, September 15, 2017, showed a deceleration for the seventh month in a row from 16.05% reported in July, representing 4 basis points' decline.

Amongst the CPI categories, the Food sub-index dropped marginally to 20.25% (YoY), 3 basis points lower than 20.28% reported in July. On a month-on-month (MoM) basis, the food sub-index dropped for the third time in a row to 1.14%, representing 38 basis points below 1.52% posted in July. The existing pressure on the index was caused by increase in prices of bread & cereals, meat, fish, oils & fats, coffee, tea and cocoa.

The Core sub-index (All Items less Farm Produce) halt the prior eighth straight month decline with a marginal uptick of 12.30% (YoY), representing 10 basis points higher than July's figure. On a MoM basis, the index dropped by 0.93%, representing 7 basis points lower than 1.0% reported in July. The increase here was due to re-emerged pressure on prices of; clothing materials, garments, passenger transport by air, shoes and other footwear, furniture and furnishing, books and stationary, pharmaceutical products & maintenance and household utensils.

The Urban and Rural indices (localized prices) had a mixed growth. The urban index moved up to 16.13% (YoY), representing 9 basis points higher than 16.04% posted in June. The rural index dropped to 15.91% (YoY), representing 17 basis points lower than previous figure.

Meanwhile, on a MoM basis, the Headline index dropped by 0.97% in August, representing 24 basis points lower than July's 1.21%, indicating a third month decline.

Notwithstanding this August's marginal decline, the existing rate trails the single digit era by as much as nineteen months.

The moderate dip in August's CPI was largely impacted by effect of easing on the prices of food items.

…Our take

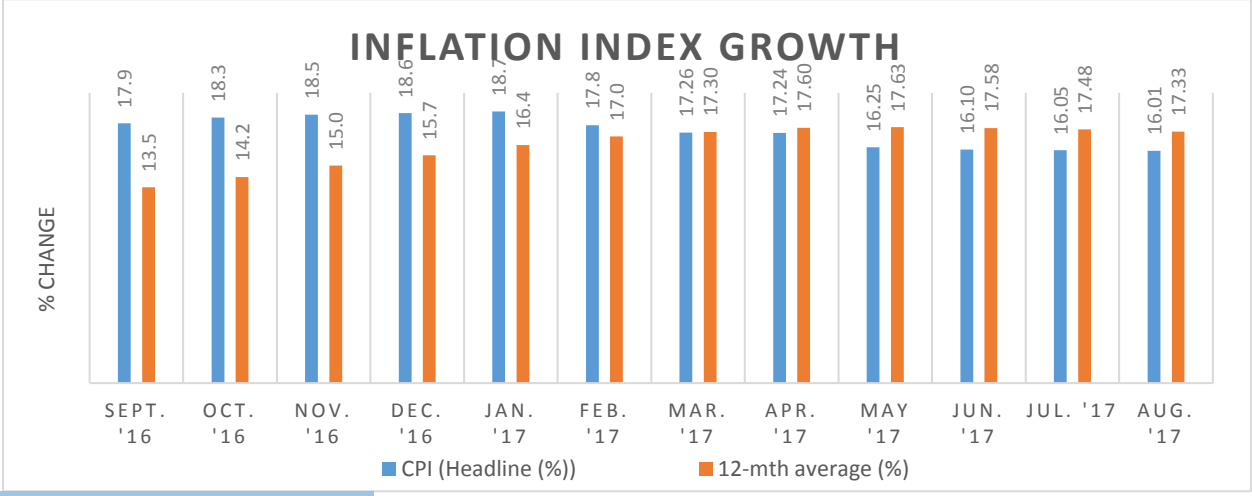
The August's CPI reading was only a basis point below our forecast of 16.02% and equally accommodated our basic assumption of moderation on food pressure as a result of expected harvest season.

In our observation, the biggest decelerator of the inflation pressure in the month under review was the food index. The food index declined by 3 basis points to 20.25%. Ironically, the severe flooding witnessed in the Benue River Basin food channel which significantly devastated large expanse of arable land and food storage facilities was muted to some degree. According to NBS Food Price watch, Benue State which was the major affected, had weak food inflation pressure in the month at 16.9% YoY and 0.6% MoM compared to 20.3% YoY and 1.1% MoM reported nationwide.

A closer scrutiny of NBS August Food Prices Watch showed that out of twenty-five (25) essential food items covered, eighteen (18) had price declines from July's closing positions while six recorded uptick and one closed flat. Eggs remain the lowest pressured. A dozen price of it dropped by 2.67% to settle at N485.19. One kg of brown beans dropped by -3.16% and was sold at N370.25. One kg of yellow garri marginally dropped by 1.32% to settle at N345.82. Other food items budged up. Most pressured items were onion, yam tuber and tomato. A 1kg of onion went up by 6.34% to settle at N226.66. Yam tuber's 1kg was sold at N307.39, representing a MoM growth of 4.51%. One kg of tomato went up to N401.30, representing a growth of 1.82%.

The ongoing sluggish movement in inflation rate may likely leave the monetary authority with no option than to uphold existing rates at the September meeting. The MPC would likely be mindful of the fact that FX has been subdued in recent months.

Inflation Outlook for September: We project September inflation to move up to 16.10%. We attribute this to the recent flooding in the swathes of River Benue basin channel. The fast approaching harvest season could be a major drawback to this expectation.



Source: NBS, GTI Securities Research

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