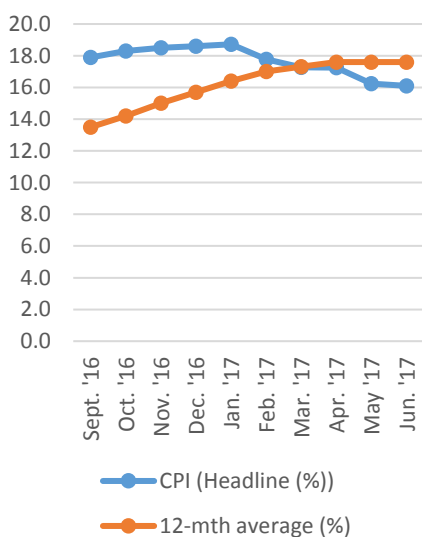


Monday, July 17, 2017

**June's Inflation eases to 16.10%, aids by base year effect**

*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.*

Inflation Index Movement



*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 June 2017 showed a further drop in the rate to 16.10% year-on-year (YoY). The headline inflation index released on Monday, July 17, 2017, showed a deceleration for the fifth month in a row from 16.25% reported in May, representing 15 basis points' decline.

Despite this development, the inflation figure continues to trail the single digit era by as much as seventeenth months.

The moderate dip in June's CPI was largely impacted by effect of easing on the prices of imported good items as well as favorable base effects over prices as at 2016 comparable period.

Amongst the CPI categories, the Food sub-index moved up rapidly to 19.91% (YoY), 64 basis points lower than 19.27% reported in May. On month-on-month (MoM) basis, the food index was less troubled as it increased marginally by 1.99%, compared to 2.54% recorded in May. The rise in the index was caused by increases in prices of meat, bread & cereals, fish, potatoes, yam & other tubers milk cheese & eggs, oils & fats, coffee, tea and cocoa.

The Core sub-index (i.e. All Items less Farm Produce) eased for the seventh straight month to 12.50% (YoY), representing 50 basis points lower than May's figure. On a MoM basis, the index went up by 1.32% in June, representing 15 basis points higher than 1.17% in May. The increase was due to increases in prices of goods such as; liquid & solid fuels, garment & clothing accessories, wines & spirits, shoes & footwear, books & stationeries etc.

Both the Urban and Rural indices (localized prices) dropped from previous records. The urban index eased to 16.15% (YoY), representing 19 basis points lower than 16.34% recorded in May. Also, the rural index dropped to 16.01% (YoY), representing a single basis point lower than the previous.

On a MoM basis, the Headline index increased by 1.58% in June, and was 30 basis points lower than May's 1.88%, indicating a respite in price uptick compared to last two months. Despite this marginal downtick, the MoM inflation has cumulatively risen by 9.28% since January 2017.

### ...Our take

Though the June's CPI reading was 40 basis points above our forecast of 15.70% in May's review, but accommodated our assumptions of rising food pressure as a result of off-harvest season and base year effect.

For the seventh consecutive months, the biggest decelerator of the inflation number was the core index. The core inflation declined by 500 basis points to 12.50%, largely on the strengthening of the Naira over US Dollar. Other important considerations were lower pressure from housing, water, electricity, gas and other fuels.

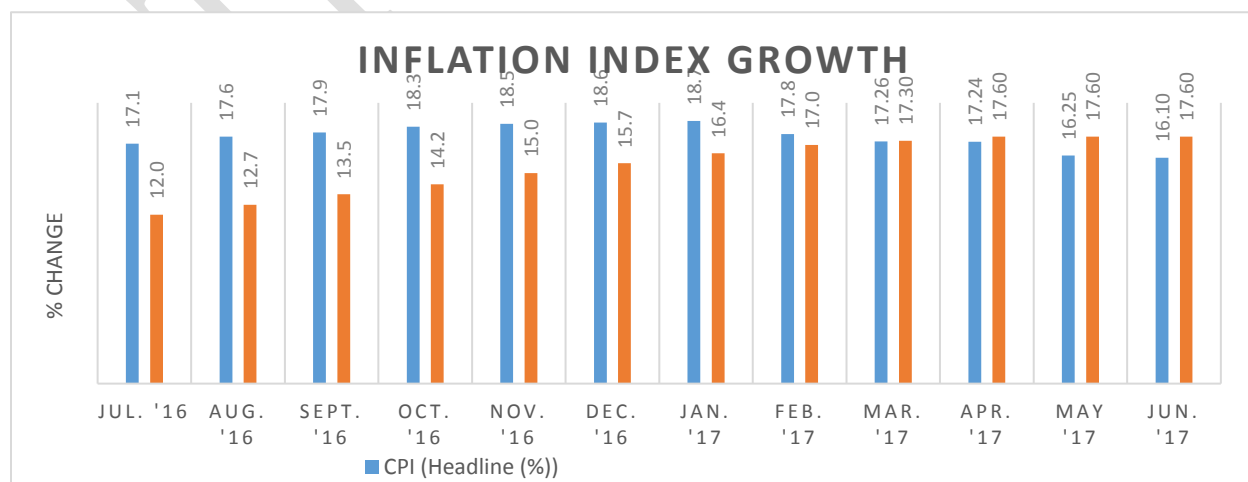
The rising month-on-month headline indicator reflects the fact that pressure on prices especially food items have not subsided.

A closer scrutiny of NBS release on Selected Food Prices Watch for the month of June showed that out of twenty-five (25) essential food items covered, only four (4) had a marginal price decline from May's closing positions while others witnessed price uptick. Amongst those that declined are Evaporated Tinned Milk -1.89%, Agric Eggs (medium size) -1.54% and Rice (medium grain) -0.61%. Other food items budged up. Most concerned items were tomato and garri (both yellow and white). A 1kg of each of the items went up by 10.39% 8.48% and 7.73% respectively within the reviewed period. Onion and yam tuber did not fared better. Both prices jerked up by 5.52% and 4.62% respectively.

The rising prices in the food segment if not well checked could result in a food crisis and it will be worst if we miss a bumper harvest between August – September as farmers have constantly complained of pest related issues, increase in transportation cost, wastage as a result of storage limitations among others.

Judging by the above analysis, the major reason attributable for the drop in inflation rate over the last four months has been significantly, the impact of base effects. On base effect, the inflation rates are calculated by subtracting the cumulative prices of items in a period in an earlier year from the same period in the current year.

**Inflation Outlook for July:** We project July inflation to drop further to 15.90%. This is expected to be helped by reduced pressure on the FX and expected harvest season on some food items and base year effect.



Source: NBS, GTI Securities Research

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