

Inflation Rate to Drop but New Pressure Emerging:

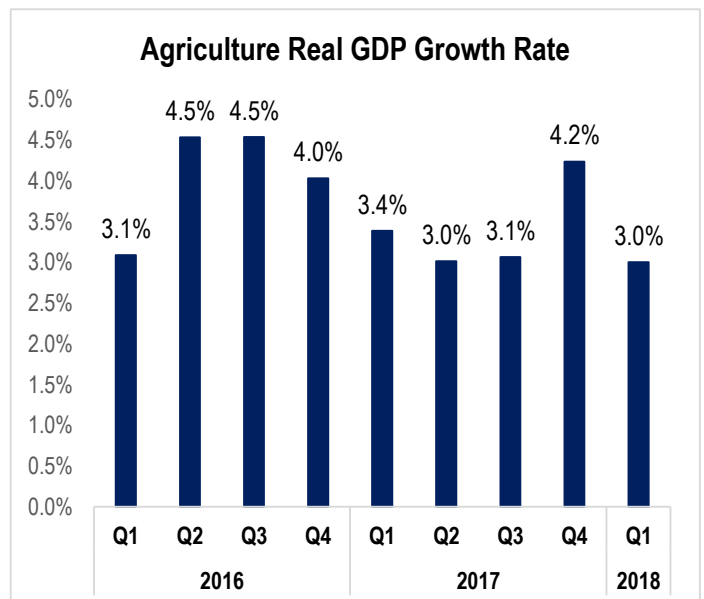
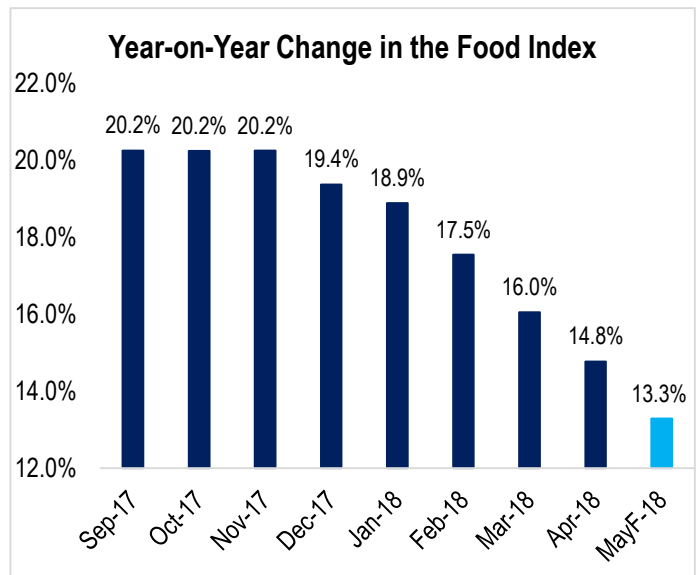
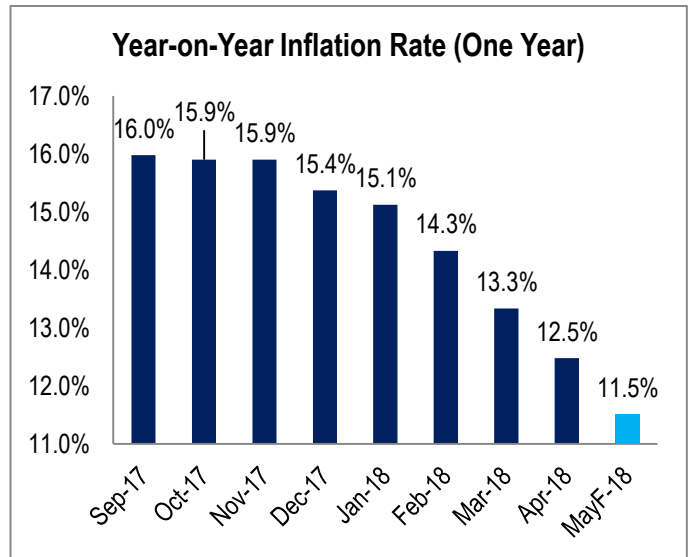
FSDH Research expects the inflation rate (year-on-year) to drop to 11.50% in May 2018 from 12.48% recorded in the month of April. The drop in the inflation rate is expected as a result of the base effect in the Composite Consumer Price Index (CCPI) from the previous year. We note however, that most consumer prices recorded elevated prices in the month of May.

The prices of most of the food items that FSDH Research monitored in May 2018 increased substantially, leading to a 1.20% increase in our Food and Non-Alcoholic Index. This Index increased year-on-year by 13.29%, up from 240.30 points recorded in May 2017. We also observed an increase in the prices of Transport and Housing, Water, Electricity, Gas & Other Fuels divisions between April and May 2018.

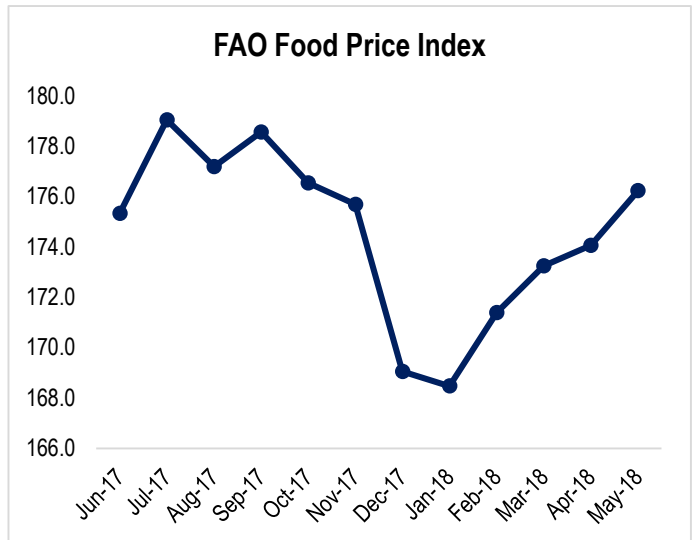
Our analysis indicates that the value of the Naira depreciated at both the Nigerian Autonomous Foreign Exchange (NAFEX) and parallel markets in May 2018. The value of the Naira lost by 0.40% and 0.14% to close at US\$/N361.62 and US\$/N363.50 respectively at the NAFEX and parallel markets at the end of May.

The rise in the international prices of food coupled with the depreciation in the value of the Naira led to an increase in the prices of imported consumer goods in Nigeria between the two months under review. FSDH Research notes that there is a potential increase in the local prices of imported food items because of the faster than expected increase in the international food prices.

Looking beyond the May inflation figure, the developments in the domestic agricultural sector may place upward pressure on prices if not checked. FSDH



Research observes that the agricultural Gross Domestic Product (GDP) growth rate in Q1 2018 recorded the lowest growth rate in the last 18 quarters since 2014. The insecurity challenges in the food producing states in the country may be responsible for this development. If the trend continues, food supply may drop leading to escalating prices. Thus, both local and imported food prices may place upward pressure on inflation rate.



Sources: National Bureau of Statistics, CBN, Food and Agriculture Organization (FAO) and FSDH Research

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