

## A Spike in Inflation Rate – Any Monetary Policy Response?

FSDH Research expects the December 2018 inflation rate (year-on-year) to rise to 11.69% from 11.28% recorded in November. This represents a monthly increase of 0.41% between the two months and the highest monthly increase since November 2016. The expected increase in the inflation rate will reflect higher price increases within the Food and Non-Alcoholic Beverages division and other non-food items due to end-of-year and festivity purchases. The National Bureau of Statistics (NBS) is due to release the inflation rate for the month of December on Thursday, 17 January 2019, ahead of the Monetary Policy Committee (MPC) meeting scheduled for 21-22 January 2019.

*Inflation Rate: 11.69%*

The Food Price Index (FPI) report that the Food and Agriculture Organization (FAO) published for the month of December 2018 remained relatively the same as November 2018. However, the World Bank has hinted about a possible increase in food prices in 2019 because of severe weather conditions. This may accelerate the inflation rate in 2019 in Nigeria. The FAO notes that the decline in the prices of dairy and sugar in December were largely offset by the increases in cereal, meat and oils.

*The FAO FPI remained steady in December.*

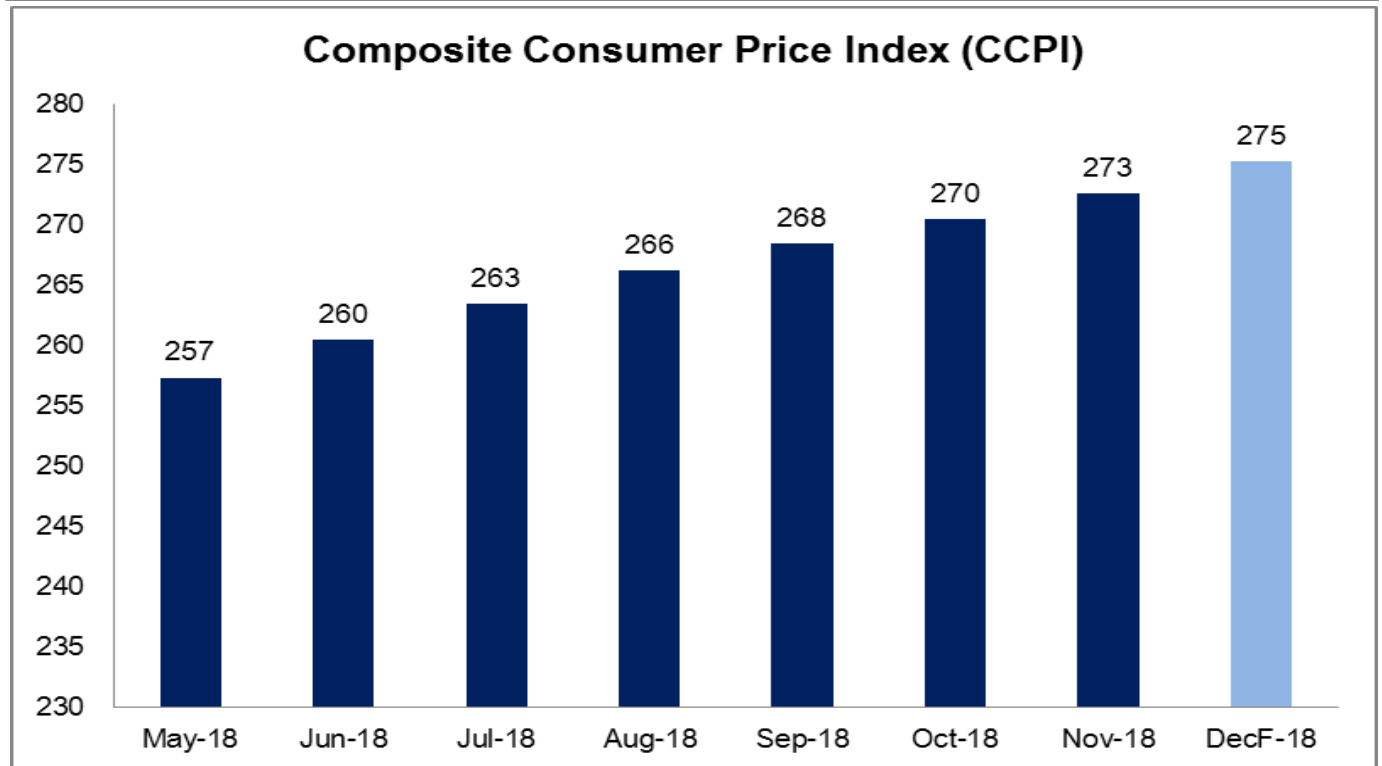
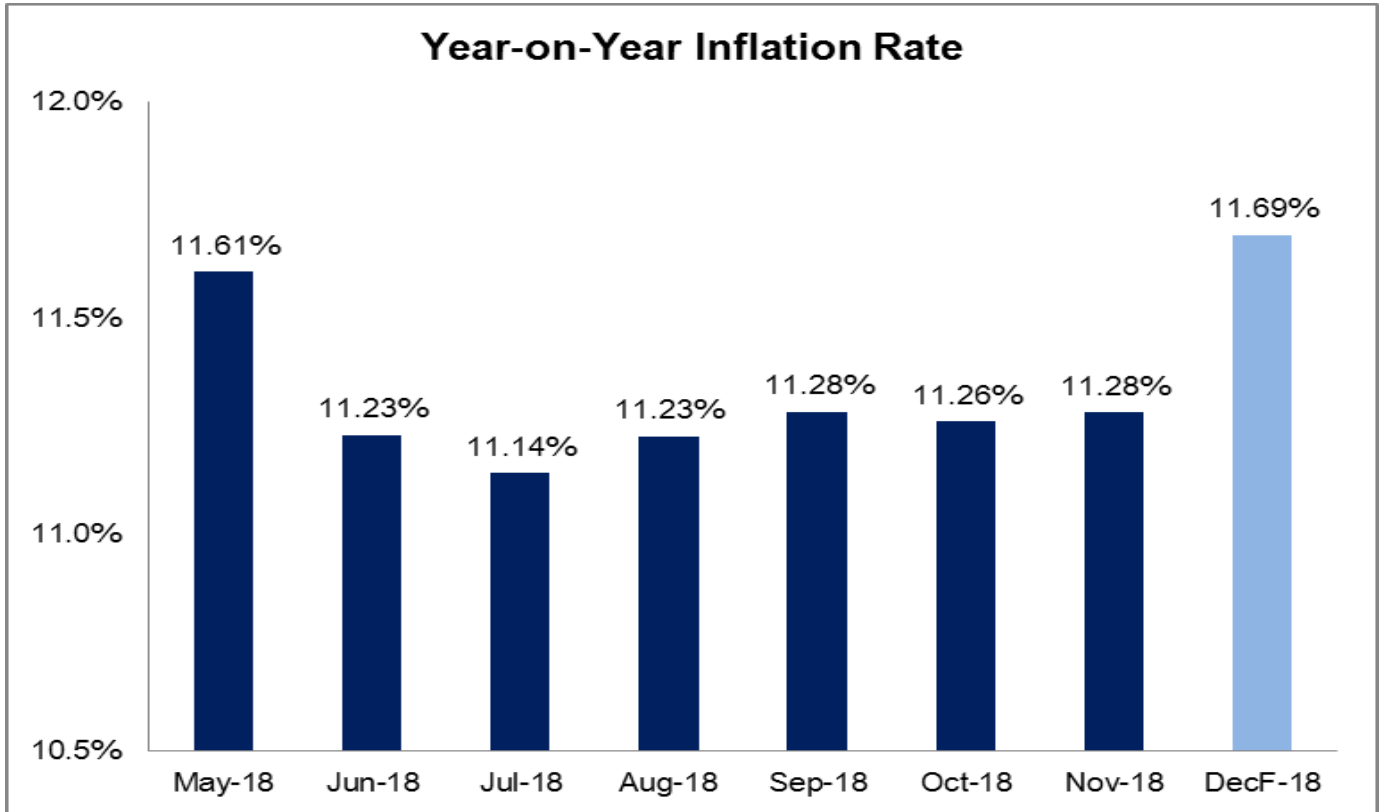
FSDH Research's analysis indicates that the value of the Naira depreciated at the Nigerian Autonomous Foreign Exchange (NAFEX) in December 2018, while it appreciated at the parallel market. The value of the Naira depreciated marginally by 0.01% at the NAFEX market to close at US\$/N364.18 from US\$/N364.16 in November, while it gained 0.14% in the parallel market to close at US\$/N365.00 from US\$/N365.50 in November 2018. The value of the Naira appreciated at the parallel market as a result of newly introduced special 'Thursday sale' to Bureau de Change (BDCs) operators. The depreciation recorded at NAFEX between the two months under review increased the impact of foreign exchange on the prices of imported consumer goods in the domestic market.

*The prices of food items that FSDH Research monitored in December moved in varying directions.*

The prices of food items that FSDH Research monitored in December 2018 moved in varying directions, leading to 1.00% increase in our Food and Non-Alcoholic Index. This Index increased year-on-year by 13.83% to 295.66 points, up from 259.75 points recorded in December 2017. We also observed an increase in the prices of Transport and Housing, Water, Electricity, Gas & Other Fuels divisions between November and December 2018. **We estimate that the increase in the Composite Consumer Price Index (CCPI) in December would produce an inflation rate of 11.69%.**

*Despite the increase in inflation rate the MPC should maintain rate at current levels.*

Despite the expected increase in the inflation rate in December 2018 and in 2019, FSDH Research believes the members of the MPC of the Central Bank of Nigeria will vote to hold rates at the current levels in January 2019. The most appropriate instrument to signal tightening at the moment in the face of fragile credit and economic growth is to use open market operations (OMO) to mop up excess liquidity.



Sources: National Bureau of Statistics (NBS), Food and Agriculture Organization (FAO) of the United Nations and FSDH Research

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