

Inflation Rate to Appreciate in December 2014:

The National Bureau of Statistics (NBS) is expected to release the inflation rate figure for the month of December 2014 on January 12, 2015, based on data received from the trading economics website as at the time of this report. The latest inflation rate for the month of November 2014 stands at 7.9%, lower than 8.1% recorded in the month of October 2014. Our inflation rate forecast for the month of November released in our monthly Inflation Watch Report was 8.1%. According to the NBS, the monthly Composite Consumer Price Index (CCPI) for All Items for the month of November stood at 163.1 points, an increase of 0.59% from October 2014. The CCPI 12-month average for November 2014 remained unchanged from that of October 2014 at 8.0%. The NBS noted that the decrease in the inflation rate in November 2014 was due to the slower growth in food prices as well as other divisions that yield the Headline Index. The prices in the food sub-index were weighed down by slower increases in the prices of all food groups, with the highest price increases occurring amongst: coffee, tea, cocoa, fish, dairy, and fruit groups.

Inflation Rate: 8.4%

The food prices at the international level, as measured by the Food and Agriculture Organization (FAO) Food Price Index (FFPI) declined in the month of December 2014, compared with November 2014. The FFPI averaged 188.6 points, 1.7% lower than the revised value in November 2014 and 8.5% lower than the December 2013 figure. According to the FAO, the fall in the value of the Index in December was mainly attributable to the sharp decline in all food prices except cereals which appreciated marginally. The FAO Cereal Price Index increased by 0.4% from the previous month, due to the rise in the prices of wheat brought about by concerns over Russia's possible export restrictions, although the strengthening of the US dollar limited this increase. Rice prices however fell as a result of abundant supply, due to the harvest season, coupled with weak import demand. The FAO Vegetable Oil Price Index was down by 2.4% in December 2014, driven by the fall in palm oil prices, as declining crude oil prices crippled demand for palm oil as a biodiesel feed stock. Prices only recovered towards the end of the year as the harvest season in Malaysia was foiled by heavy rainfall. The FAO Dairy Index declined by 2.3% in December 2014 majorly due to the increased export availability in the face of the weakening import demand for dairy products by major importers namely China and Russia. The FAO Sugar Index decreased by 4.8% in December from November 2014, due to ample supply from sugar exporting countries especially Brazil. This fall was also exacerbated by the drop in crude oil prices as less ethanol was converted from sugar crops. The FAO Meat Index depreciated by 1.9% with weaker bovine and ovine meat prices in Oceania and reduced pig meat prices in Europe. Meat prices were adversely affected by the strengthening of the US Dollar in conjunction with the higher export availability.

The FFPI dropped by 1.7% in December 2014, compared with November 2014.

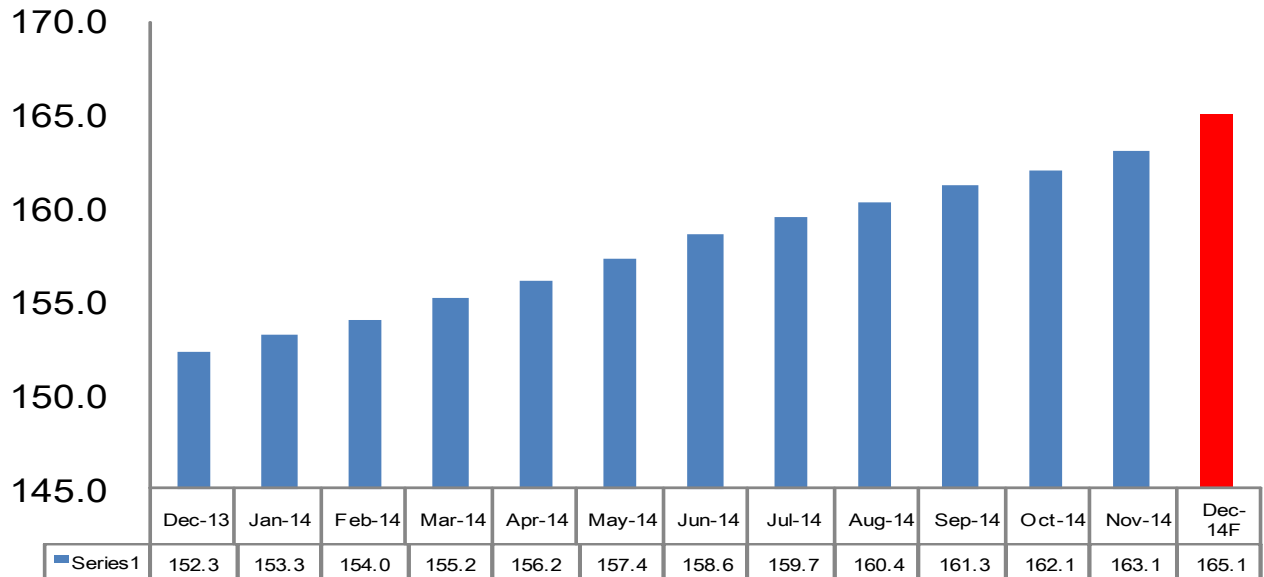
Our analysis of the foreign exchange rate of the local currency indicated that the value of the Naira depreciated against the US Dollar at the Central Bank of Nigeria (CBN) Retail Dutch Auction System (RDAS) window by 1.79% to US\$/N168 in December 2014, from US\$/N165 in November 2014. The depreciation in the value of the Naira is expected to moderate the effects of the fall in international food prices. We expect moderate upward adjustments in local prices in December 2014.

Furthermore, an analysis of the average prices of a basket of consumer goods selected from across the country monitored by the FSDH Research in December 2014 shows mixed reactions in the prices of essential food items during the period. Some food items such as rice, tomatoes, beans, sweet potatoes, vegetable oil and fish recorded increases of 8.00%, 8.33%, 6.67%, 2.08%, 10.00% and 2.99% respectively. However, the prices of garri, onions, yam, Irish potatoes and palm oil, recorded decreases of 6.52%, 5.83%, 7.14%, 4.29% and 4.55% respectively, while meat prices remained unchanged. The movement in the prices of food items in December 2014 resulted in 1.5% increase in our Food and Non-Alcoholic Index to 168.92 points. We also noticed an increase in the prices of Alcohol, Beverages, Tobacco and Kola, Transport, and Housing, Water, Electricity Gas and other Fuel between November and December 2014.

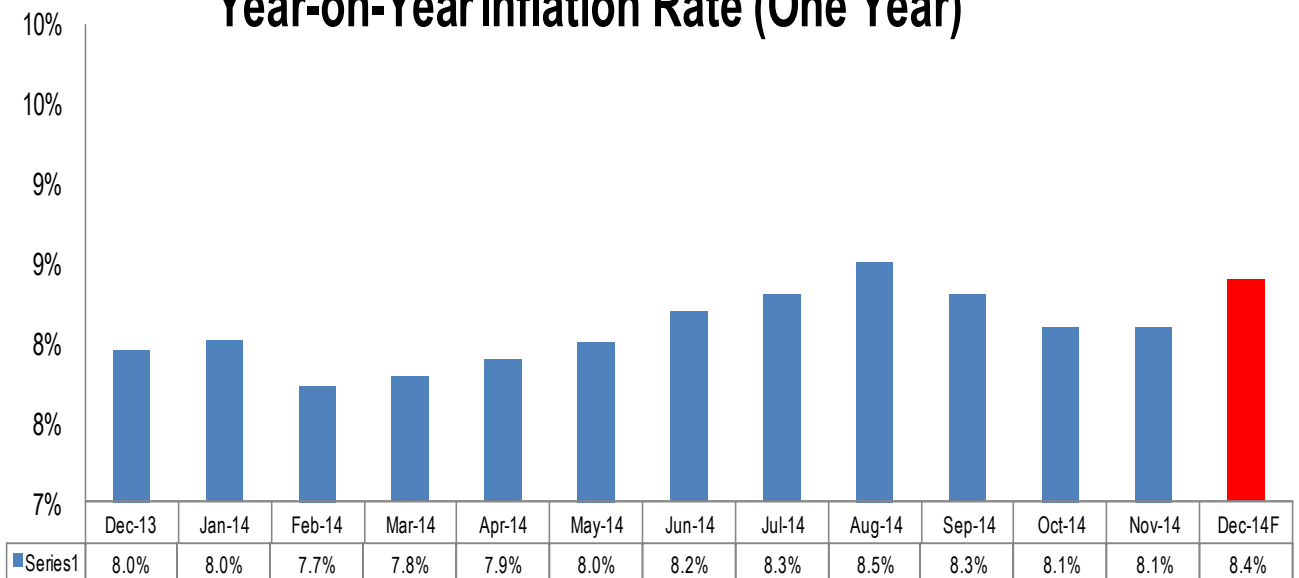
The inflation rate in the month of January 2015 is expected to be higher than the December 2014 figure.

Our model indicates that the price movements in the consumer goods in December 2014 would increase the Consumer Price Index (CPI) to 165.05 points, representing a month-on-month increase of 1.20%. We estimate that the increase in the CPI in December will produce an inflation rate (year-on-year) of 8.4%, higher than the figure recorded in the month of November 2014. Looking ahead, the inflation rate for the month of January 2015 is expected to be higher than the December 2014 figure.

One Year Composite Consumer Price Index (CCPI)



Year-on-Year Inflation Rate (One Year)



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