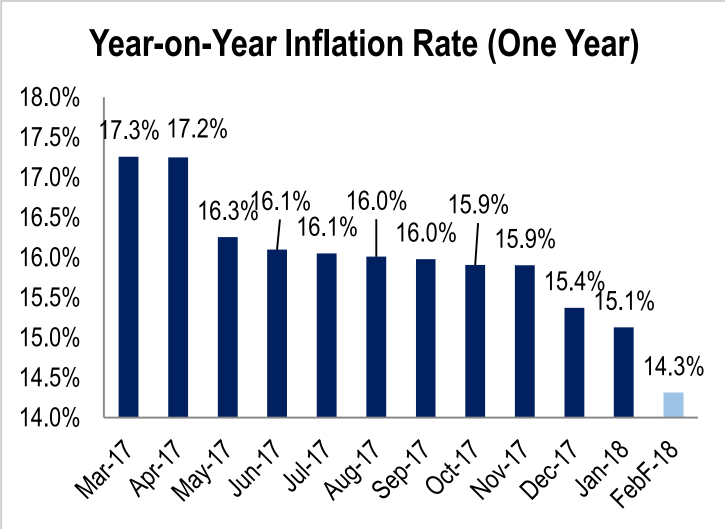
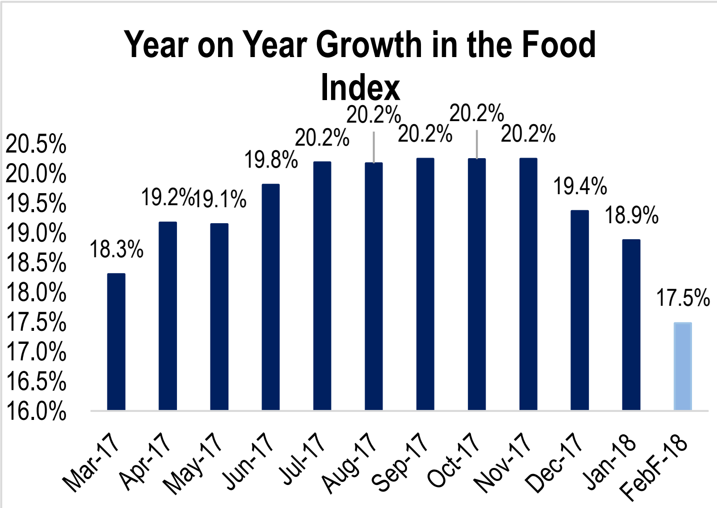
Inflation Rate to Drop and PMI Falls Further

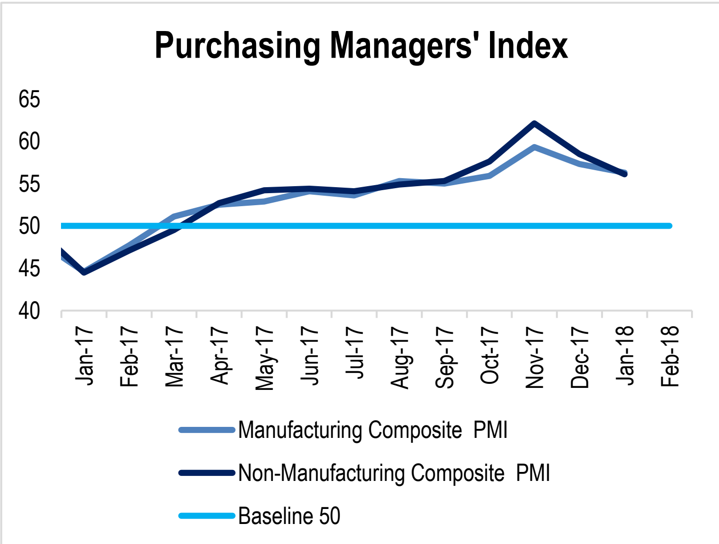
FSDH Research expects the inflation rate (year-on-year) to drop to 14.31% in February 2018 from 15.13% recorded in the month of January 2018. The expected decrease in the inflation rate is largely attributable to the base effect of previous year. In addition, we note the decrease in some major food prices, as well as the slowdown in the price movement in some categories of non-food items in the Consumer Price Index (CPI) basket.



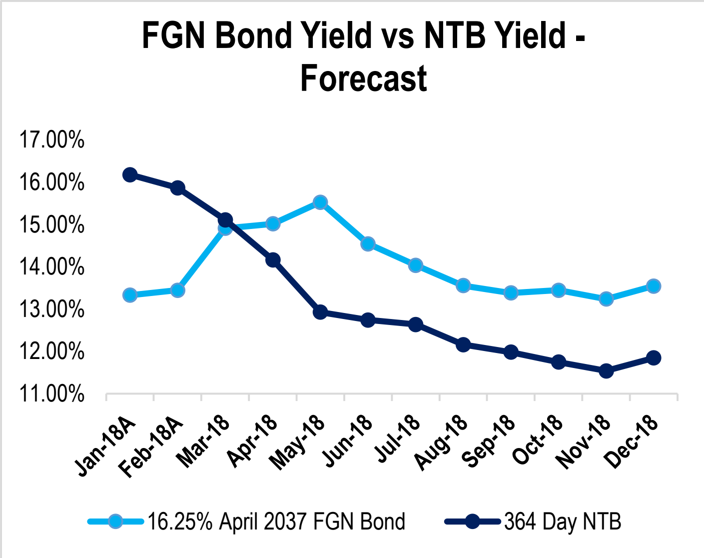
The prices of most of the food items we monitored in February 2018 increased marginally, leading to 0.80% increase in our Food and Non-Alcoholic Index. The Food and Non-Alcoholic Index increased by 17.50% from 224.77 points in February 2017. FSDH Research notes that there is a potential increase in local prices of imported food items because of the faster than expected increase in international food prices. This may have negative impact on inflation rate going forward.



Our revised average inflation rate forecast for the year 2018 stands at 10.76% lower than 16.55% in 2017. However, we maintain that the yields on the FGN Bonds will rise, in the short-term, higher than the current levels. The major drivers are increase in the interest rate in advanced economies and the strategy of the Debt Management Office (DMO) to restructure the public debt in favour of longer-tenored instruments.



In another development, FSDH Research observed a slowdown for the Purchasing Managers' Index (PMI) for the second consecutive month. This was contained in the latest PMI report that the Central Bank of Nigeria (CBN) published for the month of February 2018. The Composite Manufacturing Index (CMI) dropped from 59.3% in December 2017 to 57.3% in January 2018 and to 56.3% in February 2018. Although the PMI figures are above 50 points, the slowdown may reflect the rising uncertainties in the country. Some businesses have expressed concerns over the rising social unrest in some parts of the country and delays in fiscal and monetary policies announcement. Policy makers and economic mangers in the country need to pay urgent attention to the declining trend in the PMI in order to nip it in the bud.



Sources: National Bureau of Statistics, CBN, FMDQ and FSDH Research

Please click on the links below to access our latest reports:

- *Inflation Rate to Drop in February on Base Effect*
- *FSDH Research Forecasts a Growth in the Banking Sector Credit to Private Sector*
- *Proposed UK and Nigeria Trade Deal – Any Benefit for Nigeria?*

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