

Inflation Rate to Inch Up in June

The National Bureau of Statistics (NBS) is expected to release the inflation rate for the month of June 2015 on July 16, 2015, based on the Data Release Calendar available on the Bureau's website as at the time of this report. The latest inflation rate for the month of May 2015 stands at 9.0%, higher than 8.7% recorded in the month of April 2015. Our inflation rate forecast for the month of May released in our monthly Inflation Watch Report was 8.9%. The May inflation rate was the sixth consecutive month of increase in the Headline Index to reach the highest inflation rate recorded for the year. The inflation rate was also the highest rate recorded since May 2013. According to the NBS, the monthly Composite Consumer Price Index (CCPI) for All Items for the month of May stood at 171.6 points, an increase of 1.1% from April 2015. The CCPI 12-month average for May 2015 stands at 8.3%, higher than 8.2% recorded in April 2015. The NBS noted that food prices were higher in May as a result of the late onset of rains which have elongated the harvest season coupled with higher transportation costs due to scarcity of Premium Motor Spirit (PMS). The Food Sub Index rose by 9.8%, up from 9.5% in April as a result of increases in most of the groups that yield the Index. All groups which contribute to the Food Sub-Index increased at a faster pace during the reporting period with the highest year-on-year rises recorded in the fish, potato, yam and tuber and meat groups. Prices also increased at a faster pace in most divisions that contribute to the Core Sub-Index, with the highest pressure observed in the Housing, Water, Electricity, Gas and Other Fuels; Alcoholic Beverage, Tobacco and Kola; and Transportation divisions. However, the pace of increases continued to slow in the Communications division.

Inflation Rate: 9.1%

A cursory look at the movement in the food prices at the international level, as measured by the Food and Agriculture Organization (FAO) Food Price Index (FFPI) for the month of June 2015, shows that the Index averaged 165.1 points, 0.9% lower than the revised value in May 2015, and 21% lower than the June 2014 figure. Movement in the food prices were in varying directions. Dairy prices and sugar were mostly responsible for the dip in the value of the Index while cereals and oils prices recorded some level of appreciation. The Dairy Price Index fell by 4.1% in June 2015. Milk powders, cheese and butter were the main commodities affected. The Sugar Price Index dropped by 6.6% in June 2015 on the heels of a higher than expected sugar production in India, the world's largest sugar consumer. The FAO Meat Index depreciated by 0.6% on the backdrop of generally lower prices as import demand weakened. On the flip side, the FAO Cereal Price Index gained 1.5% from the previous month marking the first month-on-month rise since December 2014. Wheat and coarse grain prices firmed up and were primarily responsible for the uptick in the value of the Index. The FAO Vegetable Oil Price Index was also up by 1.3%, driven by rising quotations for both palm and soy oils. Palm oil prices were strengthened by improved import demand (by China and India in particular).

The FFPI dropped by 0.9% in June, compared with May 2015.

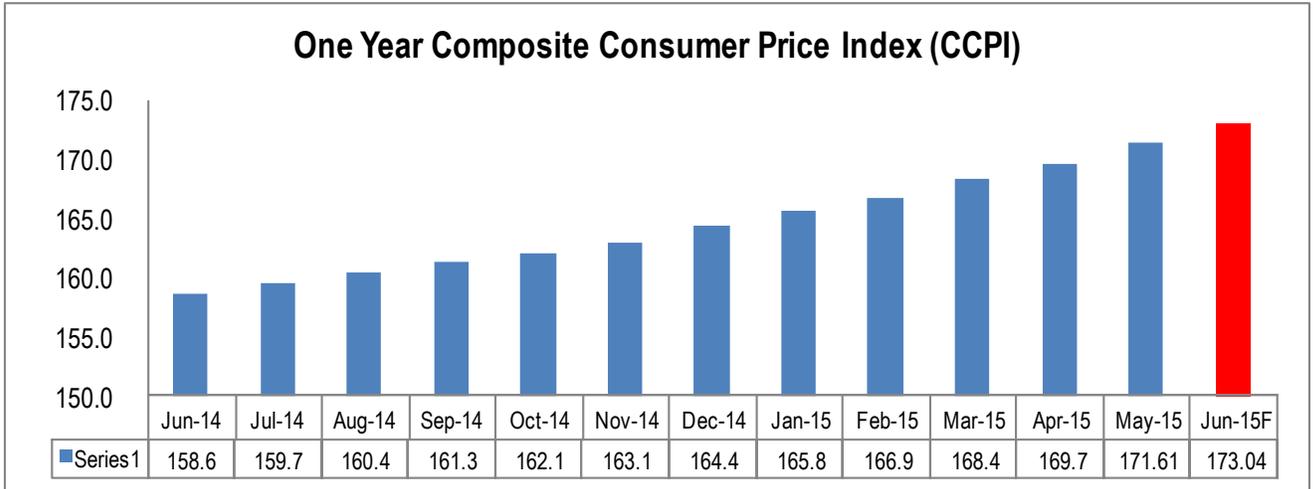
Our analysis of the foreign exchange rate of the local currency indicated that the value of the Naira appreciated against the US Dollar by 0.21% from US\$/N199.14 at the end of May to US\$/N198.72 at the end of June. The appreciation recorded in the local currency between the two months is on the heels of the foreign exchange (FX) restrictions imposed by the CBN on some specified items.

The Naira appreciated against the US Dollar by 0.21% in June 2015.

Furthermore, an analysis of the average prices of a basket of consumer goods selected from across the country monitored by FSDH Research in June 2015 shows that there was a general increase in the prices of essential food items during the period. Food items such as tomatoes, onions, yam, sweet potato, Irish potato and fish recorded increases of 57.14%, 8.93%, 25%, 27.14%, 8.33% and 3.83% respectively. Meanwhile, the price of rice, garri, beans, vegetable and palm oil and meat remained unchanged. The movement in the prices of food items during the month resulted in 0.89% increase in our Food and Non-Alcoholic Index to 177.39 points. We also noticed an increase in the prices of Housing, Water, Electricity, Gas and Other Fuel between May and June 2015.

Our model indicates that the price movements in the consumer goods and services in June 2015 would increase the CCPI to 173.04 points, representing a month-on-month increase of 0.84%. We estimate that the increase in the CCPI in June will produce an inflation rate (year-on-year) of 9.1%, higher than the figure recorded in the month of May. Looking ahead, the inflation rate for the month of July 2015 is expected to be higher than the June 2015 figure.

The inflation rate in the month of July is expected to be higher than the June figure.



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