

## Inflation Rate to Drop Further in July:

We expect the inflation rate (year-on-year) to drop to 15.96% in July from 16.10% recorded in the month of June 2017. Although the inflation rate (year-on-year) dropped consistently between January and June 2017 due to the impact of the base effect in the prior year, we note that inflationary pressure persists. The expected decrease in the inflation rate is largely attributed to the downward movement in some categories of non-food items in the Consumer Price Index (CPI) basket, as well as decreases in some major food prices. Based on the data release calendar on the website of the National Bureau of Statistics (NBS), we expect the NBS to release the inflation rate for the month of July 2017 on August 16, 2017.

The monthly Food Price Index (FPI) that the Food and Agriculture Organization (FAO) released today indicates that the Index averaged 179 points in July 2017, 2.24% higher than the June value, and the third consecutive month of increase. According to the FAO, the increase in the value of the Index in July was majorly due to the supply constraints and currency movements in the prices of items such as cereals, sugar and dairy. The sharp increase in the FAO Sugar Price Index (up 5.19%) from June 2017 is mainly attributable to the strong appreciation of the Brazilian Real. The FAO Cereal Price Index was up 5.14% in July 2017 mainly due to the appreciation in the price of wheat and rice. The FAO Dairy Price Index appreciated by 3.63% in July 2017. The prices of most dairy products which includes whole milk powders, cheese and butter appreciated during the period. Meanwhile, the price of skimmed milk powder declined. On the flip side, the FAO Meat Index was down by 0.08% largely unchanged from June figure. The price increases in ovine meat was offset by the downward price movement in bovine, pig and poultry. The FAO Vegetable Oil Price Index was down by 1.10%, driven by falling quotations for palm oil.

Our analysis indicates that the value of the Naira appreciated at both the inter-bank and parallel markets. The Naira gained 0.08% to close at N305.65/US\$ at the inter-bank market while it gained 1.09% to close at N367/US\$ at the parallel market at the end of July 2017. The appreciation in the value of the Naira should reduce the pass-through effect of the increase in the prices of food at the international market on domestic prices.

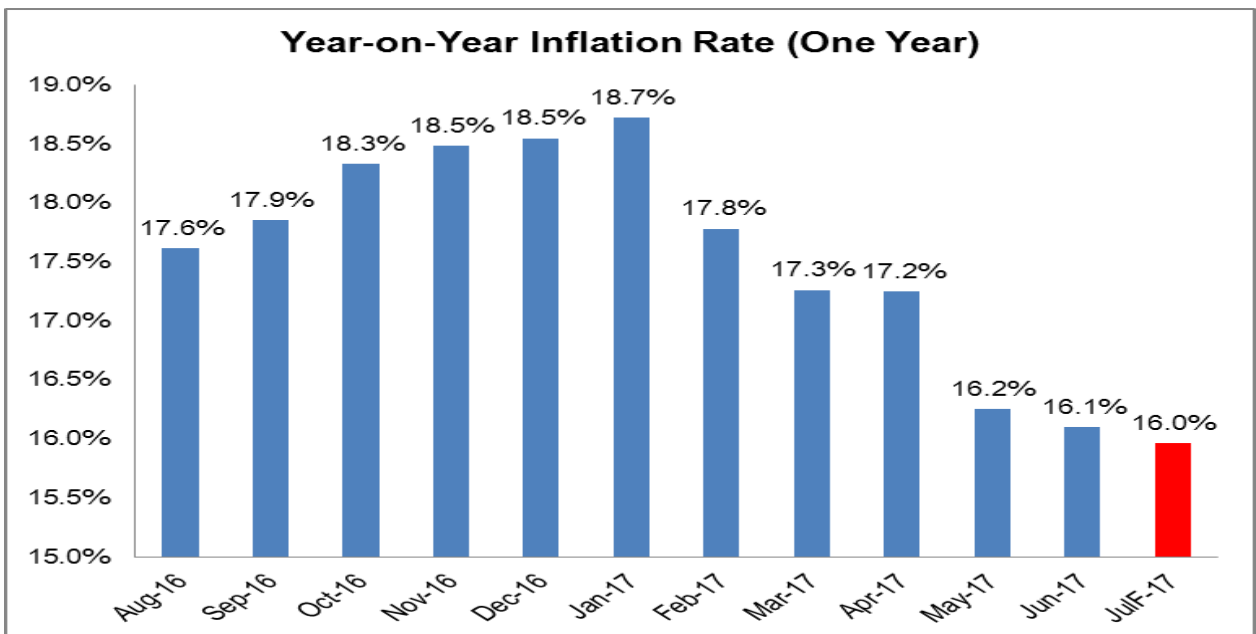
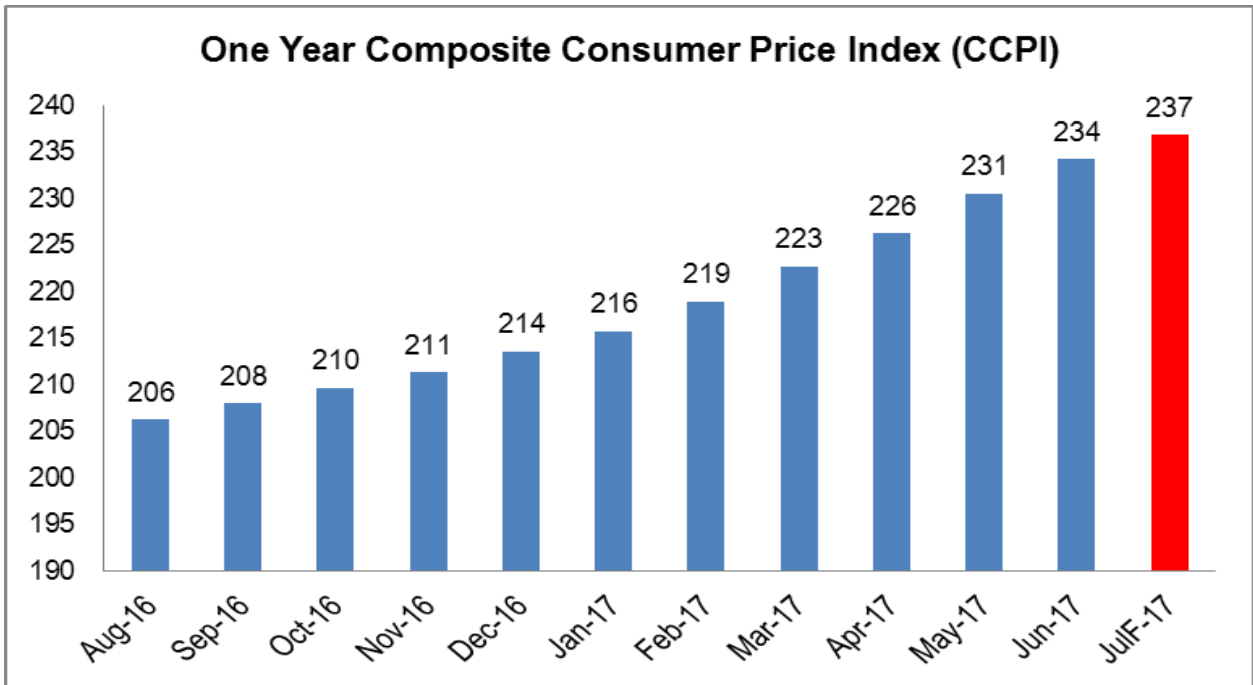
The prices of most of the food items we monitored in July 2017 moderated while a few items recorded price appreciation. The movement in the prices of food items during the month resulted in 1.25% increase in our Food and Non-Alcoholic Index to 248.20 points. We noticed increase in the prices of Housing, Water, Electricity, Gas & Other Fuels divisions between June 2017 and July 2017.

Our model indicates that the general price movements in the consumer goods and services in July 2017 would increase the Composite Consumer Price Index (CCPI) to 236.83 points, representing a month-on-month increase of 1.13%. We estimate that the increase in the CCPI in July 2017 would produce an inflation rate of 15.96% lower than the 16.10% recorded in June 2017.

**Inflation rate: 15.96%**

*The FPI appreciated in July 2017 by 2.24% compared with the revised value for June 2017.*

*The CCPI would increase by 1.13% month-on-month in July.*



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