



## November 2018 Inflation

### Nigeria inflation flat as core inflation eases

Nigeria's inflation came in flat m/m at 11.3% y/y, also in line with Consensus estimate albeit behind Vetiva forecast of 11.4% y/y. Month-on-month (m/m) inflation inched up from 0.7% to 0.8%, but we note that this level is still relatively manageable in the long run as it translates to 10% annual inflation. The rise in m/m inflation was driven by food prices, which were up 0.9% m/m (October: 0.8% m/m) and 13.3% y/y (October: 13.3% y/y). Meanwhile, Core inflation printed at 0.7% m/m (October: 0.8% m/m) and 9.8% y/y (October: 9.9% y/y).

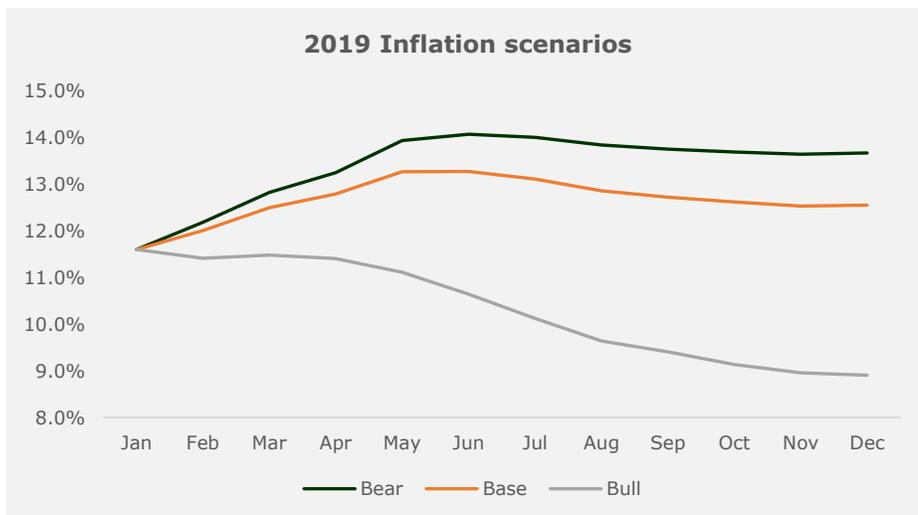
### Conflict, currency, minimum wage may change inflation trend

Domestic food prices have benefitted from the main harvest season in Q4'18, but we are unsure about the sustainability of food price stability given the effect of 2017/2018 herdsman attacks and flooding on farming livelihoods in the Middle Belt. Meanwhile, imported food inflation has been sticky at 1.2% m/m, even though the FAO Food Price Index hit multi-year lows in November. Finally, we note that potential currency instability (for example, through a wider spread between official and parallel market rates) could pressure imported food prices and hamper disinflation trend.

Annual core inflation has stabilized at a single digit level for the past three months, indicating a material improvement in Nigeria's underlying pricing environment in 2018. Moreover, core prices are yet to show any effect of anticipated 2019 election spending, though we expect this impact to be most felt at the turn of the year. As energy prices are projected to remain stable through 2019, the main pressure point is the likely minimum wage hike which could trigger a wage-price spiral and induce some demand-pull inflation.

### Slightly higher inflation expected in 2019

Given the improvement in food and core inflation recorded over the course of the year, we would have been cautiously optimistic about inflation heading into 2019. However, this outlook is clouded by our expectations of a minimum wage hike sometime and likely naira weakening later in 2019. As a result, our forecast for 2019 average inflation in our base scenario is 12.6%, above projected 2018 average of 12.2% y/y (December: 11.6% y/y). Our bear and bull forecasts for 2019 are 13.4% y/y and 10.3% y/y respectively.



Source: NBS, Vetiva Research

*Inflation is calculated by looking at corresponding numbers of the Consumer Price Index (CPI). The CPI is a measure that examines the weighted average of prices of a basket of consumer goods and services over time, relative to a base year. The current base year for the Nigerian CPI is 2009. Annual inflation for a month is computed by comparing the percentage change in the CPI figure for that month in the two comparison years.*

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