

## Inflation Rate to Inch up in August

The National Bureau of Statistics (NBS) is expected to release the inflation rate for the month of August 2015 on September 15, 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 July 2015 stands at 9.2%, same as the figure recorded in the month of June 2015. Our inflation rate forecast for the month of July released in our monthly Inflation Watch Report was 9.4%. The Headline Index was unchanged in the month of July as a result of muted rises in the "Food and Non Alcoholic Beverages", "Housing Water, Electricity, Gas and Other Fuel", and "Furnishings & Household Equipment Maintenance" divisions amongst others. According to the NBS, the monthly Composite Consumer Price Index (CCPI) for All Items for the month of July stood at 174.4 points, an increase of 0.7% from June 2015. The CCPI 12-month average for July 2015 stands at 8.5%, higher than 8.4% recorded in June 2015. The NBS noted that highest pressures were observed in the Transportation, Education and Miscellaneous Good and Services divisions. The pace of increase slowed in multiple divisions such as the Communications, Recreation & Culture and Restaurant & Hotels divisions. The Food Sub Index rose by 10%, increasing at the same pace for the second consecutive month. The slower increases in the meats, fish, fruits and potatoes, yams and tubers groups weighted on the Food Sub-Index as a whole. Faster price increases were also observed in the bread and cereals; milk, cheese and eggs; and oils and fats groups, while the price of vegetables remained stable over the period.

**Inflation Rate: 9.3%**

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 August 2015 released today, shows that the Index averaged 155.7 points, 5.2% lower than the value in July 2015, and the sharpest drop since December 2008. Ample commodity supplies, the slump in energy prices and concerns about China's economic slowdown and its negative consequences on the global economy and financial markets contributed to the sharp drop in the value of the Index. The Sugar Price Index fell the most, declining by 10% in August 2015 as a result of the continued depreciation of the Brazilian Real against the US Dollar and firmer expectations that India, the world's second largest sugar producer, will become a net exporter in the current 2015/16 season. The prices for dairy commodities declined across board, with milk powder being most affected, followed by cheese and butter. The subdued import demands from China, the Middle East and North Africa continued to weigh on international dairy prices. The FAO Vegetable Oil Price hit the lowest level since March 2009. The expectations of rising production and slowing import demand notably by India and China were primarily responsible. Falling wheat and maize prices were responsible for the 7% drop in the Cereal Price Index as ample supplies supported by larger than anticipated harvests pushed down prices. On the flipside, the FAO Meat Price Index appreciated by 0.1% barely unchanged from the previous month's value.

*The FFPI dropped sharply by 5.2% in August, compared with July 2015.*

*The Naira appreciated against the US Dollar by 0.01% in August 2015.*

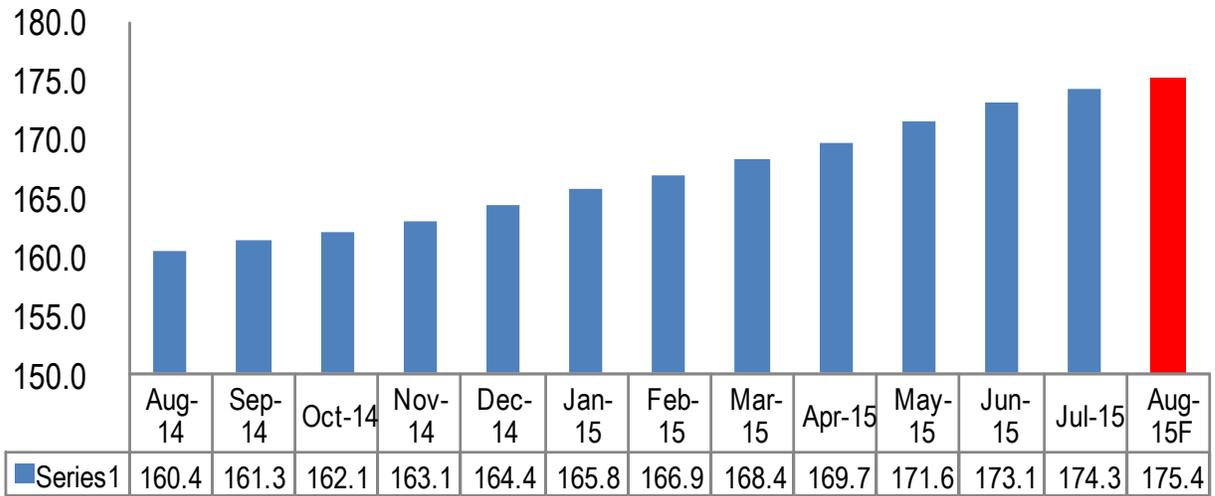
Our analysis of the foreign exchange rate of the local currency indicated that the value of the Naira appreciated marginally against the US Dollar by 0.01% from US\$/N199.10 at the end of July to US\$/N199.08 at the end of August. We note that the available rates in the other segments of the foreign exchange market are substantially different from the interbank market rates.

Furthermore, an analysis of the average prices of a basket of consumer goods selected from across the country monitored by FSDH Research in August 2015 shows that there was a general increase in the prices of essential food items during the period. Food items such as yam, palm oil, sweet potatoes, rice, Irish potatoes and fish recorded increases of 39.05%, 15%, 7.14%, 6.34%, 5.56% and 3.89% respectively. However, the prices of tomatoes, onions and vegetable oil recorded decreases of 27.14%, 16.67% and 14.29% respectively. Meanwhile the price of garri, beans and meat remained unchanged. The movement in the prices of food items during the month resulted in 0.60% increase in our Food and Non-Alcoholic Index to 180.06 points. We also noticed an increase in the prices of Transportation; Housing, Water, Electricity, Gas and Other Fuel between July and August 2015.

*The inflation rate in the month of September is expected to be higher than the August figure.*

Our model indicates that the price movements in the consumer goods and services in August 2015 would increase the CCPI to 175.39 points, representing a month-on-month increase of 0.59%. We estimate that the increase in the CCPI in August will produce an inflation rate (year-on-year) of 9.3%, higher than the figure recorded in the month of July. Looking ahead, the inflation rate for the month of September 2015 is expected to be higher than the August 2015 figure.

## One Year Composite Consumer Price Index (CCPI)



## Year-on-Year Inflation Rate (One Year)



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