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December 2018 inflation rate – reversal of 2018 trend

The Namibia Statistics Agency has released the Consumer Price Index (CPI) for December 2018 on 15 January 2019. The CPI is being used to calculate the month-on-month (compared to the previous month) and year-on-year (compared to the same month in the previous year) inflation rates. The **annual inflation rate dropped to 5.1%** in December 2018 from 5.6% in November. After continuous increases during 2018 inflation ended the year on a more positive note for consumers and producers, although it remains the second highest inflation rate for 2018 and on par with October. **Month-on-month**, the inflation rate **decreased by 0.2%**.

Here are some of the main highlights:

- The inflation rate for both **goods and services declined**. After continuous increases in the inflation rate for **goods** since March 2018 from 2.8% to 6.1% in November, prices rose at a slower pace in December – **4.2%**. The inflation rate for **services** started to rise in May 2018 from 4.2% to 4.8% in October and November 2018, before it decreased slightly to **4.5%** in December. The inflation rate for services exceeded the inflation rate for goods for the first since June 2018.
- **Food price inflation continued** its upward trend that started in October 2018 and increased to 5.4% in December from 4.9% in November. The **main driver** has been **bread and cereal prices** that rose by 7.9% in December compared to 6.0% in November. This category contributes 32.8% to the overall food inflation rate and has therefore a strong impact on food price inflation. In contrast, **meat prices** increased at a **slower pace** of 3.5% compared to 4.7% in November. Meat accounts for 23.9% of the food basket. After price declines between May and September 2018, prices for **sugar, jam, honey, etc.** are on the **rise again** and increased by 4.7% in December (November: 4.3%). The **inflation rate for vegetables** etc. saw the **strongest increase** from 8.9% in November to 12.8% in December 2018, while **fruit prices accelerated slightly stronger** in December (8.1%) than in November (7.9%). **Milk price increases decelerated** from 2.2% in November to 0.4% in December.
- Price increases for **tobacco products** were the **main cause** for accelerated price increases in the category ‘**alcohol and tobacco**’. The inflation rate for this category rose from 5.7% to 5.9% in December 2018, with tobacco prices increasing by 4.7% compared to 3.1% in November. **Alcohol prices** increased at a **slower pace** of 6.1% in December than in November (6.3%).
- Prices for **housing, water, electricity, etc.** increased at the **slowest pace since October 2014**, namely by 3.1%, while they rose by 3.7% in November 2018. Both prices for the maintenance of houses as well as for water supply increased at a slower pace in December than in November. Prices for **water supply rose by 4.7%** as compared to 8.7%, while **prices for repair and maintenance** increased by **2.5%** compared to 3.5%. The category ‘housing, water, etc.’ **carries the highest weight** in the consumption basket of 28.4%, meaning the average Namibian consumer spends 28.4% of total expenditure on these goods and services.

- The **slowdown in transport inflation** was the **main reason** behind the lower overall inflation rate in December. **Transport inflation stood at 10.9%** in December 2018 and was hence lower than between September and November. However it remains the **fourth highest inflation rate** for more than **a decade**. The **reduction in fuel prices** resulted in the drop of the inflation rate for the operation of transport equipment, which has the highest weight within the transport category and contributes 8.96% to the overall inflation rate. Prices for the **operation of transport equipment** rose by **10.5%** in December compared to 15.4% in November. It was the slowest pace since June 2018. Transport contributes 14.3% to total consumption.
- Prices for **health services** increased at the **same rate** as in November 2018 – 4.8%. The inflation rates for both sub-categories – medical products, outpatient services – **remained unchanged** at 3.4% and 6.6% respectively.
- After prices for **clothing and footwear** increased again in October they followed the same trend since December 2017 again – **falling**. Prices for this category dropped by 0.2% in December 2018. Prices for **girls' clothing dropped by 12.5%**, while prices for **boys' clothing increased by 0.8%**. Prices for **infants' clothing decreased by 3.6%**.

The drop in fuel prices by NAD1.00 per litre for petrol and NAD0.40 per litre for diesel slowed down inflation to 5.1% in December. However, despite a further drop in fuel prices in January 2019 by NAD0.90 per litre and NAD1.00 per litre for petrol and diesel respectively, fuel prices remain higher than in January 2018, and will therefore contribute to the inflation rate. We can expect oil price fluctuations influenced by changing global growth prospects and in particular by progress in trade negotiations between China and the USA, in Brexit negotiations as well as the monetary policy path pursued by the Federal Reserve Bank in the USA and the European Central Bank, among others. In addition, output targets agreed by OPEC+ (mainly Saudi Arabia and Russia), adherence to targets, as well as output responses by US and Canadian shale oil producers will further influence global oil prices, while the exchange rate will impact on domestic fuel prices. Higher fuel costs over the past months, despite some respite in December and January, could, however, result in so-called second round effects, because producers could pass on higher input costs to the end consumer.

White maize prices and wheat prices on the South African Futures Exchange (Safex) are currently 49% and 21% higher than in January 2018. This could result in further price pressure on bread and cereals, while the expected El Niño effect with below average to average rainfalls this season in the region could result in further price increases for crops, vegetable and fruits, while meat prices could decline further due to higher livestock marketing.

Overall, we expect the inflation rate in 2019 to remain within the 3% to 6% band targeted by the South African Reserve Bank through its monetary policy.