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Economic Association of Namibia

EAN Commentary 2018/01

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NSA releases the Consumer Price Index for April 2018

The Namibia Statistics Agency has released the Consumer Price Index (CPI) for April 2018 on 15 May 2018. The inflation rate is calculated based on the change in the CPI. The inflation rate increased slightly from 3.5% in the previous two months to 3.6% in April and is on par with the annual inflation rate for January 2018. It is substantially lower than the inflation rate for April 2017 of 6.7% and lower than the annual inflation rates since December 2015 (3.7%). On a month-to-month basis, inflation rose by 0.3% in April compared to March. The month-to-month price increases accelerated compared to March, when average price levels were 0.1% higher than in February 2018.

Herewith a few more highlights for April 2018:

- The uptick in inflation is caused by faster price increases for **goods** (up by 3.1% from 2.8% in March), while price increases for **services** decelerated from 4.4% in March to 4.3% in April.
- The four main categories that account for 71.7% of the consumption basket (meaning an average household spends NAD71.70 on these items of every NAD100.00 they spend) have all been affected by accelerated price increases compared to March 2018.
- Prices for **food and non-alcoholic beverages** that contribute 16.5% to the consumption basket increased by 2.9% in April compared to 2.7% in March. Prices for bread and cereals continue to decline; a trend that started in May 2017. They were 1.5% lower in April 2018 compared to April 2017, while meat prices rose further by 7.9% up from 7.8% in March. These two items account for more than 50% of the food basket – bread and cereals for 4.8% and meat for 3.5% - and therefore have a strong impact on overall food price changes. Prices for fruits rose by 10.1%; the highest increase since February 2017 (13.1%), while the costs for vegetables rose by 4.4%, the highest increase since March 2017 (4.3%).
- Costs for **housing, water, electricity, gas etc**. went up by 3.4% in April 2018, which is slightly higher than in the preceding two months (March 3.3%, February 3.2%), but much lower than in April 207 (9.4%). This category carries the highest weight of 28.4% in the consumption basket. The increase was mainly caused by higher prices for the regular maintenance of buildings that rose by 3.2% in April compared to 1.7% in March. Price increases for rental payments (2.6%) and water supply (7.2%) remained unchanged compared to the previous months.
- **Transport inflation** accelerated from 5.4% in March to 5.8% in April owing to higher costs for the operation of transport equipment, which basically refers to the costs of fuel. These costs rose by 6.2% compared to 5.8% in March 2018. The operation of transport equipment accounts for almost two thirds (62.8%) of the weight of the category 'transport' and hence has a strong impact on the overall price changes in this category.
- Prices for **alcoholic beverages and tobacco** rose faster in April (4.7%) than in March (4.3%) caused by a 5.7% increase in the prices for alcoholic beverages. This was the highest increase since

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February 2017, while price increases for tobacco products slowed down to 0.5% from 1.9% in March. In contrast to price changes for alcoholic beverages this was the lowest price increase since November 2016 despite an additional 5% ‘sin’ tax on alcoholic beverages and tobacco products announced in the budget statement.

- While price changes for most categories were positive, the categories of ‘**clothing and footwear**’ and of ‘**communication**’ showed negative price changes meaning prices were actually lower than in April 2017. Prices for communication dropped by 0.2%, while prices for clothing and prices for footwear declined by 6.4% and 4.4% respectively.

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We expect inflation to pick up during the remainder of the year because of the following factors:

- The base effect: 2017 started with relatively high inflation rates (January 2017 8.2%), which slowed down continuously throughout the year to 5.2% in December. Hence the lower inflation rates particularly in the second half of 2017 provide a lower price level and hence price increases expected for the next couple of months will result in higher percentage changes.
- Future prices for maize on the Johannesburg Stock Exchange suggest price increases from currently NAD2,085 per tonne for white maize to NAD2.244 per tonne in December and from NAD2,178 per tonne for yellow maize to NAD2,326 per tonne in December, which is expected to exert upward pressure on food prices.
- Oil prices are on the increase. Brent oil spot prices averaged USD72.11 per barrel in April 2018, the highest monthly average since November 2014 (USD79.44 per barrel). Prices are expected to at least remain at this level if not increase further mainly due to the continuous supply cuts by OPEC and non-OPEC member states and the withdrawal of the USA from the Joint Comprehensive Plan of Action with Iran and looming re-introduction of sanctions. Increased oil production in the USA owing to more favourable prices are not expected to level out these factors. Higher oil prices will not only have a direct impact on transport inflation, but will ripple through the economy over time, because of increased input costs for companies.

As raised in the past – in a country with one of the highest income inequalities globally an average inflation rate is less useful as in countries with a more homogenous distribution of income. Low-income households have different consumption patterns than middle- or higher income households since they need to satisfy their basic needs first. The calibration of additional inflation rates for low-, middle- and high-income households would provide more detailed information that could for instance guide employers and trade unions during wage and salary negotiations and result in settlements that more accurately reflect the rising costs of living of different income groups. Furthermore, Government could base adjustments of the monthly social grant amounts on the inflation rates for low-income households rather than on the average inflation rate.