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January 2019 inflation rate – downward trend continues

The Namibia Statistics Agency has released the Consumer Price Index (CPI) for January 2019 on 14 February 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** further to **4.7%** in January from 5.1% in December and 5.6% in November 2018. It is, however, 120 basis points higher than in January 2018 (3.6%).

Here are some of the main highlights:

- The inflation rate for **goods increased** from 4.2% in December 2018 to 4.8% in January 2019, while the inflation rate for **services remained** at 4.5%.
- The **prices of food and non-alcoholic beverages continued the upward trend**. The inflation rate **rose to 5.7%** from 5.2% in December 2018. **Food prices** increased by **6.1%** in January 2019 compared to 5.4% in December. It is the highest inflation rate since almost two years. Food price inflation stood at 6.8% in March 2017. The main drivers are **price increases for bread and cereals** of 8.3% in January after 7.9% in December. **Meat prices rose slightly** faster in January (3.6%) than in December (3.5%). These two categories contribute almost 57% to the total food price inflation. The inflation rate for **vegetables** increased by almost 50% from 12.8% in December to **18.8%** in January 2019, while **fruit price inflation** accelerated from 8.1% to **8.5%**. Food and non-alcoholic beverages bear the second highest weight (16.5%) in the consumption basket.
- Both, alcohol and tobacco products contributed to the increase in the inflation rate from 5.9% to 6.4% for the category ‘Alcohol and Tobacco’. Prices for **alcoholic beverages rose by 6.7%** (up from 6.1% in December) and for **tobacco** from 4.7% to **6.3%** in January 2019. This categories carries the fourth highest weight in the consumption basket (12.6%).
- The inflation rate for **housing, water, electricity, etc.** continued to decline, reaching the lowest level since December 2015. Prices increased by 2.9% in January compared to 3.1% in December 2018 and to 2.7% in December 2015. **Rental payments contribute 23.3%** to the total inflation rate and 82.1% to the inflation rate for the category ‘housing, etc.’ Prices for rental payments increased by just 2.3%, while prices for the maintenance of dwellings rose by 3.3% in January 2019 up from 2.5% in December.
- The second consecutive **drop in fuel prices** in January 2019 resulted in a much lower inflation rate for the category ‘transport’. **Transport inflation decreased** from 10.9% in December to 7.3% in January – the lowest inflation rate since June 2018. The inflation rate for the sub-category ‘Operation of personal transport equipment’ that refers to **fuel prices dropped to 4.8%** from 10.5% in December. The cost of fuel accounts for 9% of the total consumption basket.

- The **education sector** was the only sector experiencing **double-digit price increases**. Prices for education services rose by 12.0% up from 9.9% during 2018.
- **Clothing and footwear** was the only category that recorded **actually lower prices** in January 2019 than in December 2018. Prices dropped by 0.7% in January and prices in the sub-category ‘Children clothing’ by even 6.9%. With the exception of October 2018 prices for clothing and footwear declined throughout 2018.

The drop in the inflation rate brings another relief to consumers as well as the business sector. The contraction in the economy certainly helped contain rental price increases at levels last seen in 2015. Lower global oil prices contributed further to the lower inflation rate.

However, not all households will benefit to the same extent from the slowdown in price increases. Poor households that spend most of their income on food, and a lower share than the average household on transport and rent in particular in rural areas, will struggle more to make ends meet. Due to the existing dry spell, we expect food prices to remain under pressure.

In addition, further price increases for alcoholic beverages and tobacco products can be expected this month with the annual increase in excise duties.

Despite upward price pressure in some categories, inflation is expected to remain well within the 3% to 6% band targeted by the South African Reserve Bank. Therefore, and given the economic climate, interest rate increases are unlikely this year.