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July 2018 inflation rate – strongest increase so far this year

The Namibia Statistics Agency has released the Consumer Price Index (CPI) for July 2018 on 15 August 2018. The CPI is being used to calculate the monthly (compared to the previous month) and year-on-year (compared to the same month last year) inflation rates. The annual inflation rate increased from 4.0% in June to 4.5% in July 2018. On a month-to-month basis, inflation accelerated from 0.2% in June to 0.5% in July. The inflation rate for July 2018 is the highest so far for 2018, but remains below the inflation rate of 5.4% in July 2017 and overall below the inflation rates for 2016 and 2017.

Herewith are some highlights of the annual inflation rates for July 2018:

- Contrary to previous month, the inflation rates for both **goods and services moved upward**. The main driver of inflation was, however, the price increase for goods. The inflation rate for **goods** rose to 4.6% from 3.8% in June and exceeded for the first time since December 2016 the inflation rate for **services** that rose from 4.2% in June to 4.3% in July.
- **Food price inflation slowed down** from 4.0% in June to 3.2% in July 2018, which was also below food price inflation in July 2017 of 4.3%. Price increases for bread and cereals halved from 3.1% in June to 1.5% in July and the inflation rate for meat dropped from 6.9% to 5.1%. These two items account for 51% of the food inflation and hence determine the direction. Prices for dairy products actually contracted in July by 0.6% compared to an increase by 0.8% in the previous month. It is the first time since June 2012 that prices for dairy products decreased. Prices for fruits and for vegetables rose faster than in previous months, namely by 12.7% and 8.0% respectively compared to 12.4% and 6.1%. Prices for sugar, jam etc. continued to contract in July by 1.1% compared to a contraction by 1.2% in June.
- **Prices for alcohol and tobacco** products continued their climb and increased by 6.8% in July – the highest inflation rate since two years. The rising inflation rate was caused by price increase of 7.5% for alcoholic beverages, while the inflation rate for tobacco products eased from 4.1% in June to 3.6%.
- The inflation rate for **housing, water and electricity** – the items that account for the largest share in the consumption basket (28.4%) – accelerated to 3.7% in July from 3.2% in June. The higher inflation rate was driven by price increases for electricity and gas of 8.4% as compared to 4.9% in the previous month. Prices for the maintenance and repair of buildings also rose faster than in June – 3.6% compared to 2.3%. It remains to be seen whether it is an indication for a recovery of the construction sector. In contrast, costs of water supply slowed down from 7.2% to 6.1% in July.
- As expected, **transport inflation** has been the main driver of inflation in July. Price increases accelerated by 24% from 7.2% in June to 8.9% in July. Transport services account for slightly more

than 14% of the total consumption basket and have, therefore, a strong influence on the overall inflation rate. It is the highest inflation rate for this category since four years. Prices increased by 10.7% in June 2014. The fuel price increase in July translated into an 11.8% increase in the costs of operating transport equipment. The costs of purchasing vehicles rose only slightly faster (6.7%) than a month earlier (6.6%).

- Prices for **clothing and footwear** remained on a downward trend. They decreased by 5.0% in July – the eleventh month of consecutive price reductions. Prices for clothing dropped by 4.2% and for footwear by 6.9%. Costs for **health services** have increased at the slowest pace since more than three years. Health inflation dropped to 5.1% representing the lowest inflation rate since May 2015 (5.0%).

We expect continuous upward pressure on inflation owing to rising fuel prices that were increased by NAD0.25 per litre because of the adjustment of the fuel tax in August. Although international oil prices have eased slightly, the depreciation of the Namibia dollar will increase the cost of oil in domestic currency. This could result in further under-recoveries (meaning the actual costs of fuel are higher than the pump price). If not fully or partly absorbed by the National Energy Fund as in the previous months, under-recoveries will lead to fuel price increases. In addition, the municipality has increased bus fares, which will add further pressure on transportation costs.

Future maize prices have eased slightly in July compared to June on a monthly average, but are on the increase again, while wheat prices continue to increase. However, monthly average wheat prices are below prices a year ago. Maize prices, on the other hand, exceed price levels last year. Hence, food price inflation is expected to remain at the current level.