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October 2018 inflation rate – transport inflation pushes up overall inflation

The Namibia Statistics Agency has released the Consumer Price Index (CPI) for October 2018 on 15 November 2018. 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 rose** from 4.8% in September 2018 **to 5.1%** in October 2018. It is slightly below the inflation rate in October 2017 that stood at 5.2%, but it is the **highest inflation rate so far for 2018**. On a **month-on-month** basis, inflation **slowed down** from 0.8% in September **to 0.4%** in October 2018.

Herewith are some of the main highlights:

- Price increases for **goods remain the main drivers** behind the overall increase in the inflation rate. Price increases for **goods** accelerated from 4.9% in September to **5.3% in October** on a year-on-year basis. It is the **fastest pace since April 2017** (5.6%). Goods inflation continued to exceed the inflation rate for **services** that **rose slightly** from 4.7% in September **to 4.8%** in October. Prices for services rose faster in October than in any other month this year, although it remains below the inflation rates experienced in 2016 and 2017. Inflation rates for **both categories** are heavily **influenced by transport inflation**. Transport fares are up by 18.0% and costs for the operation of vehicles (mainly fuel prices) are up by 15.5%.
- **Food price inflation accelerated** to 3.0% in October 2018 from 2.6% in the previous month and hence reversed the trend of slower price rises seen since June 2018. The **main reason** is the increase in **inflation for the category ‘sugar, jam, honey, etc.’** that experienced price increases of 2.8% in October, while prices actually declined in the past five months. Prices for **vegetables also rose** stronger in October (7.6%) than in September (5.2%). These two **sub-categories account for 18%** of total food inflation. Prices for **dairy products declined at a slower pace** in October (-0.2%) than in September (-0.6%). **Meat prices (3.4%) climbed at the slowest pace** since February 2016 (2.6%), while **fruit prices rose by only 9.6%** compared to 15.3% in September. Despite price increases announced by Namib Mills for some of their products, such as wheat flour and mahangu, price rises for the category **‘bread and cereals’ remained at the same level** as in September (3.8%). However, prices increased faster than in any month between February 2017 (10.3%) and August 2018 (2.6%).
- Prices for **alcohol and tobacco rose at a slower pace** in October (4.9%) than in September (5.6%), because of a drop in the inflation rate for alcoholic beverages from 6.3% to 5.3%. In contrast, prices for **tobacco products accelerated faster** (3.2%) in October than in September (2.6%).
- The inflation rate for the category that accounts for the largest share in the consumption basket (28.4%), namely **housing, electricity and water, remained at 3.8%** as in September, despite higher costs for the **maintenance of dwellings** up from 3.4% to 3.7%) and for **electricity** (up from 9.0%

to 9.5%). On the other hand, there was no change in the inflation rates for rental payments (2.6%) and for water supply, etc. (5.6%).

- **Transport inflation remains the main driver** of higher inflation. The increase in fuel prices by NAD0.50 per litre in October resulted in an inflation rate for the **operation of transport equipment by 15.5%** compared to October 2017. The rise in taxi and municipal bus fares led to an increase in the cost of **public transportation services by 18.0%** compared to October 2017. These two categories that **account for 9.0% and 2.4%** respectively of the total inflation rate are the drivers of higher inflation rates for the goods and services and hence for the overall inflation rate. Vehicle prices rose by 6.0% compared to 8.5% in September.
- Prices for **health services** increased at the **slowest pace** in October 2018 (4.8%) since March 2015 (4.7%) caused by **lower price increases for medical products** in October (3.4%) than in September (3.8%).
- The trend of falling prices for **clothing and footwear** was reversed in October 2018 when prices rose slightly by 0.3% compared to October 2017. This is due to **higher prices for footwear** (2.6%), while prices for **clothing continue to decline** (-0.7%). The same trend is observed for the category ‘**communications**’. Prices climbed by 1.1% in October, while they dropped by 1.2% in September.

Higher fuel prices have resulted in higher transport inflation and have already led to price increases for transport services and some consumer products as mentioned above. Second round effects of higher transportation costs due to increased input costs for producers and service providers (wholesale and retail trade outlets for instance) will support higher inflation rates in the months to come. However, there could be some relief on the horizon. Global oil prices have, despite sanctions on Iran as one of the main oil exporting countries, weakened from a spike at USD86 per barrel (4 Oct. 2018) to some USD73 per barrel in recent days. Combined with a more stable exchange rate this could contain further fuel price increases even though Government will try to recover losses of the National Energy Fund of close to NAD500 million over the past months.

The inflation rate remains well within the 3% to 6% bracket that the South African Reserve Bank uses as a benchmark for its interest rate decisions.

Recent wage and salary negotiations have again highlighted the limited use of the single inflation rate as a guideline for wage increments. The increase in the minimum wage for domestic workers has been criticised as being too low. The across the board offer at other institutions will increase inequality since the absolute increase for higher income groups exceeds the absolute increase for lower income groups. Separate inflation rates for low, middle and high-income earners would provide more accurate benchmarks for wage and salary negotiations. A separate inflation rate for low-income groups will also assist Government’s decision regarding increases for social grants.