Economic Association of Namibia

PO Box 6148
Windhoek, Namibia
M +264 81 155 9775
F: +264 88 622 267
E: info@ean.org.na
W: www.ean.org.na

EAN Commentary 2018/17

Date: 11 October 2018

September 2018 inflation rate – high oil prices start to bite

The Namibia Statistics Agency has released the Consumer Price Index (CPI) for September 2018 on 11 October 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 4.4% in August 2018 to 4.8% in September 2018. It is the highest inflation rate so far this year, although it remained below the inflation rate in September 2017 of 5.6%.

On a month-to-month basis, inflation accelerated from 0.03% in August to 0.8% in September. This is the highest month-on-month inflation rate after a 1.6% rise in January 2018.

Below are some of the main highlights of the September inflation data:

- The inflation rates for both **goods and services increased** in September 2018, but price rises for goods remained the key driver for the higher inflation rate. **Prices for goods** rose by 4.9% in September compared to 4.6% in August, while **prices for services** increased by 4.7% compared to 4.1% in August. Prices for both categories **accelerated at the fastest pace** this year. While the inflation rate for **goods exceeded** the inflation rate a year ago (3.6%), the inflation rate for services remained below last year's inflation rate of 8.4%.
- The strong **increase in public transportation fares** that resulted in an inflation rate of 18.0% compared to September 2017 was the **main driver** behind the rise in service inflation. The transportation fare increase contributed 0.4 percentage points to the increase in service inflation or two third of the overall increase.
- After a peak of 4.1% in June 2018, **food price inflation** continued to slow down to 2.6% in September from 2.7% in August. **Bread and cereal prices**, however, rose at the fastest pace in September (3.8%) after actual price reductions during the first four months this year. In contrast, **meat prices increased** by only 4.6%; the lowest increase not only for this year, but since November 2016, when prices rose by 4.4%. Bread, cereals and meat account for 51% of the food price inflation and have therefore a strong influence on the overall inflation rate for this category.
- After a decline by 2.7% in August, **prices for milk, cheese and eggs eased by 0.6%** in September. It is the third consecutive month of price declines; something Namibian consumers have not experienced since the end of 2010 and beginning of 2011. **Fruit prices jumped** by 15.3% in September 2018 compared to September 2017 after an increase by 7.9% in the previous month. It is the highest fruit price inflation since January 2017 (15.8%). **Prices for vegetable rose** by 5.2% after increases by 6.0% and 8.0% in August and July 2018, while **prices for sugar, jam** etc. continued the downward trend and dropped by 2.5% - the largest decline so far this year. These four category account for about a quarter of the food price inflation.

german cooperation DEUTSCHE ZUSAMMENARBEIT

Supported by giz

The EAN Commentary is compiled by EAN Research Associate Klaus Schade and is financially supported by the Government of the Federal Republic of Germany through the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) The EAN Commentaries can be downloaded from www.ean.org.na.

- Prices for **alcohol and tobacco increased at different** paces. While **alcohol prices** showed a stronger increase than in August – 6.3% in September compared to 5.8% in the previous month – **tobacco prices** rose by only 2.6% compared to 3.8% in August 2018. Overall, the inflation rate for this category increased from 5.4% to 5.6%.
- Price increases for **housing, water and electricity** slowed down to 3.8% after an increase by 4.4% in August. While price rises for rental payments and for the maintenance of dwellings remained unchanged at 2.6% and 3.4% compared to August, the inflation rates for water supply and for electricity dropped from 6.2% to 5.6% and from 13.2% to 9.0% respectively.
- **Transport inflation provided the main push** for the higher inflation rate. Transport inflation rose from 9.7% in August to **12.9%** in September. It is the highest inflation rate for this category since 2010. Since **transport contributes 14.3% to the overall inflation rate**, this increase by 3.2 percentage points translates into on overall increase of the inflation rate by 0.5 percentage points. Without price declines or below average price increases in other categories, the inflation rate would have been even higher due to price rises for transport.
- **Prices for vehicles increased faster** in September (8.5%) than during any month since February 2017 (9.4%). The price for the operation of transport equipment, which refers mainly to **fuel prices**, **rose by 13.3%,** a level last seen in May 2012 (13.9%). As mentioned above, the **taxi and municipality bus fare increases** resulted in prices being 18.0% higher than a year ago.
- While price increases for **health services slowed down** to 5.0% - the slowest rise since May 2015 – the inflation rate for **education remained** slightly below double-digit figures at 9.9%.
- Prices for **clothing and footwear** remained on a **downward trend** (-3.2%), but did not drop as much as in August (-5.6%). Parents with children had to fork out less for children's clothing, since prices declined by 8.4%, mainly **driven by lower prices for girls' clothing** (-15.1%), while boys' clothing became slightly more expensive than a year ago (1.0%).
- Prices for **communication services were also lower** in September 2018 compared to September 2017 (-1.2%) after they dropped by 1.4% in August.

As expected, the combined effect of higher fuel prices and fares for public transport services is exerting upward pressure on the inflation rate. Namibia currently experiences only the direct impact, but higher transportation costs will have an impact on the prices of other goods soon – so called second round effects. Furthermore, the weaker currency compared to a year ago, even so it has gained some ground again since the middle of September, will result in higher prices for goods imported from outside the rand area. Sourcing goods to the extent possible locally will protect producers and consumers from increasing transportation costs and a weaker currency. Furthermore, both consumers and producers need to use transport equipment more efficiently. Moreover, motorists need to explore alternative modes of transport (non-motorised transport, car sharing, etc.) and need to move to electric vehicles that can be charged from locally available, renewable energy sources. In the meantime, however, consumers have to tighten the belt, not only because of rising price levels, but also because of a tight labour market.