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Business 7 article – By Lauren Davidson

Tough times for consumers

The Namibia Consumer Price Index (CPI) rose from 3% in June 2015, to 6.7% in June this year, which has undoubtedly constrained the budgets of the average Namibian consumer. Although most salaries are adjusted in line with the inflation rate annually, which was recorded at an average rate of 3.4% in 2015, it has almost doubled in the last six months and consumers have had to adapt accordingly.

According to the Namibia Statistics Agency, the main drivers of inflation this year have been food and non-alcoholic beverages, housing, water and electricity. The drought has had a direct impact on food prices, as agricultural output has declined due water shortages and associated rising costs.

While it is maintained that moderate inflation is a good indicator of economic growth, rapidly increasing inflation combined with slowing economic growth, as we are currently experiencing, reduces the purchasing power of consumers, particularly in the lower and middle income brackets.

Anecdotal evidence suggests that individuals are exhausting their incomes further away from pay day each month, which is evidence that consumers are struggling to purchase the same quantity of goods with their current incomes, as they were able to a year ago. Unfortunately, consumers in the lower income brackets are the most severely affected, as escalating prices dig away at their pockets making it increasingly difficult to cover the costs of basic essentials such as food, water, housing and electricity.

Escalating inflation will have various second-round effects on the Namibian economy. In general, disposable incomes will decline, which will negatively affect demand and consumption, as well as local savings. Unfortunately, it is widely expected that inflation will continue to rise in 2016, driven mostly by food process as the country faces a nation-wide drought.