

14 November 2019

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NCPI Note – October 2019

The annual inflation rate for October 2019 came in at 3.0%, the slowest inflation rate recorded since May 2015. This is 2.1 percentage point slowdown from the 5.1% annual inflation in October 2018 and a 24 bps drop from the 3.3% inflation rate experienced in September this year. Annual inflation continued its downward trend in October, since late last year, with the average rate for 2019 now standing at 4.0%. Month-on-month prices increased by 0.2%, down from the 0.3% in September.

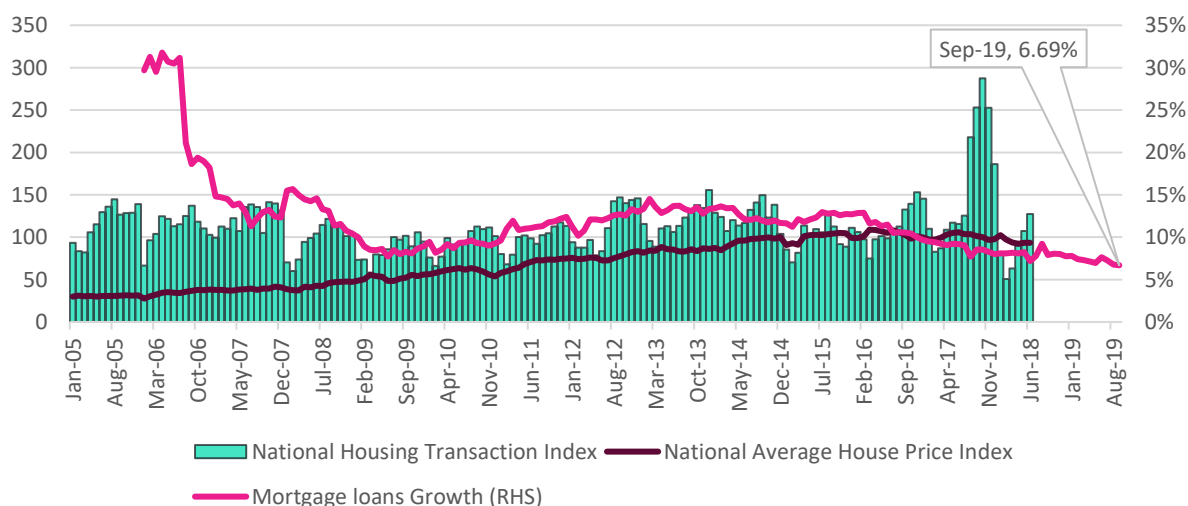
A slowdown, on a monthly basis, in the annual inflation rate was experienced across the three largest categories in the NCPI basket with the fourth biggest experiencing an uptick in its inflation rate compared to September 2019. Food and non-alcoholic beverage inflation slowed to 4.0% compared to 4.4%, Housing, Water, Electricity, Gas and Other Fuels (HWEGO) inflation fell 10 basis points to 1.9% and Transport inflation fell by 1.0 percentage point to 1.5%, on a monthly basis. Conversely, Alcoholic beverages and tobacco saw a significant uptick of 0.6 percentage points, from 3.3%, to 3.9% over the same period.

On an annual basis, disinflation occurred across Alcoholic beverages and tobacco, HWEGO and Transportation, whereas Food and beverage inflation experienced an uptick in its rate.

Alcoholic beverages and tobacco's annual inflation fell 1.1 percentage point to 3.9%, compared to the prior year, which was due to continued deflation (since May 2019) experienced in the tobacco prices according to the NSA.

HWEGO fell 1.9 percentage points to 1.9% and lower prices in this line item are expected to persist for the remainder of the year. This is largely due to the depressed property market within the economy. Demand-side effects have continued to dampen property and rental inflation, and this is observable through credit extension figures. Advances to individuals, in the mortgage space, grew annually by 6.7% in September and represents the lowest mortgage loan growth experienced since January 2006 – as far back as our time series.

Mortgage Loan Growth

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The final contributor to the overall slowdown is the slower transportation inflation, which came off 12.1 percentage points to 1.5%. As mentioned in a previous note, taxi fares increased by 20% in September 2018 and with no intended price increase this fare will remain subdued. Moreover, with the rigidity in fuel prices, taxi fares are expected to remain unchanged.

Finally, Food and beverage inflation saw an increase of 1.0 percentage point to 4.0% on an annual basis. Fruit and Vegetable inflation increased by 4.8 percentage points to 14.5% and 5.1 percentage points to 12.8%, respectively, on an annual basis, indicative of the continued drought experienced. Fish inflation saw a significant increase of 9.0 percentage points, compared to the prior year's deflation, recording an inflation rate of 2.5%. A final noteworthy observation is meat inflation bouncing out of deflationary territory experienced over the last 5 months and recording annual price growth of 1.9%. This is indicative of a seasonal slowdown of cattle slaughters as farmers begin to prepare for the rainy season.

Zonal inflation has similarly slowed down across the three monitored zones, likely owing to the above reasons which were likely experienced nationwide – thus impacting all three zones.

In the northern areas (Zone 1), annual inflation slowed to 2.8% compared to 5.2% a year prior and 3.0% in September. As is the case with overall NCPI, this slowdown is attributed to slower price increases across three of the major items, namely Transport, Alcoholic beverages and tobacco, and Housing, water, electricity, gas and other fuels. Monthly inflation came in at 0.1%, down from 0.1% in September.

In the Windhoek area (Zone 2), annual inflation slowed to 2.5% from 5.0% in October last year and 2.7% in September this year. Price increases were slower for Transport, Alcoholic beverages and tobacco, Clothing and footwear, Health, and Food and non-alcoholic beverages. Monthly inflation decreased to 0.2% from 0.5% in prior month.

In the Eastern, Southern & Western parts of the country (Zone 3) annual inflation was recorded at 4.1%, down from 5.9% the prior year and 4.4% in September. This was due to lower inflation recorded in Transport; Housing, water, electricity, gas and other fuels; Hotels, cafés and restaurants, and Recreation and culture. Monthly inflation slowed to 0.03% from 0.2% in August.