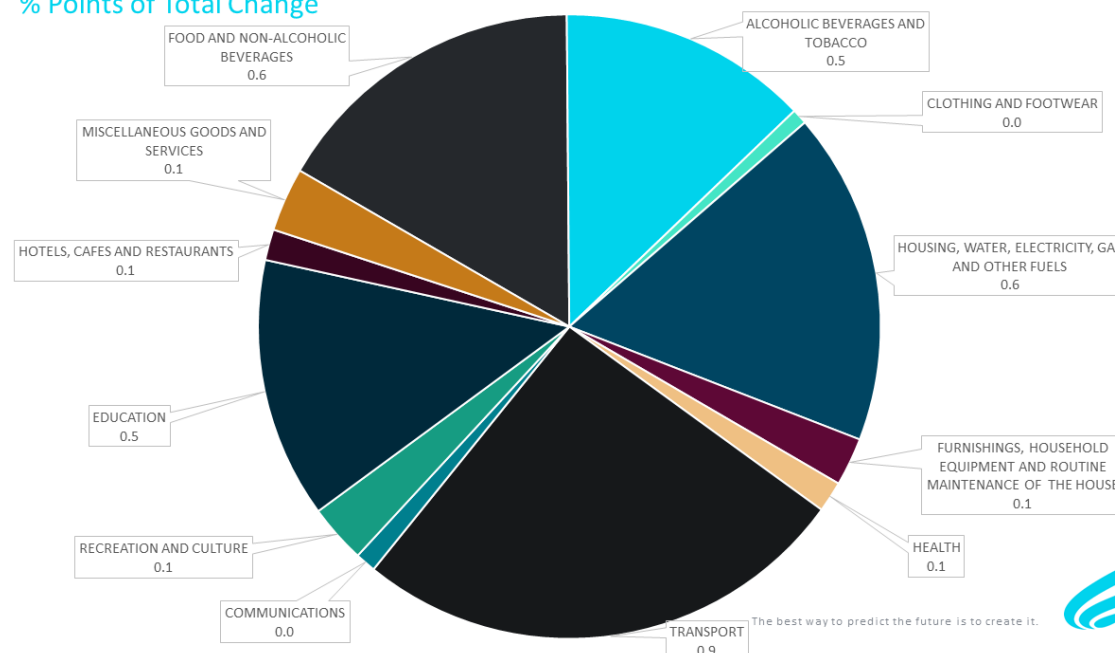


NCPI Note – July 2019

Annual inflation continued to moderate, slowing down to 3.6% in July - the lowest since April 2018. Last month's annual inflation comes in 0.9 percentage points lower than the 4.5% in July 2018 and 0.3 percentage points lower than the 3.9% in June 2019. This brings average annual inflation for 2019 down to 4.2% so far and will trend lower should inflation continue to moderate. Month-on-month prices increased by 0.2%.

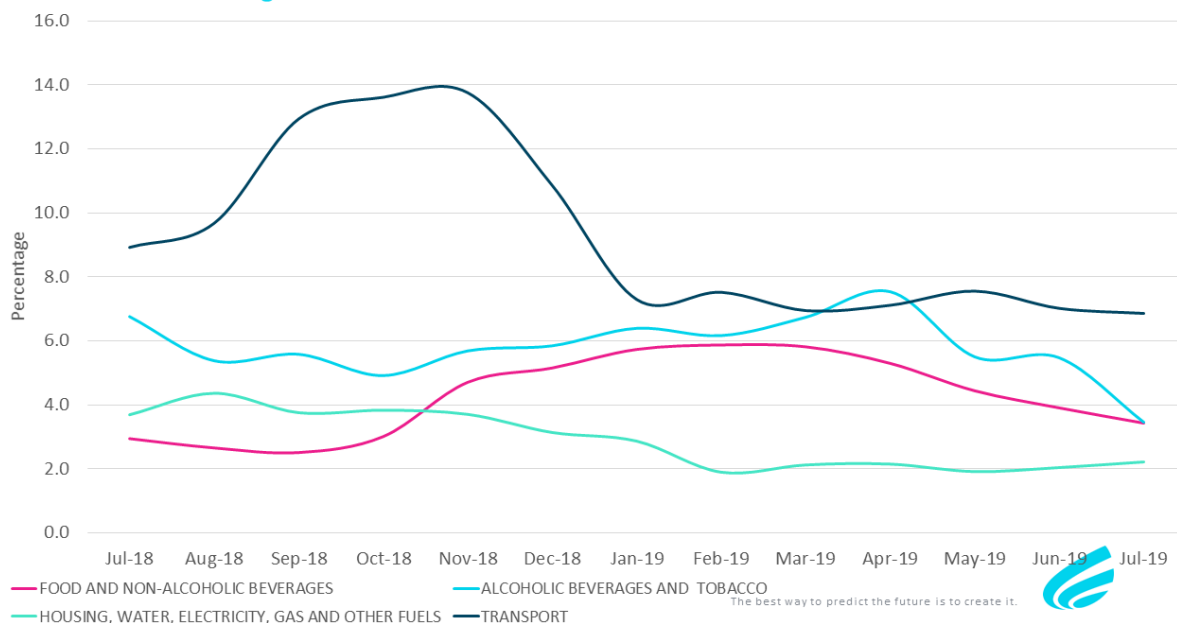
% Points of Total Change



The main drivers of annual inflation were Transport (contributing 0.9 percentage points to overall inflation); Housing, water, electricity and other fuels (contributing 0.6 percentage points); Food and non-alcoholic beverages (contributing 0.6 percentage points); while Alcoholic beverage and tobacco & Education contributed 0.5 percentage points each.

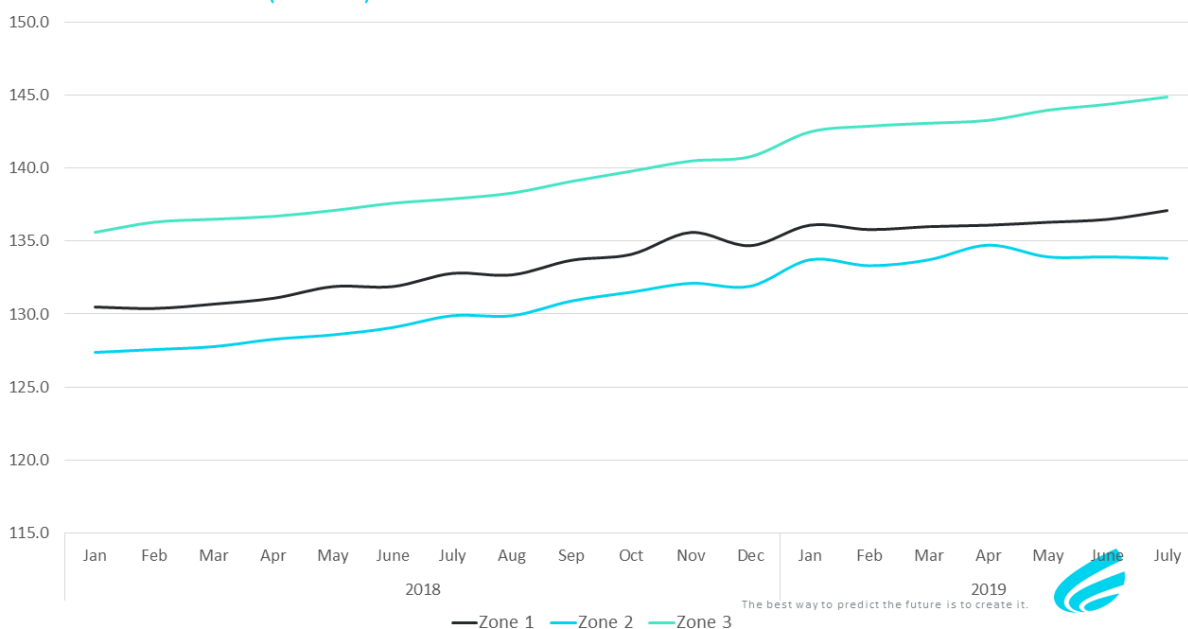
Prices for certain food items such as meat, fish, and oils deflated for two consecutive months (on an annual basis), implying that prices for these items are lower than a year prior. The deflation for meats can be attributed to the impact of the drought, with more farmers looking to reduce their herd sizes through sales and slaughter (i.e. increasing the supply of meat). However, bread and cereals prices continue to increase at a faster rate, also attributed to the drought as crop harvests have been poorer. The Clothing and footwear line has maintained its moderately low inflation, coming in at 1.2%, compared to the deflation of 5.0% a year prior. This line was deflationary for all of 2018, barring October, but has since maintained low price growth since March this year. Education costs have also risen more quickly than last year (12.0% compared to July 2018's 9.9%).

Annual Inflation – Largest Items



Three of the four largest line items have recorded slower annual price growth, namely Alcoholic beverages and tobacco (down to 3.5% from 6.8% in July 2018); Housing, water, electricity and other fuels (down to 2.2% from 3.7%); and Transport (down to 6.9% from 8.9%). Only Food and non-alcoholic beverage prices increased at a faster annual rate, up to 3.4% from 2.9%. Should the upcoming rainy season bring an end to the drought, we can expect a moderation in food price inflation owing to improved crop harvests.

Zonal Inflation Index (Annual)



Looking at zonal inflation, for the northern areas (Zone 1) annual price increases slowed to 3.3% in July, compared to 3.5% the previous month and 4.6% a year prior. This decrease is attributable to most lines, apart from Food and non-alcoholic beverages and some minor basket lines such as Clothing and footwear, Recreation and culture, and Miscellaneous goods and services. Monthly inflation, on the other hand, increased slightly to 0.5% - the highest since January's 1.0%.

Annual inflation also moderated in Zone 2 (the Windhoek area), to 3.0% from 3.9% a year ago and 3.7% in June. This moderation was attributed to slower price growth in the three major line items except Housing, water, electricity, and other fuels. On a monthly basis, prices remained unchanged for the second consecutive month.

Moving to the eastern, southern and western parts of the country (Zone 3), annual inflation slowed to 5.1% from 5.6% a year prior, however picked up compared to the 4.9% annual print in June. The annual decrease is owed to slower price growth for lines such as Housing, Health, Transport, and Hotels. On a monthly basis, prices increased by 0.3%. Annual inflation remains highest in Zone 3, however it must be borne in mind that this zone encompasses a far wider and more varied area than Zones 1 and 2.

Annual inflation in Zones 1 and 2 appears to be moderating, following the national trend as these are also the most populous areas. In Zone 3, annual inflation during 2019 has remained fairly stable from 4.9% to 5.1%.

