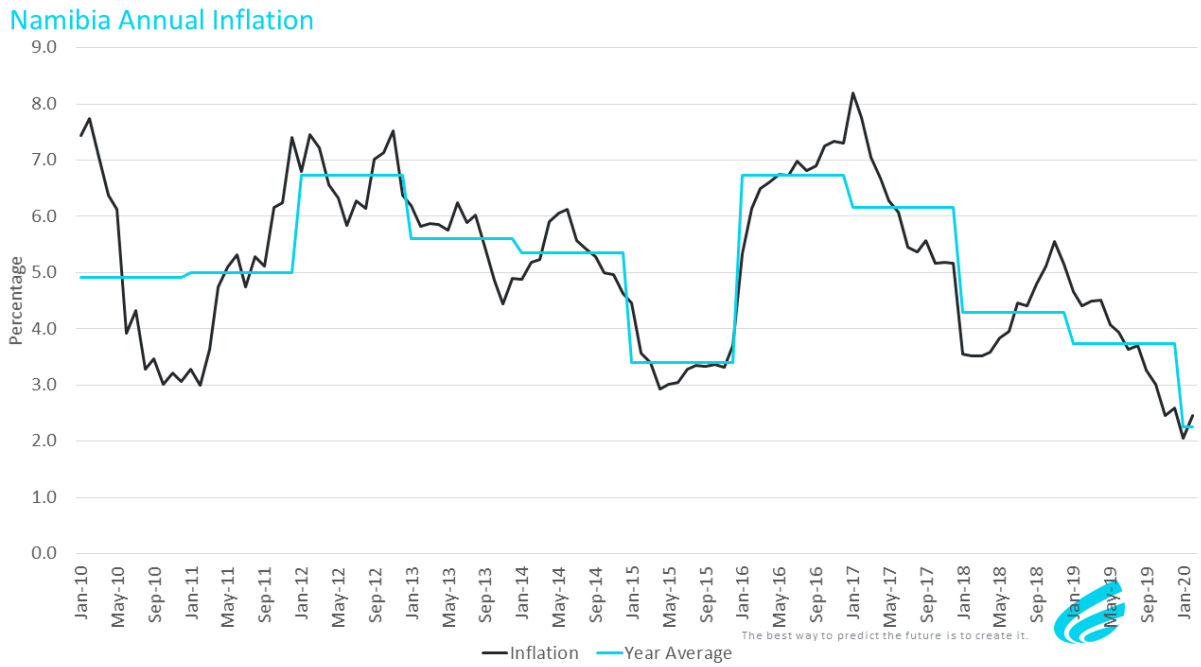
12 March 2020

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NCPI Note – February 2020

Annual inflation for February 2020 came in at 2.5%, down from the 4.4% rate recorded in February 2019 but up from the extremely low 2.1% recorded in January this year. A monthly inflation rate of 0.3% was recorded for February 2020.



February's inflation was slower across almost every main line, barring Household furnishings and maintenance, Health, Communication, and Miscellaneous goods and services. On the most prominent lines, Food and non-alcoholic beverage inflation slowed from 5.8% to 2.8%. This is owing to no change in prices (i.e. 0.0% annual inflation) for bread and cereals, while inflation also slowed for vegetables. Prices for fish and meat increased from a year ago, the latter expected with the better rains and livestock farmers looking to restock. This is only the second month of meat price inflation (not deflation) in the past 10 months.

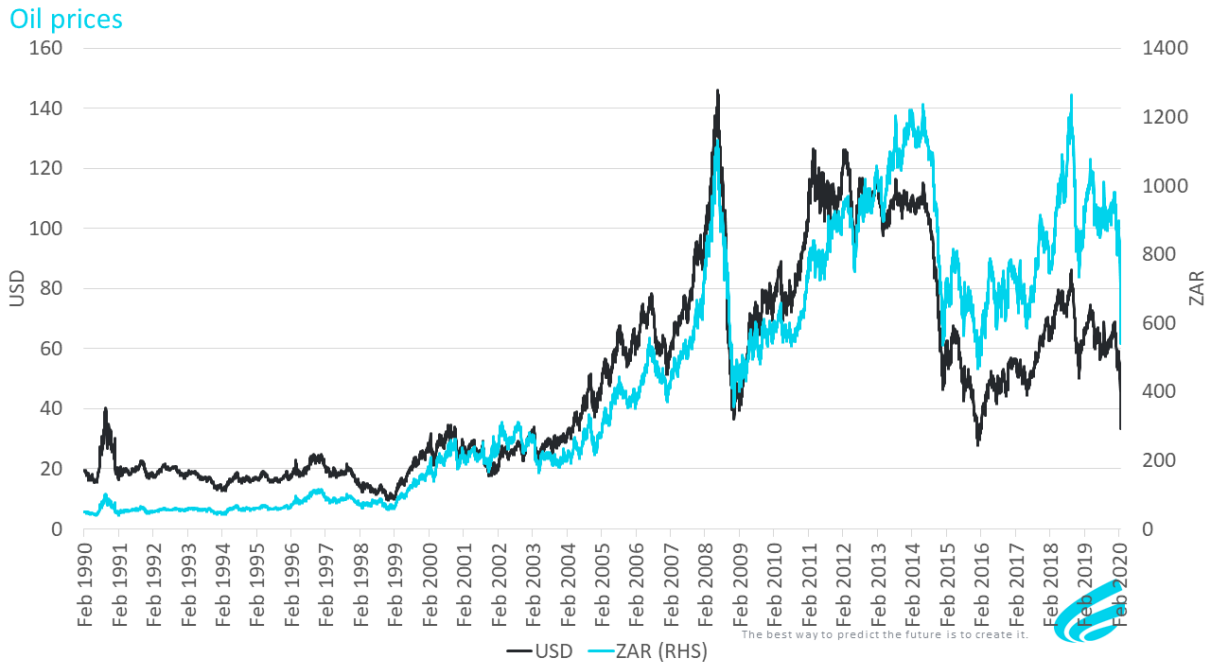
Price levels for Alcoholic beverages and tobacco slowed down to 2.7% from 6.2% a year ago. The tobacco line has reportedly deflated for the 10th consecutive month. Inflation for this category can be expected to pick up over coming months as the increased sin taxes come into effect.

Housing and utilities reported overall deflation of 0.5%. Rental payments, the largest component of this category and the single largest in the inflation basket, deflated 2.3%. This figure has been revised downwards from the 1.5% deflation reported in January, unusual given that rent payment inflation is usually set in January and rarely adjusted thereafter.

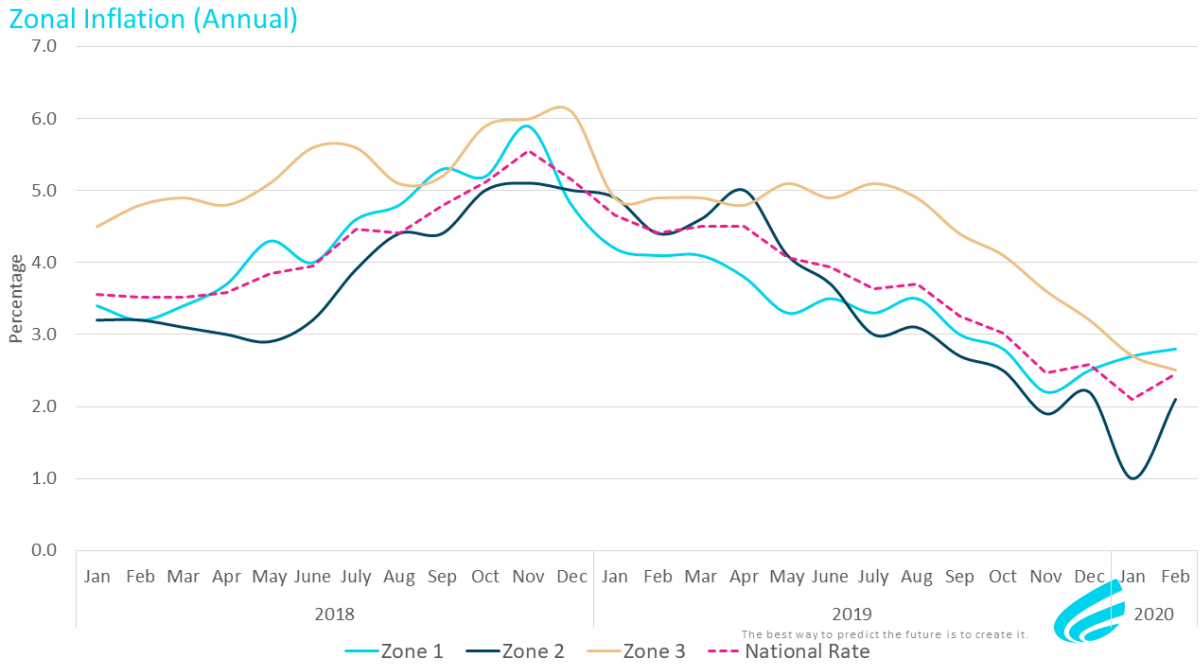
The Transport category recorded much lower inflation of 4.4%, compared to price increases of 7.5% a year ago. Even with the significant depreciation in the rand, the recent collapse in

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the oil price has seen the price of Brent Crude drop to its lowest (in ZAR and USD terms) in three years. This should translate into lower fuel prices, meaning another significant portion of the NCPI basket is likely to be deflationary. Lower pump prices should also have a second-round effect for goods and services where fuel is an input, resulting in lower inflation in those lines later on.



The implication is that two of the largest items in the NCPI basket, namely rent payments and fuel, look set to report deflation. This means that we can expect extremely low inflation this year, even if price increases tick up in other lines. Something to keep an eye on, however, is when the oil price recovers.



Zone 1 (northern areas) reported 2.8% annual inflation, down from 4.1% a year prior but up from the 2.7% reported in January this year. The price levels slowed down significantly for lines such as Education, Transport, and Alcoholic beverages and tobacco.

Zone 2 (Windhoek) saw inflation of 2.0%, less than half the 4.4% a year prior but up from the 1.0% in January. Food inflation fell dramatically, while Alcoholic beverages and tobacco as well as Housing and utilities reported deflation, when compared to prices from a year prior.

Zone 3 (eastern, southern and western areas) reported inflation of 2.5% - in line with the national figure – compared to 4.9% a year ago and 2.7% in January. All categories in Zone 3 reported slower price increases when compared to February 2019, barring Miscellaneous goods and services.