

13 August 2020

CIRRUS
SECURITIES

NCPI Note – July 2020

July's annual inflation print came in at 2.1%, a slowdown from the 3.6% recorded in July 2019. This is now the third consecutive month of annual inflation coming in at 2.1%, thus average annual inflation for the year so far remains 2.1% Monthly inflation echoed that of June, at 0.2%.

Once again, the Clothing and footwear, Housing and utilities, and Transport all reported deflation on an annual basis. This means that 45.7% of the NCPI basket was deflationary. The Clothing and footwear line has been deflationary for the entire calendar year, although the -4.3% is the largest deflation print on this line for 2 years. Deflationary pressures here are likely to persist, as consumer demand will remain weak amidst constrained discretionary spending by households – the result of job losses, wage reductions, or uncertainties around future job security.

Annual inflation for Housing and utilities came in at -1.5%, a level not seen on the time series dating back to 2003. The deflation is the result of ongoing rent price deflation, at -2.3% for the year, while price levels for electricity and gas increased just 0.5% compared to 1.6% a year ago and 6.0% last month. The relatively low increase for this component is likely the result of relatively stable electricity prices, as the ECB has in some cases allowed tariff reductions or disallowed attempted increases.

The Transport line reported a general price decrease of 1.2%, as personal transport reported deflation of 7.9% thanks to the relatively low fuel prices in July. Despite the N\$1.0/l increase for petrol and N\$0.7/l increase for diesel in August, fuel prices are currently still significantly lower than they were a year prior. There is pressure for increases in public transport rates by the union, which in future would moderate the impact of lower fuel prices on the overall Transport line.

Annual Inflation July 2020

Item	% point change of NCPI
Housing, water, electricity, gas and other fuels	-0.4
Transport	-0.2
Clothing and footwear	-0.1
Hotels, cafes and restaurants	0.0
Health	0.1
Communications	0.1
Furnishings, household equipment and routine maintenance of the house	0.1
Recreation and culture	0.2
Miscellaneous goods and services	0.3
Education	0.3
Alcoholic beverages and tobacco	0.6
Food and non-alcoholic beverages	1.1

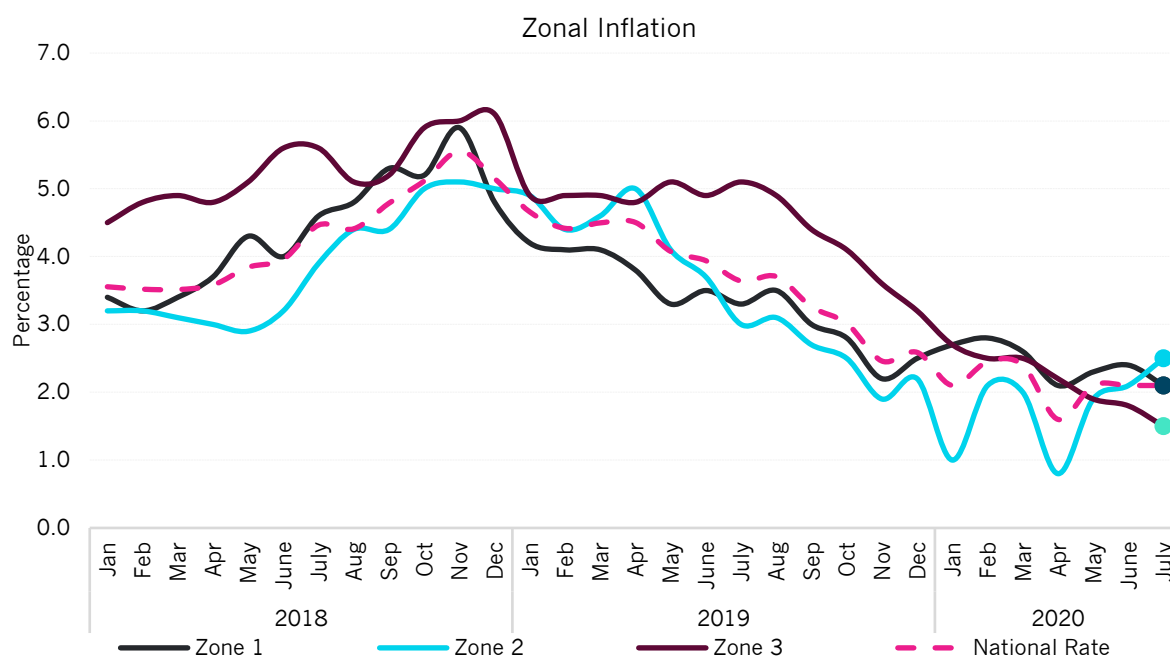
Source: NSA

Food price inflation has ticked up notably; at 6.1% this is the highest it has been since March 2017. The faster increase in food prices is largely as a result of meat prices, which increased 10.6% y/y compared to the -0.9% a year prior. This large increase is not surprising, as the



herd rebuilding exercises by livestock farmers after several years of drought was expected to result in fewer animals available by slaughter, thereby resulting in supply-side price increases.

Annual inflation for Hotels, cafes and restaurants printed at just 0.8% for the second time on record, the only other occurrence being in May this year. For three consecutive months the accommodation services component has reported deflation, capturing the 'specials' being offered by various hotels and lodges in an effort to rely on local tourism for revenue.



Turning to the zonal inflation, Zone 1 (the northern areas) reported annual inflation of 2.1%, down from 3.3% a year prior and down slightly from the 2.4% in June. The slower inflation was the result of continued deflation in Housing and utilities, Transport, and Clothing and footwear.

Annual inflation for Zone 2 (Windhoek) came in at 2.5%, down slightly from the 3.0% in July 2019 and up from June's 2.1%. The y/y decrease was due to deflation for Transport, and Housing and utilities, while inflation slowed for Education and Hotels, cafes and restaurants.

Zone 3 (eastern, southern and western areas) saw annual inflation of 1.5% last month, down from 5.1% a year ago and 1.8% in April. Slower inflation was reported across most main lines, barring Furnishings and household equipment, Recreation and culture, and Miscellaneous goods and services.