



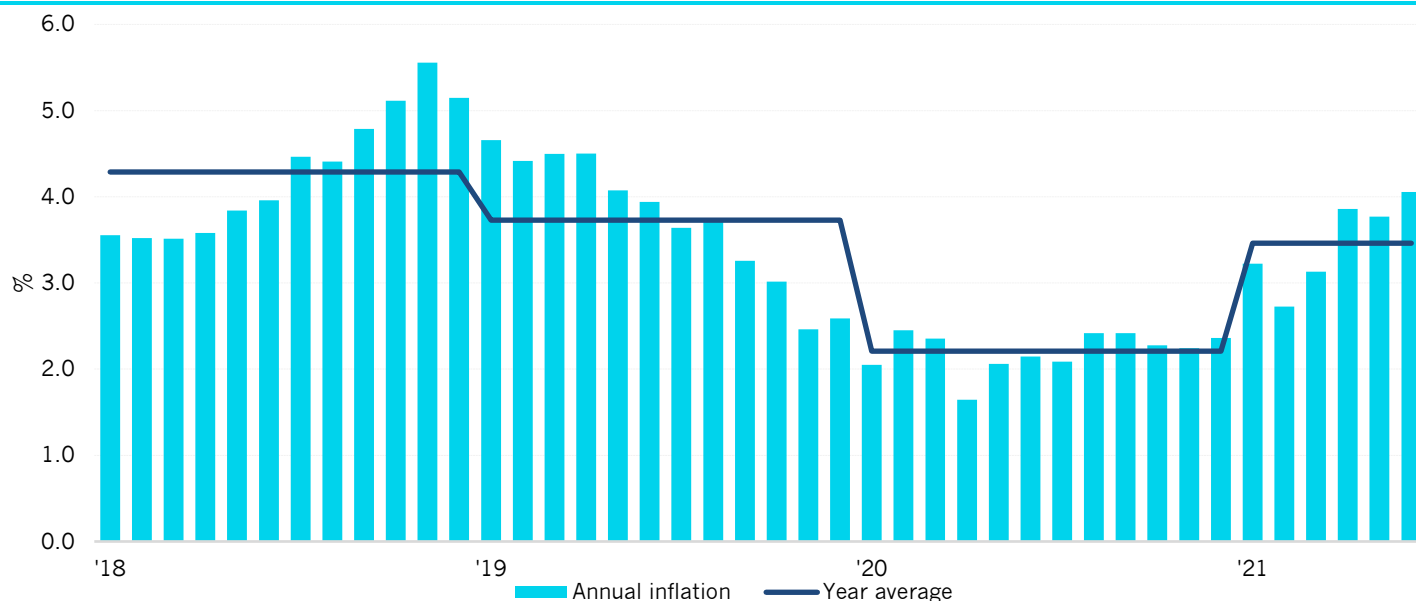
June NCPI

15 Jul '21

Annual inflation for Jun '21 was reported at 4.1%, the highest level since May '19. This compares to 2.1% in Jun '20 and 3.8% in May '21. The primary drivers for the increase are rental payments (at 1.3% vs -2.3% a year ago), food and non-alcoholic beverages (7.3% vs 4.7% a year ago), and transport (9.6% vs -0.8% a year ago). On a monthly basis, prices increased 0.5%, compared to 0.3% in May '21.

Annual inflation

Inflation prints for '21 have been increasing from the pandemic lows.



Source: Namibia Statistics Agency

The positive rent inflation for '21, after the deflation in '20, has set a higher base for inflation this year relative to last year. However, the ongoing rise in annual inflation from 2.7% in Jan '21 to 4.1% in Jun '21 is driven by larger price increases for food and fuel.

For Jun '21, the food and non-alcoholic beverage line and the transport line are responsible for two-thirds of the inflation print, owing to their relatively large weightings and larger price increases. Food prices rose 7.7% y/y, the highest print since Dec '20 (7.6%) and, before that, 11.3% in Feb '17. However, much of the low food inflation after Feb '17 was driven by lower or negative price changes for breads, cereals, and meat. The individual items have now recorded large price increases from a low base: bread and cereals rose 7.7% from -1.1% a year ago and meat prices increased 16.0% from 8.0% a year ago. Similarly, the prices for oils and fats increased 16.7% y/y from 8.5% a year ago.

The increase in meat prices is expected, as the livestock farmers (cattle and small stock) continue restocking after the drought years. This exercise is expected to take a few more years for cattle, but the shorter turnaround time in small stock should result in some easing from mid '22. The breads and cereals inflation was driven mostly by price increases for rice, as well as for bread. The increases here can be attributed to higher landed costs for many goods and so some of these increases have been passed on to consumers for these goods or their derivatives (such as wheat-based products). Additionally, higher oil prices have also led to higher costs for packaging derived from oil. Notably, price increases for many products in this line were announced in Apr '21, and thus we can expect higher inflation for this line for the remainder of '21.

On oils and fats, both Namibia and South Africa are large net importers of many of these items – notably sunflower oils and palm oil. Lower supply of these oils from Southeast Asian countries, as well as increased demand from countries such as China, has resulted in large increases in the international prices for these goods – and thus the high inflation in these products domestically.

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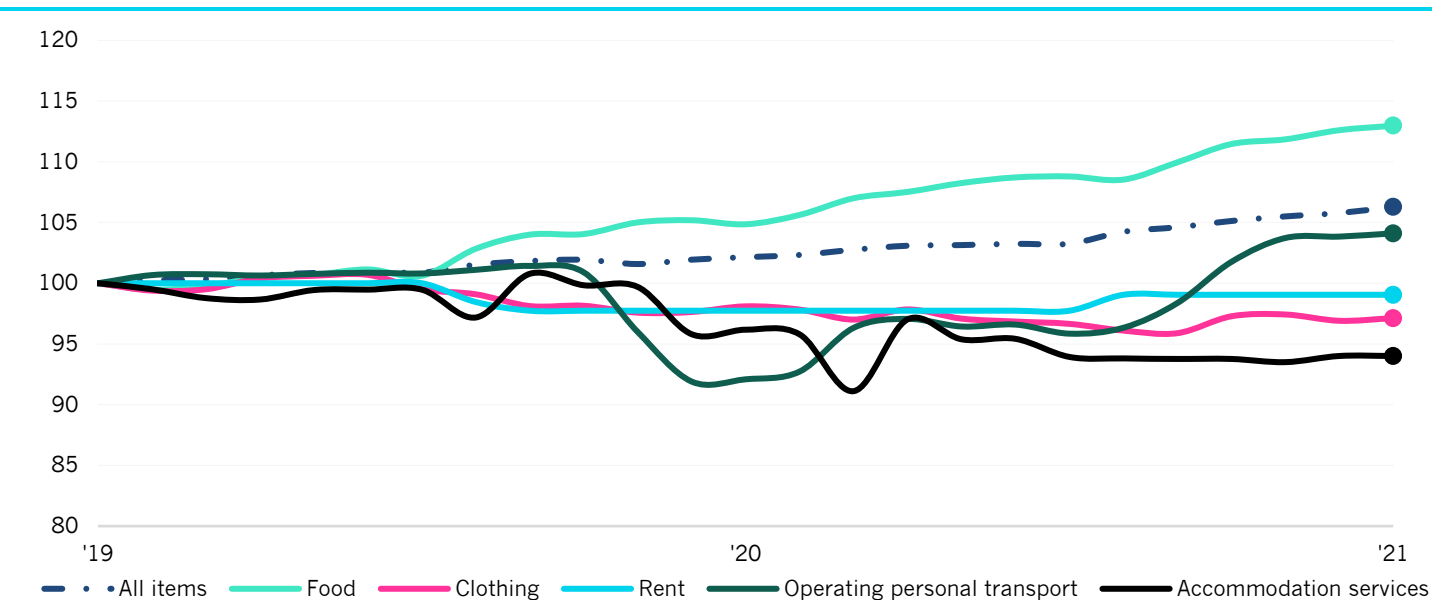


The transport main line inflation of 9.6% (vs -0.8% a year ago) is the result of higher prices for petrol and diesel, as well as for new vehicles. The operation of personal transport line reported inflation of 13.1%, given that fuel prices have increased over the course of this year compared to the price decreases last year after the oil price collapse. Compared to their Jun '19 prices, petrol is only N\$0.10/l more expensive, whereas diesel is in fact N\$0.45/l cheaper than in Jun '19. The 8.5% increase in the purchase of vehicles can be attributed to some higher increases due to increased shipping costs for vehicles, price increases by manufacturers, and shortages in some vehicle models as the semiconductor chip shortage affects global production.

The clothing and footwear line is once again deflationary, at -4.4% y/y, bringing it to 18 consecutive months of deflation for this main line. The items driving this deflation are men's clothing, children's clothing, adult footwear and repair of footwear. According to the index, clothing and footwear prices are around the same level they were in Jun '12. Similarly, a 14th consecutive month of deflation for accommodation services (at -2.3%) indicates that prices are at levels from Jun '18. This is driven by establishments offering specials to cater to Namibians, given the prolonged delay in tourist recovery and the risk of losing a second consecutive high season. The low prices offered to attract guests, however, may be more harmful than many realise. Our view is that many of these prices are simply unsustainable, and with tourism likely to take several years to fully recover, these low prices may force many establishments to close their doors permanently rather than just temporarily.

Price levels (100 = Jun '19)

Price levels for some items remain below their levels from two years ago, while food price increases have outstripped overall inflation since Jun '19.



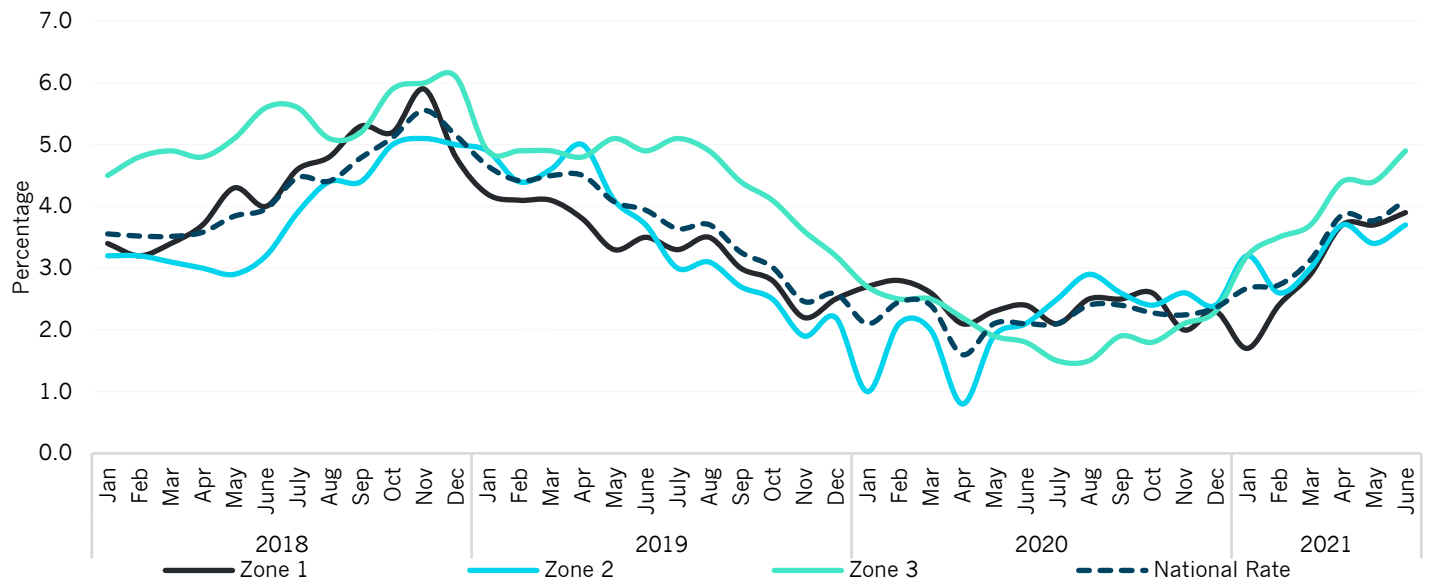
Source: Namibia Statistics Agency

Annual inflation in Zone 1 (the northern areas) stood at 3.9%, up from 2.4% in Jun '20 and 3.7% in May '21. The higher inflation y/y is attributed to higher prices in several lines, notably Transport (10.8% vs -0.4% a year prior), Food and non-alcoholic beverages (7.1 % vs 4.6% a year prior), and Hotels, cafés and restaurants.

Annual inflation for Zone 2 (Windhoek) increased to 3.7% in Jun '21 from 2.1% a year prior and 3.4% reported for May '21. The y/y increase is due to higher inflation in Transport (9.1% vs -0.6% a year prior), Food and non-alcoholic beverages (8.0% vs 5.4% a year prior), and Furnishing, household equipment and maintenance (5.1% vs 1.9% a year prior).

Zone 3 (eastern, southern, and western areas) saw annual inflation increase significantly to 4.9% in Jun '21, up from 1.8% a year ago and 4.4% in May '21. The y/y increase was attributed to price increases in the Miscellaneous goods and services (up 10.2% from 4.4% a year ago), Transport (8.2% vs -1.9% a year ago), and Food and non-alcoholic beverages (6.7% from 4.1% a year ago).

Zonal inflation (y/y)



Source: Namibia Statistics Agency

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