September 2011 Inflation

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Chart 1: Overall Inflation and repo rate

- The annual inflation rate has taken yet another drop during the month of September 2011. Recent data from the Central Bureau of Statistics (CBS) indicates that the annual inflation rate dropped by 0.1 percent from 5.4 percent recorded in August, to 5.3 percent in September 2011. Inflation unexpectedly dropped from 5.4 percent in May to 4.8 percent in July, but picked up again to 5.4 percent in August, and has once again dipped slightly in September. The annual inflation rate has been on the rise for the most part of this year, starting from the lowest 3.1 percent recorded in February this year. The annual rate is 1.6 percent higher than the corresponding month of last year, when the rate was 3.7 percent.

- Notwithstanding this slight drop, we still believe that global inflation will continue to rise in the months ahead driven mainly by increases in food and oil prices. At the moment, it seems like inflation does not pose much concerns and it is still within a manageable rage. As such we do not foresee an increase in interest rates. Interest rates have been at their record low level since December 2010 and are likely to remain at this level for the remaining part of this year and possibly over the first half of next year. We project that inflation will be higher this year than the 4.5 percent seen in 2010, averaging around 5 percent.
Food inflation has dropped by 0.3 percent in September from 6.0 percent recorded in August to 5.7 percent. Food prices have been on the rise for the past 8 months, up from the 1.1 percent level recorded in February this year. The general trend for food inflation has taken an upward direction for most part of this year and this is likely to continue in the months ahead. On an annual basis the inflation rate of food is significantly higher when compared to the 3.2 percent recorded in the month of September 2010.

The decline in the food inflation can be largely attributed to drop in prices of bread and cereal, which dropped by 3.9 percent month on month, and the category milk, cheese and eggs, which declined by 1.4 percent over the month. Vegetables prices, which fell significantly during the Month of July and continued to decline recording an annual rate of -0.5 percent in August has increased again by 2.4 percent.

We expect global food prices to increase in the coming months fueled by expected increases in oil prices. We have seen appreciations in international currencies against the rand over the past few weeks and this will undoubtedly have an impact on food prices, given that Namibia imports most of its food products.
Transport inflation is without doubt one of the main drivers of inflation in Namibia. As a net importer of oil, Namibia is heavily affected by increasing oil prices in rand, due to the currency weakening against the US dollar. The annual inflation rate for transport increased by 0.3 percent month on month in September 2011. On annual basis, transport inflation increased by 3 percent. The monthly increase can be attributed to the price increase in the category purchase of new vehicles which increased from 2.8 percent in August to 3.5 percent in September as well as the increase of 0.3 percent from a 1.1 percent in August to 1.4 percent.

Domestic pump prices for petrol 93, petrol 95 and diesel has been constant at N$8.77, N$8.84 and N$9.25 per litter, respectively for the past three months. With the oil prices predicted to go up in the coming weeks, we expect transport inflation to continue its upward trend for the remaining part of this year and through to the next year.
Chart 4: Good and Services Inflation

- The annual inflation rate of goods declined by 0.4 percent from 6.1 percent recorded in August to 5.7 percent in September 2011. On annual basis, goods inflation increased by 4 percent. Services inflation on the other hand increased by 0.3 percent on a monthly basis, from 4.3 percent recorded in August 2011 to 4.6 percent in September. On an annual basis, services inflation declined by 2.6 percent.

- With projected increases in oil and food inflation, the annual inflation rate is likely to pick up again in the next three months and over the first half of the year 2012. Food inflation will be driven mainly by high demand especially from the emerging economies coupled with lower supply. The strengthening of international currencies will also contribute to high oil and food prices going forward, especially for a country like Namibia which depends on imported food products and oil. We do not see inflation a threat to price stability at the moment as it remains well in the single digits averaging around 5 percent, so we therefore do not anticipate that the Monetary Authority will increase its policy rate anytime this year.