

Namibia Inflation Forecast Report

Research & Financial Stability Department, Bank of Namibia

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Inflation Overview

Global Developments - Global prices for key inputs in Energy, Food and Industrial production rose sharply in recent months, reflecting the impact from bottlenecks in supply chains coupled with rising demand as the Great Reopening gathered momentum. The Brent Crude Oil benchmark rose by about 34 percent since the beginning of the year, while the global Copper price (often viewed as a proxy for economic activity) rose by 32 percent. Broadly, the latest forecasts suggest that commodity price inflation will moderate over the next 12 months as inventories are replenished (see Table 1).

Domestic Inflation - Domestic annual headline inflation declined marginally to 3.8 percent in May (from 3.9 percent in April), which translates to a monthly decrease of 0.3 percent. The biggest contributors were price increases in the Food & Non-Alcoholic Beverages and Transport Categories.

Short Term Forecasts - Table 2 presents forecasts for the next two months, with annual inflation expected to rise to 4.2 percent by July. The categories that are expected to contribute heavily through this period are increases in Food, Alcoholic Beverages & Tobacco, and Transport costs given that these categories combined constitute more than 40 percent of the CPI basket.

Medium Term Forecasts - Through the medium term, our baseline estimates suggest that inflation will average 3.6 percent and 4.1 percent in 2021 and 2022 respectively (see Figures 1 and 2).

Summary - Price adjustments have outpaced expectations in recent months, with short term risks creeping to the upside. In particular, prices for vehicles and food products will remain elevated for the time being as supply chains (both domestically and abroad) converge back to pre-pandemic conditions. Against this backdrop, the Bank will continue to focus on identifying potential risks emerging from second round price adjustments beyond this year.

Table 1: International Price Forecast Summary

Category	2021 Q2	2021 Q3	2021 Q4	2022 Q1
Brent Crude (USD/barrel)	69.8	71.4	69.8	68.5
Copper (USD/ton)	9927.7	9886.9	9898.8	9902.4
Gold (USD/oz)	1860.1	1901.4	1904.7	1902.8
Maize (US Cents/bushel)	692.1	642.7	617.6	622.7
Wheat (US Cents/bushel)	705.2	690.3	698.5	704.1
USD/ZAR	13.9	14.0	14.2	14.5
SA Inflation (Annual %)	4.7	4.3	4.6	4.6

Note:

*Source - Bloomberg, SARB

Short and Medium Term Forecasts

Table 2: 2 Month Inflation Forecasts, by Components

Category	Weight	May 2021 (Actual)	June 2021 Forecast	July 2021 Forecast	Trend
Food	16.4%	6.6%	6.6%	6.1%	↘
Alcoholic B&T	12.6%	3.5%	3.6%	3.7%	↗
Clothing	3.0%	-4.4%	-3.7%	-2.1%	↗
Housing	28.4%	1.3%	1.3%	2.0%	↗
Furnishings	5.5%	4.5%	4.9%	5.0%	↗
Health	2.0%	3.7%	3.3%	3.6%	↘
Transport	14.3%	7.3%	8.7%	9.0%	↗
Communication	3.8%	2.3%	2.6%	2.6%	↗
Recreation	3.6%	1.8%	2.2%	2.0%	↗
Education	3.6%	0.8%	0.8%	0.8%	→
Hotels	1.4%	0.5%	0.2%	0.8%	↗
Misc	5.4%	6.7%	6.5%	6.6%	↘
All Items	100.0%	3.8%	4.0%	4.2%	↗

Figure 1: Quarterly Inflation Forecasts

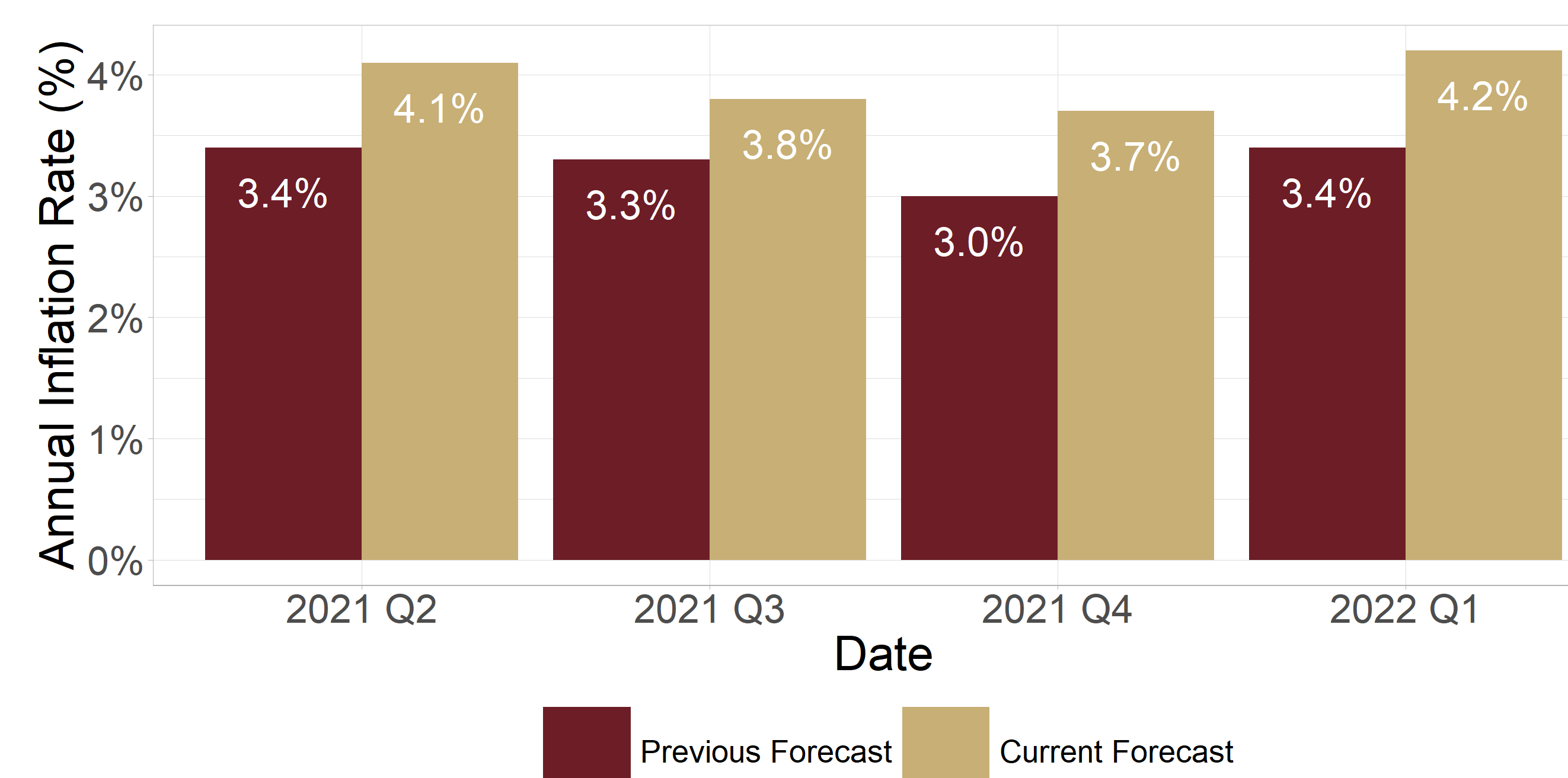


Figure 2: Yearly Inflation Forecasts

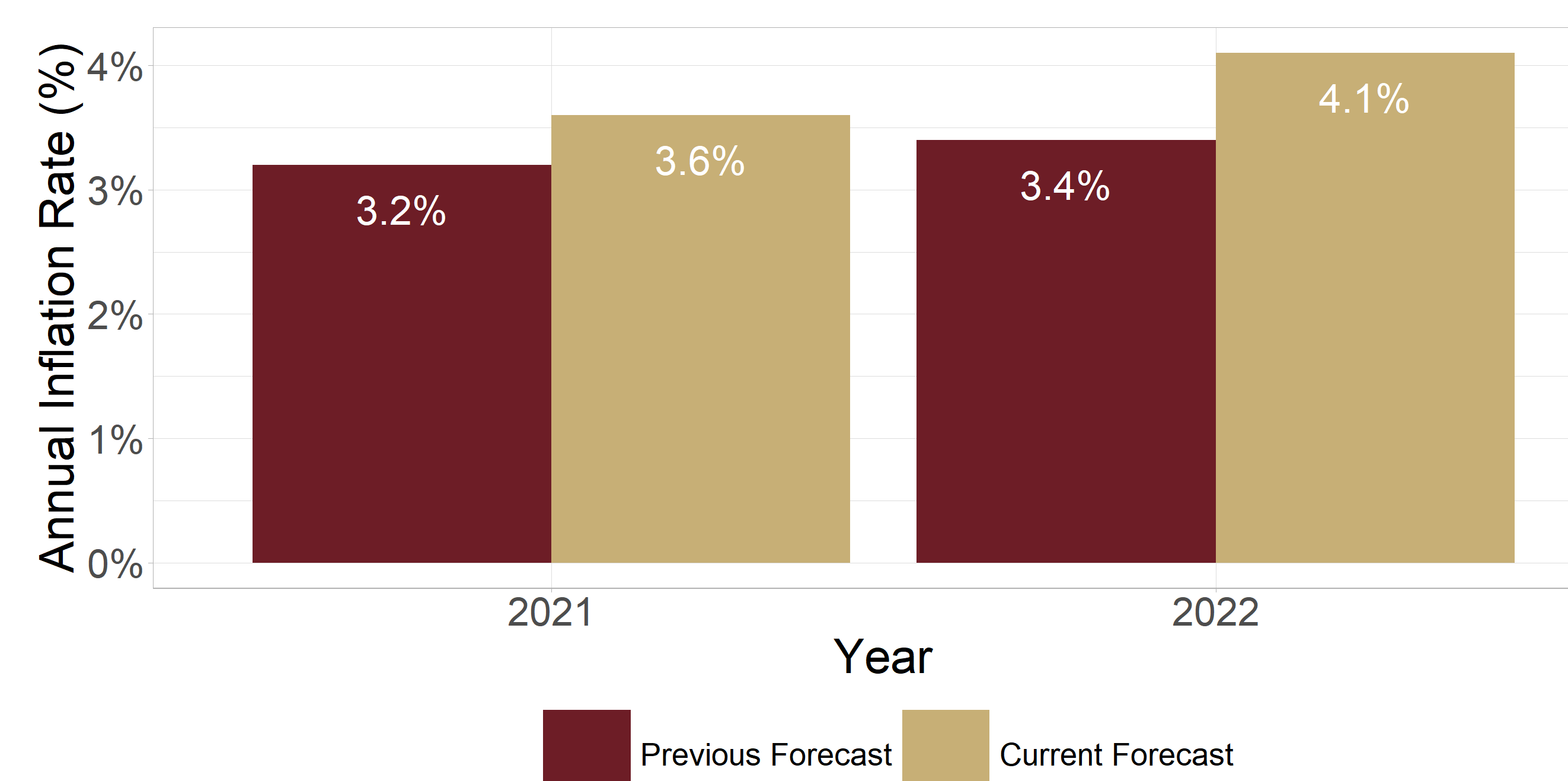
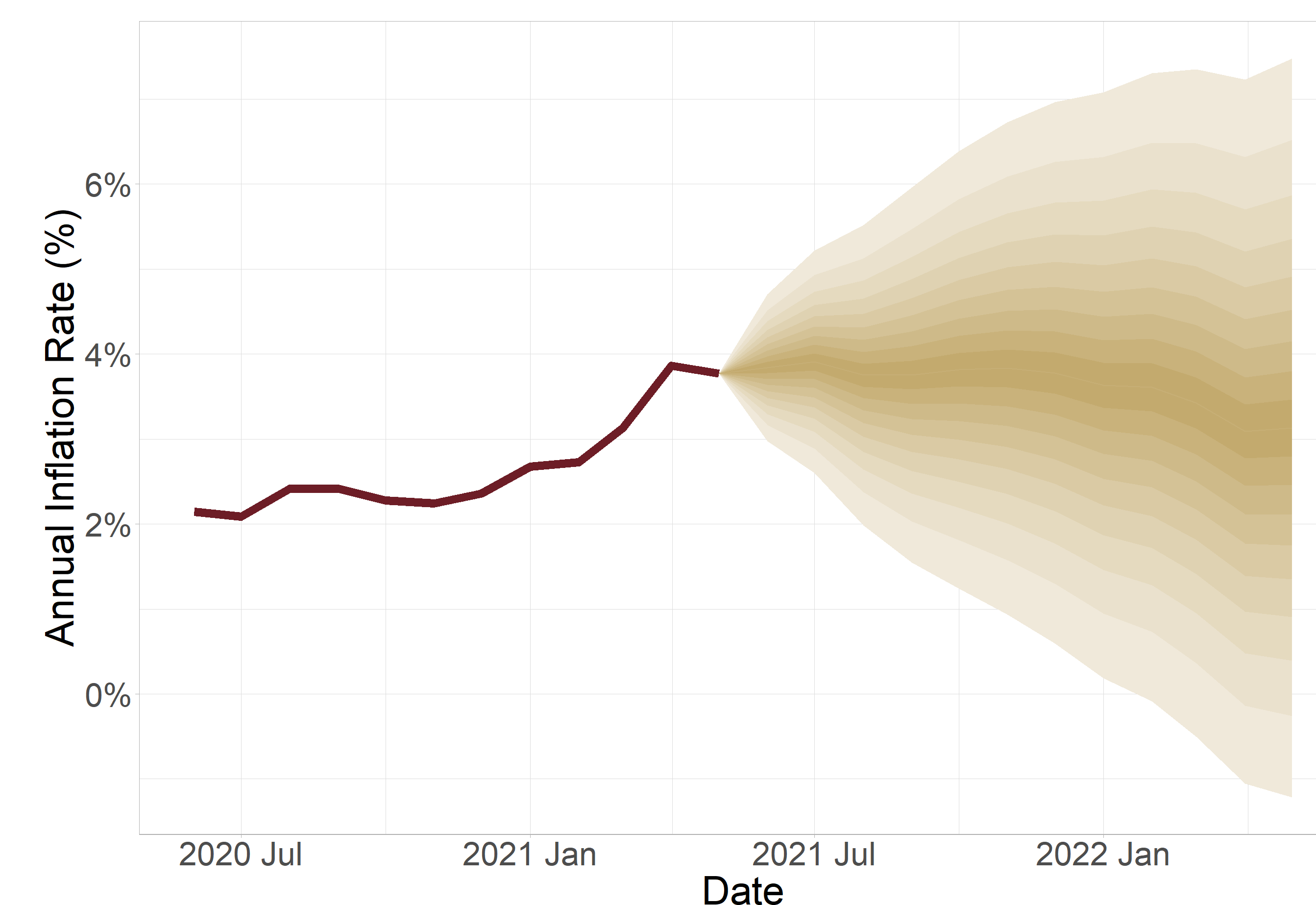


Figure 3: 12 Month-Ahead Forecast Fan



*Darker lines in the fan distribution represent more probable scenarios for the trajectory of inflation

Disclaimer

While best efforts were taken to ensure the accuracy of the data and information in this report, the Bank cannot take any responsibility for consequences resulting from the use of this information.

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