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Inflation Alert – July 2018

Footwear, primary education and recreational costs drive inflation up…

Indicator	Jul 2017	Jun 2018	Jul 2018
Annual	0.1%	2.9%	4.3%
Month-on-Month	-0.4%	0.0%	1.0%

Source: ZimStat

…annual inflation rises to 6-year high levels…

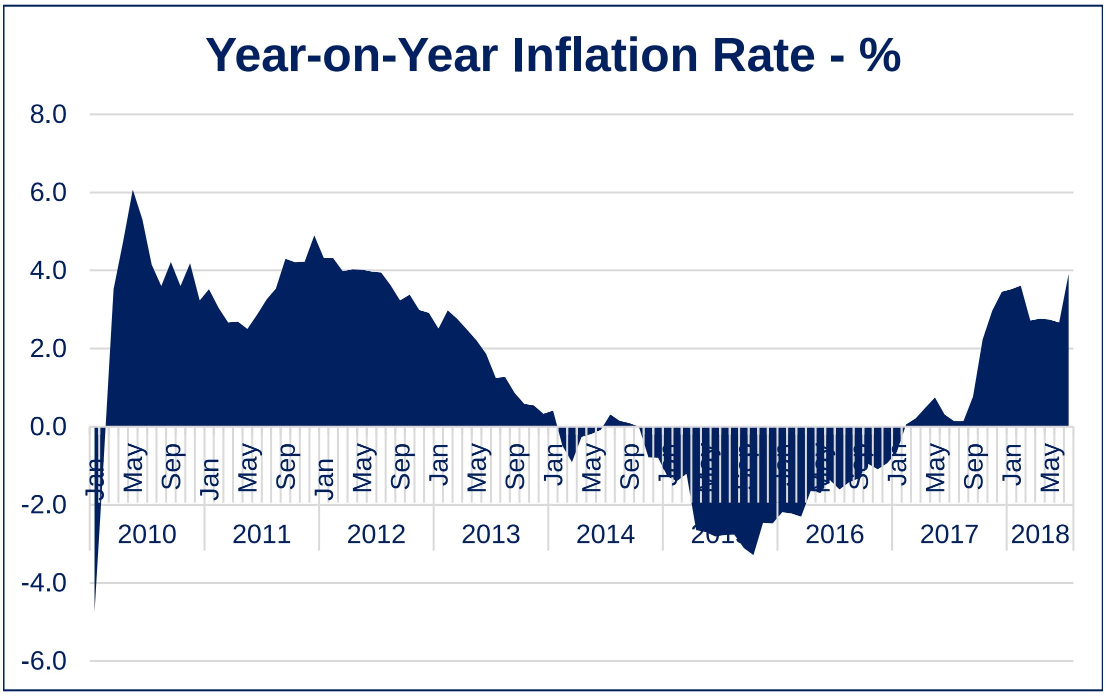
- According to the ZimStat, the year-on-year *"y/y"* inflation surged from 2.9% in June 2018 to a near 6-year high of 4.3% in July 2018.
- The *y/y* food and non-alcoholic beverages inflation rose from 5.1% to 6.3%, driven by increases in bread & cereals and confectionary items inflation.
- The non-food inflation rose 1.9% to 3.4%, underpinned by inflationary pressures from the recreation & culture, household appliances and shoes & other footwear, whose pricing is largely aligned to movements in the parallel market exchange rates.

…pre-primary and primary education costs surge in July…

- Education inflation, which had been static at -3.6% for 3 months, surged to 6.3% in July 2018, reflecting fees adjustments in the pre-primary and primary education segment. Inflation in the communication, transport and housing water, electricity, gas & other fuels categories remained stable, with vehicle purchases inflation virtually unchanged as a result of lack of demand due to the ongoing foreign currency shortages.
- **Fig.1** below illustrates the trend in the annual inflation rate.

…what you see is not what you feel…

Fig.1: Y/Y Inflation Trends



Source: ZimStat

Meanwhile, the month-on-month "*m/m"* inflation rose from -0.05% in June 2018 to 0.98% in July 2018, reflecting increases in both food and non-food inflation.

…depreciation of SA rand not enough to thaw domestic inflationary pressures…

Outlook

Going forward, the depreciation of the South African Rand, on the back of the ongoing United States-led global trade war, as well as market jitters with regards the impact of the planned Land Expropriation without Compensation on the SA economy, would ordinarily imply lower prices in Zimbabwe - being a US dollar anchored economy. However, this is not expected to be the case, largely due to more destabilizing domestic factors, among them,

1. the prevalence of multiple exchange rates and pricing systems,
2. the continued instability on the foreign exchange markets,
3. the rising fuel prices on the global markets,
4. and the attendant sustained inflation fears.

Overall, we therefore expect inflationary pressures to remain elevated, with the official inflation numbers remaining less reflective of the developments in the broader economy.

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