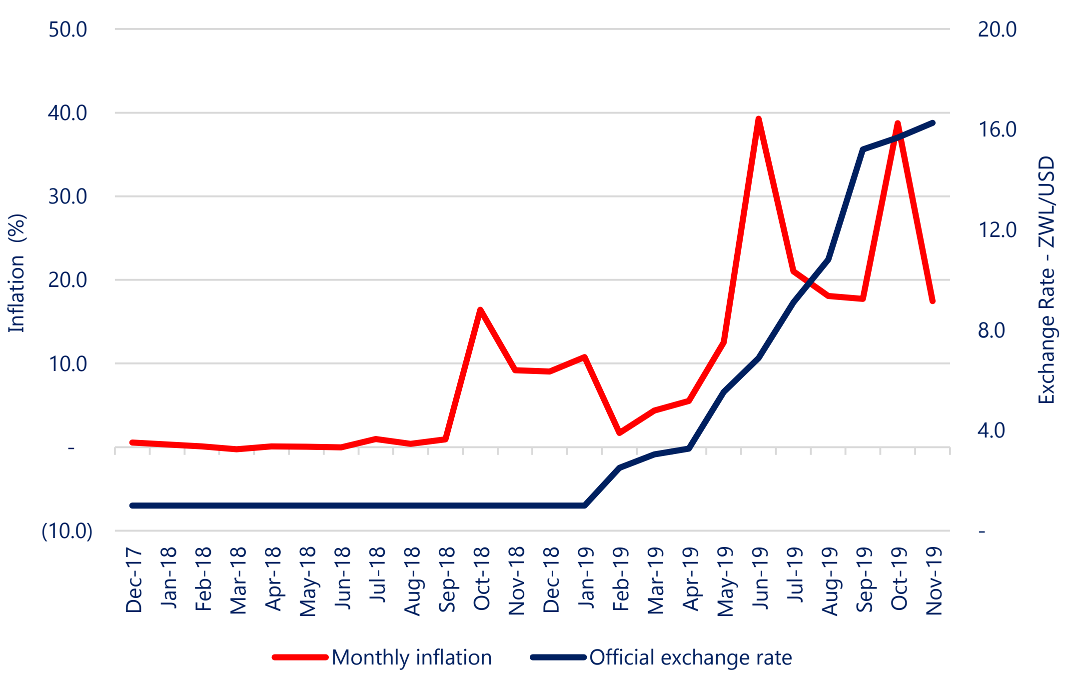
# INFLATION ALERT

December 2019

# Commentary

- According to the Zimbabwe National Statistics Agency, "ZimStat", the month-on-month (m/m) inflation rate receded from 38.8% in October 2019 to 17.5% in November 2019, on the back of a slowdown in both food and non-food inflation – **Fig.1** below.
- In fact, food inflation fell from 48.4% to 22.6%, whilst non-food inflation declined from 32.9% to 14.0%, over the same period. However, with the exception of fruits, communication (*telephone services*) and education (*pre-school, primary and secondary*) categories, all other inflation heads recorded marginal increases in November 2019, reflecting entrenched inflationary pressures.
- Going into December 2019, the recent increases in prices of food basket items such as soft drinks, tomatoes, etc., by up to 20% and the expansion in money supply are expected to continue exerting upward pressure on the inflation rate. However, the reintroduction of subsidies on selected basic commodities, ongoing shortages of raw materials and depressed demand - as enunciated in recent trading updates by most corporates such as Delta, Innscor, NamPak and Schweppes - largely make the inflation outturn for December ambiguous.

Fig.1 – Inflation & Exchange Rate Developments




**Source: ZimStat**

- Meanwhile, based on an autoregressive moving average time series model, the m/m inflation rate is mostly influenced by movements in the exchange rate – as confirmed by the strong correlation in Fig 1 – as well as Government policies such as removal of subsidies and/ alignment of prices to market levels. The regression model also shows that economic agents seemingly, to a lesser extent, use the previous month's inflation rate in making current and future pricing decisions.
- As such, it is imperative for the authorities to continuously reduce uncertainties, e.g. through policy consistency, as well as pursue policy interventions that enhance stability on the foreign currency markets – as these are key to attaining price stability on the goods markets.

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