Zimbabwe prices zoom out of control

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The price spikes are wreaking havoc in the labour markets by eroding incomes at a time when employers, who are equally struggling, could hardly afford pay rises that can keep up with the rising breadline.

A survey by the Daily News revealed that prices of most basic products are creeping towards two-digit figures, dealing a body blow to consumers.

Prices of basic goods such as mealie-meal, meat, soap, toiletries, rice, sugar and vegetables are shooting up due to a worsening currency crisis worsened by critical foreign currency shortages.

At Pick n Pay, in September a kg of chicken was going for $5,70, it is now fetching $7,46, an increase of about 31 percent.

In September, a 2kg of Mahatma rice was going for $2,49 but it has since gone up to $3,09, reflecting a 24 percent increase.

Dettol antiseptic 750ml was $9,29 in September, but is now selling at $11,80, an increase of 27 percent.

A nine-pack of Kleenex toilet paper is now selling for $9,57, from $7,49 in September, which means its price has increased by nearly 30 percent.

Leading financial research firm, Equity Axis, explained that Zimbabwe is witnessing the sharpest increase in average prices of basics since it adopted the multi-currency regime in 2009, biased towards the elusive United States dollar.

Equity Axis said prices have in turn gone up by between 50 percent and 100 percent over the past eight weeks and official inflation data for the month of October is expected to capture that drift.

“It is our persuasion that prices of goods will remain guided by the monetary developments such as parallel exchange rates and the general liquidity situation in the economy,” noted the research firm.

It said the adoption of the strong US dollar has ensured low and managed inflation although having a downside of deflation and low export competitiveness.

“The swelling of Zimbabwe’s RTGS (Real Time Gross Settlement) balances unmatched by plummeting cash and cash equivalents, has resulted in steep parallel market discounting and fuelled a spontaneous increase in average prices of goods,” it said.

The sharp hike in prices comes at a time when most companies are struggling to access hard currencies for the importation of key raw materials, with banks failing to settle their international payments on time.

Some have been compelled to resort to the black market where they pay a premium of up to 40 percent.

This has had the effect of increasing prices for goods and services.

Zimbabwe relies heavily on imported goods mainly from South Africa and produces very little domestically.

Businesses cite the high cost of doing business although the desire to make super profits cannot be ruled out.

Reserve Bank of Zimbabwe (RBZ) governor, John Mangudya, told the Daily News that some retailers have become accustomed to making huge margins, blaming the price hikes on profiteering.

Mangudya said prices of products in most big formal outlets such as OK, TM, Spar, Choppies, Pick n Pay and N Richards, among others, were reasonably priced and there are no multi-price systems in the outlets.

“Price hikes are normally associated with profiteering when retailers use the marginal pricing system or opportunity cost pricing system as opposed to the average pricing system to set prices,” said the RBZ boss.

“Such marginal pricing system defies logic especially for those products that are produced from forex (foreign exchange) substantially obtained official sources that include the Reserve Bank and banks. Price hikes are also a reflection of lack of competition and lack of business confidence.

“The limiting factor of price hikes is disposable income. There is always a maximum point when consumers would not be able to pay for out priced products. When demand goes down then revenue will start to decrease forcing retailers to decrease prices. That time is mainly after the sale of agricultural produce, which has in the main contributed to the increase in the current higher disposable income after the sale by households of their agricultural produce, especially maize,” added Mangudya.

The central bank governor opined that what is lacking in the country is self-discipline by some retailers as characterised by high mark-ups.

“Some retailers don’t respect consumers,” he said. “Yes we have a shortage of foreign exchange in the country but the current hike of some prices is not attributable to the shortage of forex but to poor business practice.”

Confederation of Zimbabwe Retailers president, Denford Mutashu, said they have been engaging retailers countrywide as part of a fact-finding mission to understand the reasons behind the price increases.

“What we have also seen is that these increases are most common in the central business districts, particularly Harare and Bulawayo. Some of the reasons are genuine while some are not,” said Mutashu.

While condemning profiteering, Mutashu said the confederation was engaging government agencies, among them the Office of the President and Cabinet, and RBZ to look into the pricing model.

“… We believe that this will be short-lived with the RBZ improving its foreign currency allocations (the situation can only get better),” he said.

While the Consumer Council of Zimbabwe stopped issuing data on the food basket in August after reportedly getting an edict from the authorities, official Zimstat data claims year-on-year inflation rose by 0,78 percent in the September up from 0,14 percent in August.

But Steve Hanke, an economics professor at Johns Hopkins University in the United States, told the Daily News yesterday that the official data was way off the mark, saying Zimbabweans must “forget this truly fantastical piece of artwork.”

He said Zimbabwe is in the throes of an ignominious hyperinflation in which the monthly rate of inflation is 112 percent and the annual rate is 313 percent, as of October 17, 2017, from 242,72 percent recorded in the previous month.

Judging from the content of Zimstat’s stagnant figures, he said it was clear authorities are not reporting honestly on inflation and actually invented a more optimistic message.

“The problem is the new Zim dollar and all its components: RTGS, bond notes, etc. The government is ‘printing’ funny money. It’s like the good old days when there was a Zim dollar. Under dollarisation, this money printing is absolutely forbidden. Indeed, Zim is no longer dollarised. The only way to fix it is to dollarise and follow the rules,” Hanke – who is also a senior fellow and director of the Troubled Currencies Project at the Cato Institute in Washington DC – told the Daily News in emailed responses yesterday.

He told the Daily News that he estimated Zimbabwe’s present inflation by reviving a gauge used during the hyperinflation era – the Old Mutual Implied Rate.

This compares share prices of the Old Mutual insurance firm in Harare and in London, where it has its primary listing.

Harare shares are trading at a considerable premium.

The only difference between Old Mutual shares traded on different exchanges is that the stock traded in London are denominated in British pounds sterling; whereas those traded in Harare are denominated in bond notes.

Therefore, said Hanke, if price arbitrage works and Purchasing Power Parity (PPP) holds, the ratio of the Old Mutual share price in Harare to that in London equals the bond notes /sterling exchange rate.

This exchange rate can be transformed using PPP to accurately measure Zimbabwe’s inflation.