



SACU Inflation Report

August 2011

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Selected Global Inflation Rates

Overview

Annual inflation rate have shown stabilisation in developed economies in recent months. In the emerging economies inflation rates remain elevated on account of increasing capacity constraints, as well as the higher weight of commodity prices in these countries consumption baskets.

The Food and Agricultural Organisation (FAO) Food Price Index¹ averaged 231 points in August 2011, nearly unchanged from July and 26.0 percent higher than in August 2010. Firmer cereal prices in August were largely offset by declines in international prices of most other commodities, particularly oils and dairy products.

Brent crude oil price closed at USD 113.73 per barrel by end of August 2011, which is 2.3 percent lower than at the end of July 2011. Similarly, the natural gas prices closed at USD 4.06 by end of August 2011, which is 2.4 percent lower than at the end of July 2011. RBOB gasoline prices closed at USD 2.84 per barrel by end of August 2011, which is 2.8 percent lower than at the end of July 2011.

Developed Economies

Euro Area

The annual inflation rate remained unchanged at 2.5 percent during August 2011. The biggest downward pressures to the change in inflation came from garments and telecommunications, while, fuels for transport, heating oil and electricity had the largest upward pressure to the annual inflation. The annual rate recorded for August 2011 was above the European Central Bank inflation target of below but close to 2.0 percent.

Japan

The annual inflation rate was at 0.2 percent during August 2011, same as in the preceding month. Although unchanged overall, there were significant upward and downward pressures at the more detailed level. By far the largest downward pressures to the annual inflation came from furniture and household utensils that registered a deflation of 5.0 percent. While, the largest offsetting upward pressure to the annual inflation came from miscellaneous category and fuel, light and water charges category.

United Kingdom

The annual inflation rate was at 4.5 percent during August 2011, slightly up from 4.4 percent in the preceding month. By far the main upward pressures to the annual inflation came from clothing & footwear, housing & household services, and from furniture, household equipment & maintenance. While, the main downward pressure

¹ Food Price index: consist of the average of 5 commodity group price indices (meat, dairy, cereals, oil & fat, and sugar) weighted with the average export share of each of the groups for 2002-2004

to annual inflation came from transport services, particularly passenger transport by air, sea and rail. The annual inflation rate remained above the Bank of England's inflation target of 2.0 percent.

USA

The annual inflation rate in the World's largest economy rose to 3.8 percent during August 2011 after holding at 3.6 percent for the last three months. The change in the index for all items less food and energy continued its upward trend, rising to 2.0 percent in August. Energy rose by 18.4 percent over the last year, while food increased by 4.6 percent. The inflation rate registered during August 2011 was above the Federal Reserve Bank's long term inflation estimate of 2.0 percent.

Developing Economies

Brazil

The annual inflation rate stood at 7.2 percent during August 2011, the highest since June of 2005, compared to 6.9 percent during the preceding month. This was underpinned by increase in food prices. The annual rate recorded for August 2011 was above the Brazilian Central Bank inflation target of 4.5 percent with a floating range of 2 percentage points.

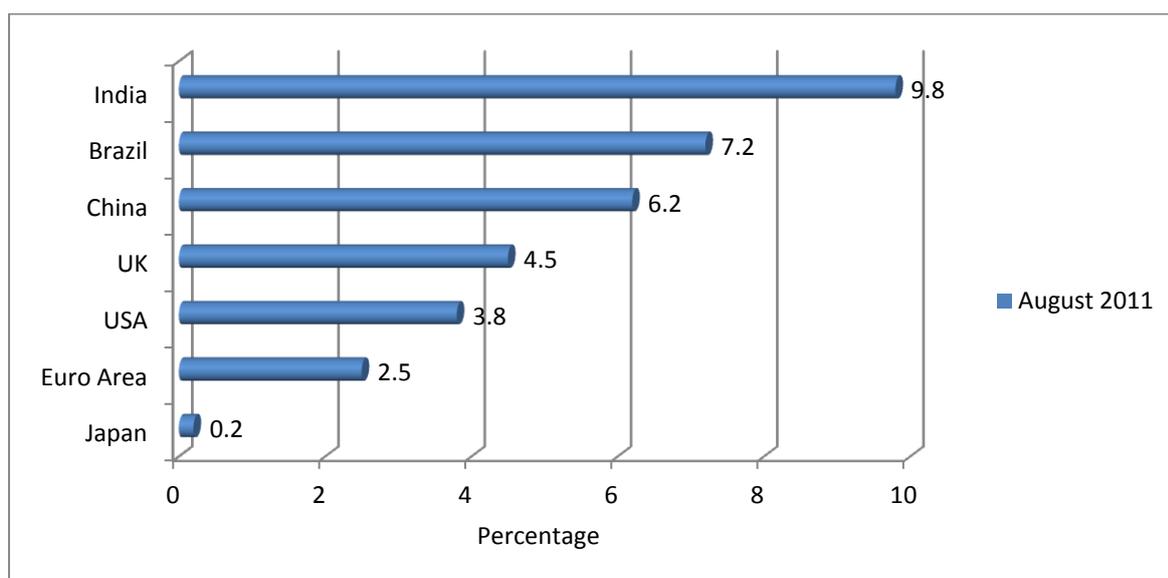
China

The annual inflation rate slowed to 6.2 percent during August 2011 from 6.5 percent during the preceding month. The downward pressure to the change in inflation mainly came from food prices that rose by 13.4 percent from a year earlier compared with 14.8 percent in July. The annual inflation rate for August 2011 was above the Government's inflation target of 3.0 percent.

India

Headline annual inflation rate based on the new series of Wholesale Price Index rose to 9.8 percent during August 2011 compared to 9.2 percent during the preceding month. The increase was mainly driven by rise in food and manufactured products prices. The inflation rate registered during August 2011 was above the Reserve Bank target range of 4.0 – 4.5 percent.

Chart 1: Annual Inflation Rates for selected economies



Source: tradingeconomics.com

Inflation Rates in SACU Member States

Inflation rates increased in Botswana, Lesotho and Namibia during August, while South Africa and Swaziland's inflation rates remained the same during the same period. This depicts a similar mixed scenario as in the selected Global inflation rates discussed earlier.

Botswana continued to register the highest annual inflation rate among the Member States, registering an inflation rate of 8.7 percent in August 2011 followed by Swaziland at 6.1 percent. The lowest annual inflation rate was observed in South Africa, recording an inflation rate of 5.3 percent.

Inflation was driven by *food and non-alcoholic beverages* category in Botswana, Lesotho, Namibia and Swaziland, in line with FAO food price index that remains high and above last year's levels. While, in South Africa the largest upward pressure was observed in the *housing, water, electricity, gas and other fuels* category.

All Member States recorded a single digit annual inflation rates during August 2011 as shown in Table 1. Month-on-month inflation rates varied between 0.2 percent and 1.0 percent in Member States between July and August 2011, with Botswana and Swaziland recording the highest rates as shown in Table 2.

Table 1: Annual Inflation Rates in SACU Member States

	Botswana	Lesotho	Namibia	South Africa	Swaziland
July 2011	7.8	4.9	4.8	5.3	6.1
August 2011	8.7	5.5	5.4	5.3	6.1

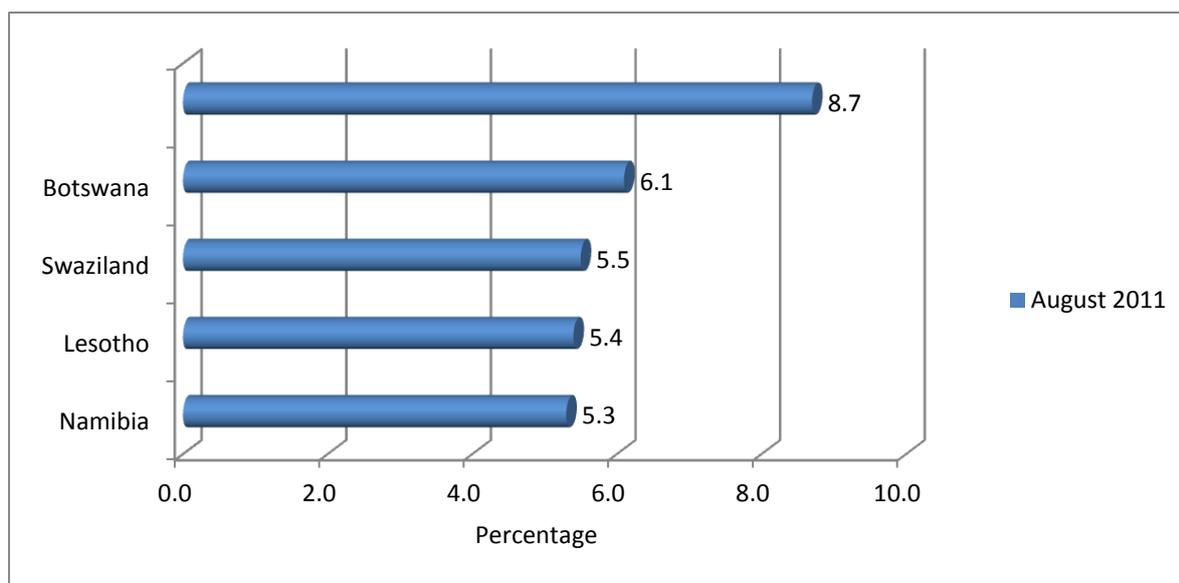
Source: Member States Statistics Offices

Table 2: Monthly Inflation Rates in SACU Member States

	Botswana	Lesotho	Namibia	South Africa	Swaziland
July 2011	0.3	0.3	0.3	0.9	0.2
August 2011	1.0	0.5	0.4	0.2	1.0

Source: Member States Statistics Offices

Chart 2: Annual Inflation Rates in SACU Member States



Source: Member States Statistics Offices

Botswana

The annual inflation rate for August 2011 rose to 8.7 percent compared to 7.8 percent recorded a month earlier, and higher than the 6.7 percent recorded during the same month in 2010. On average, prices increased by 1.0 percent between July and August 2011, mainly due to an increase in public transport fares, and rise in retail pump prices for both petrol and diesel that came into effect in August 2011.

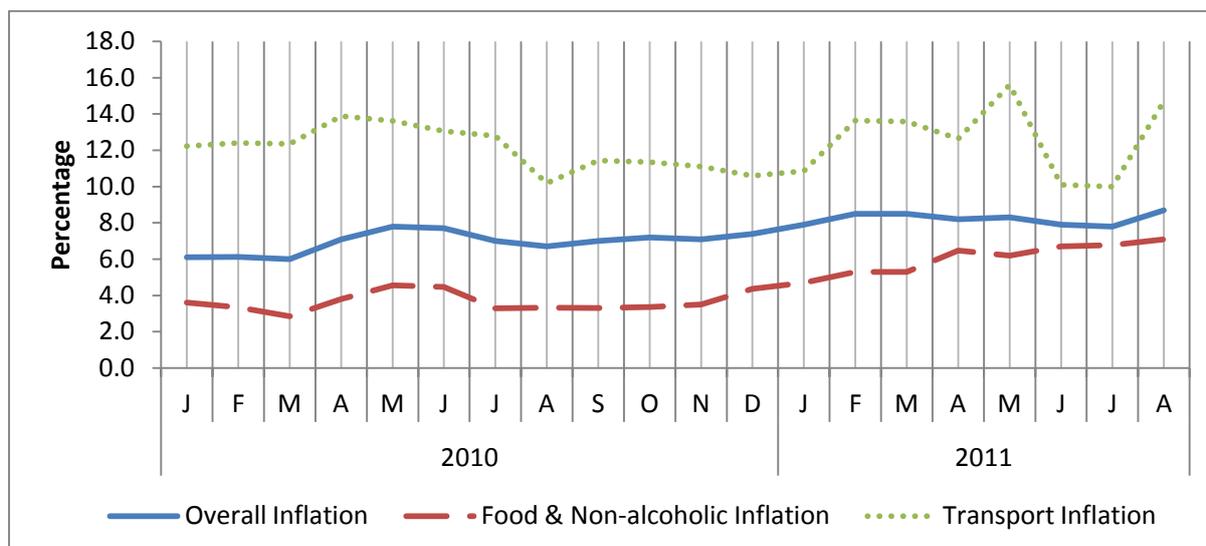
The largest upward pressure to the change in annual inflation was mainly driven by *food and non-alcoholic beverages* which increased by 7.1 percent, compared to 3.3 percent in August 2010. This was attributed to the rising prices of milk, cheese and cheese products and sugar, jam, honey, chocolate and confectionery that increased by 12.8 percent and 17.3 percent, respectively.

The largest downward pressure to the change in inflation came from the slow growth of 4.7 percent in *miscellaneous goods and services* as compared to 7.1 percent registered in August 2010. Similarly, downward pressure to the change in inflation also came from *communication*.

The annual inflation rate for August 2011 was above the inflation target range of 3-6 percent set out by the Bank of Botswana. Interest rate policy remains

accommodative for growth with bank rate registered at 9.5 percent, while prime rate was registered at 11.0 percent.

Chart 3: Annual Inflation Rate



Source: Central Statistics Office of Botswana

Lesotho

The annual inflation rate during August 2011 rose to 5.5 percent from 4.9 percent in July 2011. The annual inflation rate for August 2011 was higher than the 3.3 percent recorded during the corresponding month in 2010. On average, prices increased by 0.5 percent between July and August 2011, mainly due to food prices that increased by 0.9 percent.

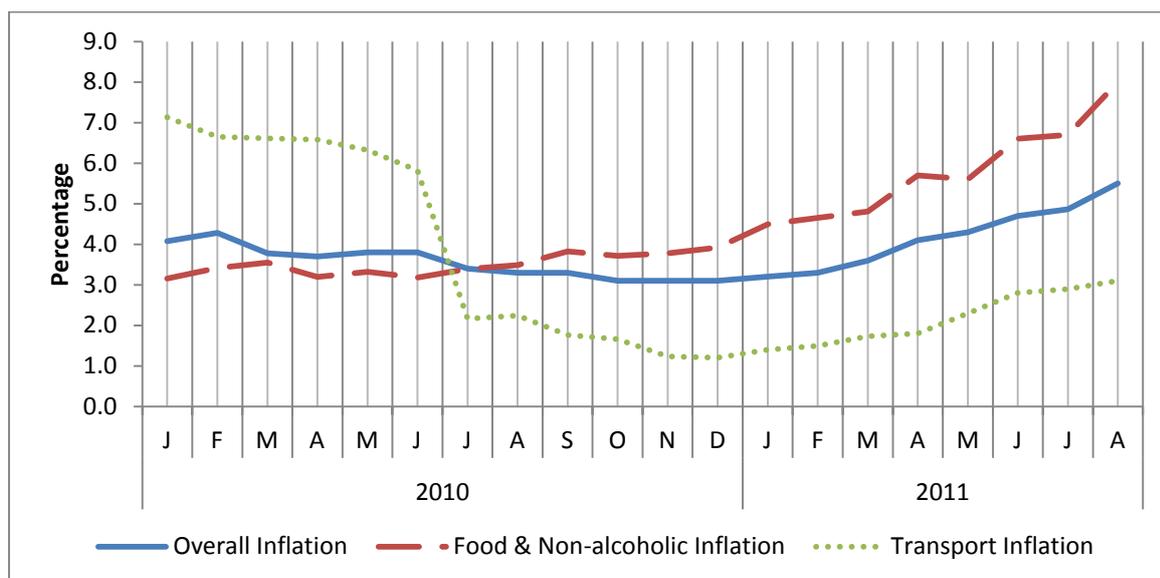
The largest upward pressure to the change in annual inflation came from *food and non-alcoholic beverages* which increased by 8.0 percent, compared with 3.4 percent in August 2010. Similarly, upward pressure to the change in annual inflation also came from *housing, water, electricity, gas and other fuels* category that increased by 11.8 percent, compared with 4.7 percent in August 2010.

Meanwhile, the largest downward pressure to the change in inflation came from *miscellaneous goods and services* category which registered a slow growth of 2.1 percent compared to 3.9 percent in August 2010.

Lesotho’s net international reserves (NIR) target was at USD727 million, which translate to R4.95 billion², which was considered to be sufficient to support the Rand parity. The prime lending rate was registered at 10.50 percent during the month of August 2011.

² Three month moving average monthly exchange rate

Chart 4: Annual Inflation Rate



Source: Bureau of Statistics of Lesotho

Namibia

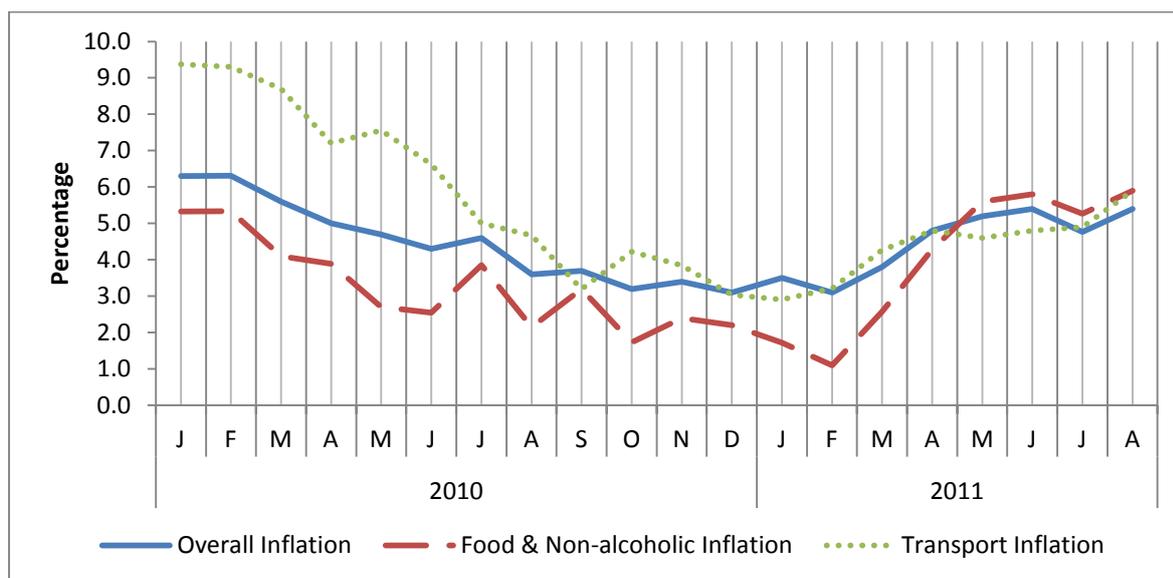
The annual inflation rate for August 2011 rose by 5.4 percent compared to 4.8 percent recorded in the preceding month. The annual inflation rate for August 2011 was higher than the 3.6 percent recorded during the same month in 2010. On average, prices increased by 0.4 percent between July and August 2011, 0.2 percentage point decline when compared to the monthly rate of July 2011, mainly due to water supply, sewerage service and refuse collection that rose by 0.1 percent in August compared with 10.8 percent in July 2011.

The largest upward pressure to the change in annual inflation came from *food and non-alcoholic beverages* which increased by 5.9 percent compared with 2.2 percent in August 2010, this was mainly attributed to *bread & cereals, and meat* prices that increased by 8.5 percent and 8 percent, respectively.

Meanwhile, the largest downward pressure to the change in annual inflation came from *education* registering a slow growth of 5.1 percent compared with 5.3 percent in August 2010.

Namibia like Lesotho targets the level of NIR in order to maintain the Rand parity. The NIR level was at R11.2 billion, which was considered to be sufficient to support the Rand parity. The repo rate remained at 6.0 percent and prime rate at 9.75 percent during August 2011.

Chart 5: Annual Inflation Rate



Source: Namibia's Central Bureau of Statistics

South Africa

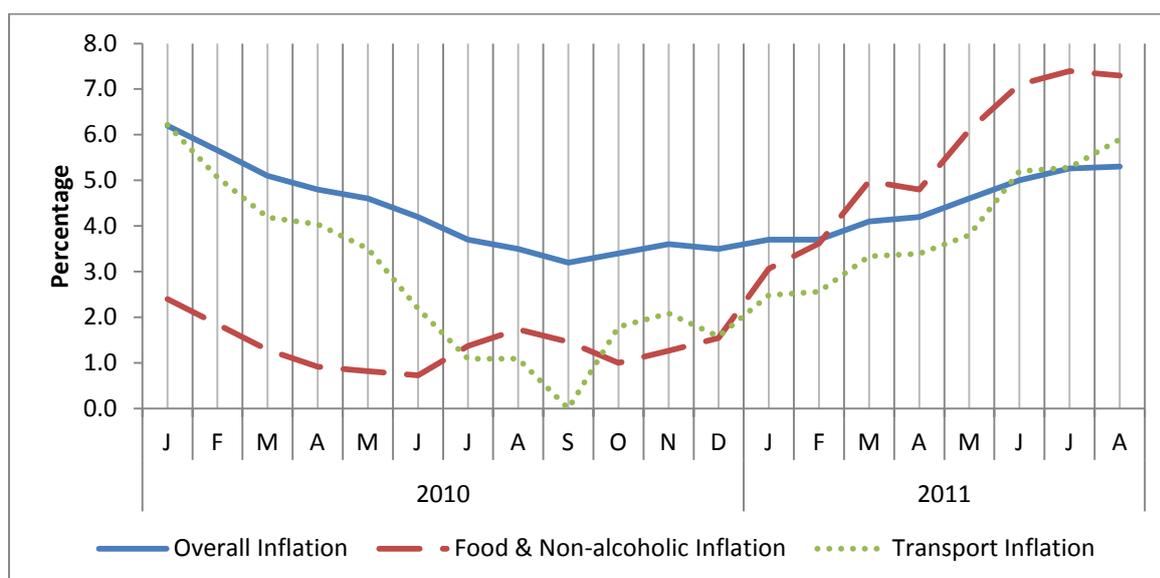
The annual inflation rate remained unchanged at 5.3 percent during August 2011 compared to the previous month. The annual inflation rate for August 2011 was higher than the 3.5 percent recorded during the same period in 2010. On average, prices increased by 0.2 percent between July and August 2011.

The largest upward pressure to the change in annual inflation came from *housing, water, electricity, gas and other fuels* which increased by 6.8 percent, this was mainly attributed to *owner's equivalent rent* that increased by 4.6 percent. This was followed by *food and non-alcoholic beverages* category.

Meanwhile, the largest downward pressure to the change in inflation came from *communication* that declined by 1.9 percent, this was mainly attributed to the *telecommunication equipments* which declined by 25.4 percent.

The annual inflation rate continues to remain within the inflation target range of 3-6 percent. Interest rate policy remains accommodative for growth with repo rate maintained at 5.5 percent, while prime rate was registered at 9.0 percent.

Chart 6: Annual Inflation Rate



Source: Stats SA

Swaziland

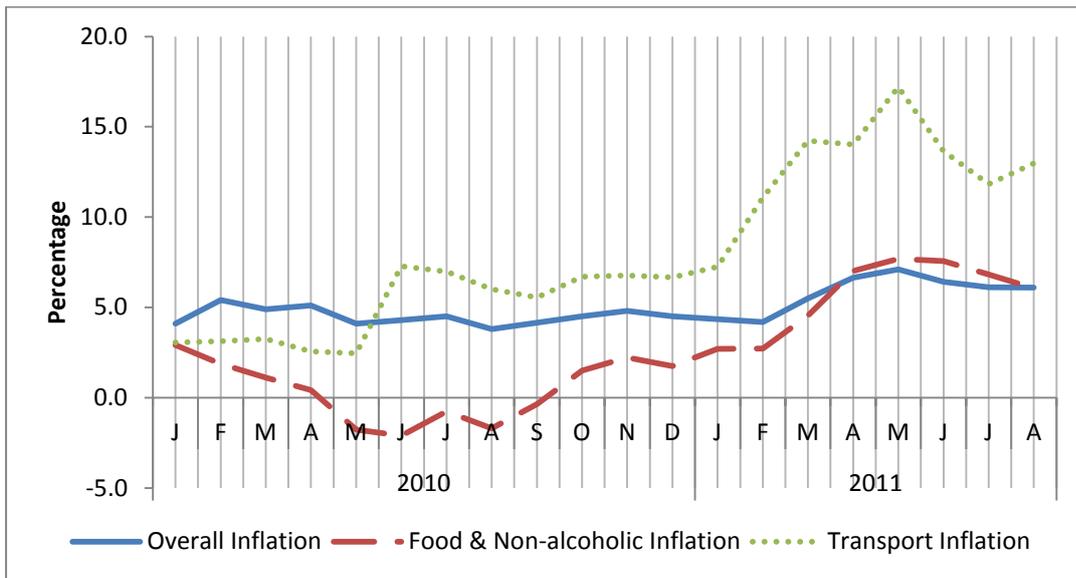
The annual inflation rate remained unchanged at 6.1 percent during August 2011. The annual inflation rate for August 2011 was higher than the 3.8 percent recorded during the same period in the previous year. On average, prices increased by 1.0 percent between July and August 2011, mainly driven by housing and utilities that increased by 6.1 percent.

The largest upward pressure to the change in annual inflation came from *food and non-alcoholic beverages* which increased by 6.1 percent compared with a deflation of 1.7 percent in August 2010, this was mainly attributed to *bread and cereals*; and fat and oil price increases.

Meanwhile, the largest downward pressure to the change in annual inflation came from *furnishing and household equipment* that slowed to 2.8 percent from 6.0 percent registered in August 2010, this was mainly attributed to the *deflation of 1.0 percent in furniture and furnishings*.

In terms of its monetary policy implementation framework, the Central Bank of Swaziland targets the level of NIR in order to maintain the Rand parity. The NIR level was at R4.5 billion, which was considered to be sufficient to support the Rand parity. The discount rate remained at 5.5 percent during August 2011.

Chart 7: Annual Inflation Rate



Source: Central Statistics Office of Swaziland

Appendix

Annual inflation rates by main categories (August 2011)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	7.1	8.0	5.9	7.3	6.1
Alcoholic beverages & tobacco	8.3	6.1	6.3	6.1	4.5
Clothing & footwear	9.3	1.7	1.0	2.7	0.7
Housing, water, electricity, gas & other fuels	9.0	11.8	8.2	6.8	8.6
Furnishings, household equipment &...	8.6	3.2	2.4	2.1	2.8
Health	4.3	1.2	5.2	5.2	6.2
Transport	14.7	3.1	5.9	5.9	13.0
Communications	-5.4	0.0	1.4	-1.9	0.0
Recreation & Culture	7.7	1.7	4.0	-0.4	-1.4
Education	10.6	0.8	5.1	8.6	11.8
Hotels, cafés & restaurants	9.6	3.7	2.9	5.7	1.7
Miscellaneous goods & services	4.7	2.1	4.1	4.4	4.3
All Item	8.7	5.5	5.4	5.3	6.1

Source: SACU Member States Statistics Offices

Consumer Price Index Basket Weights

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	21.84	38.14	29.63	15.68	37.73
Alcoholic beverages & tobacco	9.29	1.22	3.26	5.58	0.96
Clothing & footwear	7.52	17.43	5.13	4.11	6.16
Housing, water, electricity, gas & other fuels	11.46	10.60	20.59	22.56	14.33
Furnishings, household equipment &...	6.76	9.42	5.61	5.86	11.88
Health	2.71	1.88	1.51	1.47	3.58
Transport	18.98	8.47	14.79	18.8	8.6
Communications	3.01	1.24	0.9	3.22	1.43
Recreation & Culture	2.22	2.39	2.5	4.19	4.62
Education	3.37	2.75	7.36	2.19	5.38
Hotels, cafés & restaurants	3.27	0.66	1.62	2.78	0.72
Miscellaneous goods & services	9.57	5.81	7.11	13.56	4.67
All Item	100.00	100.00	100.00	100.00	100.00

Source: SACU Member States Statistics Offices