



SACU INFLATION REPORT

August 2015

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INTRODUCTION

This report examines the monthly inflation rate performance of individual SACU Member States and a selected international economies. The report also looks at the trend in oil prices and the world food prices using the Food and Agricultural Organisation (FAO) Food Price Index.

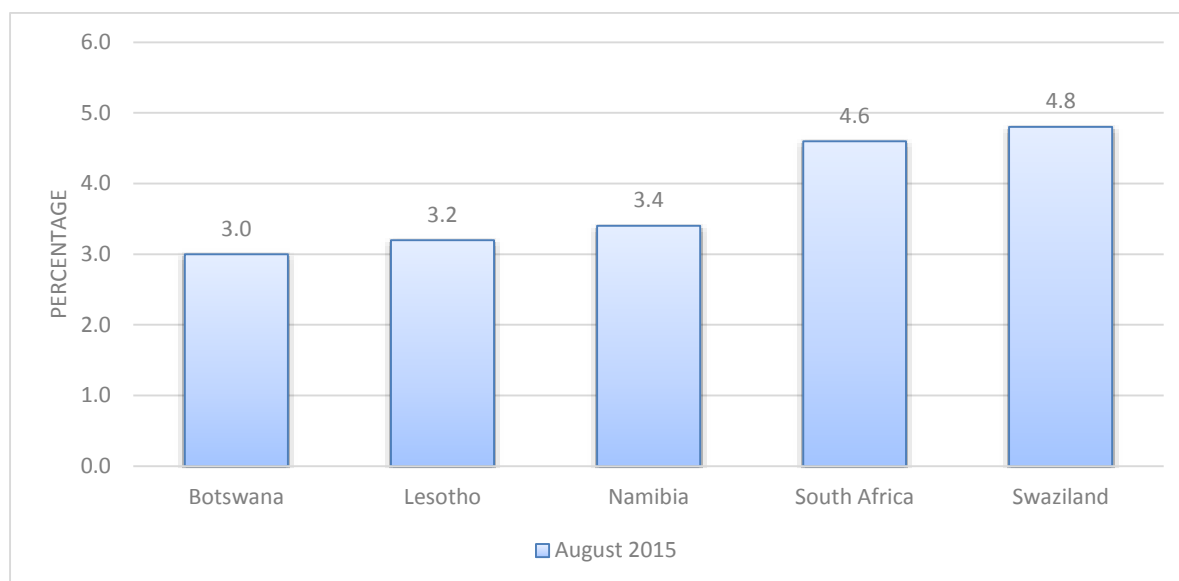
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI of the month under review to the previous month (month-on-month change) as well as to the same month in the previous year (year-on-year change). The CPI and the inflation rates are vital for purposes of economic policy-making, especially the conduct of monetary policy. The inflation rate is used in a wide variety of public and private contracts for the purposes of adjusting payments (such as wages, rents, interest and social security benefits).

For the month of August 2015 compared to the preceding month, it was observed that consumer prices fell in Botswana, South Africa, and Swaziland. A similar downward trend was also observed in the Euro areas, United Kingdom (UK), and Brazil. Furthermore, the FAO food price index also registered a decline in August 2015 compared to the preceding month. While, consumer prices remained unchanged during the month of August in Lesotho and United States of America (USA). On the other hand, consumer prices in Namibia and China registered increases during the month of August 2015 compared to the preceding month.

Inflation Rate in SACU Member States

During the month of August 2015, Swaziland registered the highest annual inflation rate among the Member States, registering inflation rate of 4.8 per cent followed by South Africa at 4.6 per cent, Namibia at 3.4 per cent, and Lesotho at 3.2 per cent. While, Botswana recorded the lowest inflation rate of 3.0 per cent. All Member States continued to record a single digit annual inflation rate during August 2015 as shown on Chart 1.

Chart I: Annual Inflation Rates (%) in SACU Member States



Source: Member States Statistics Offices

In **Botswana**, the annual inflation rate rose by 3.0 per cent in August 2015, down from 3.1 per cent registered in the preceding month. The annual rate in August 2015 was lower than the 4.5 per cent recorded during the similar month in 2014. The fall in the annual inflation rate between August 2014 and August 2015 was mainly due to the fall in prices experienced in *food & non-alcoholic beverages (1.1 per cent down from 2.9 per cent in August 2014)* and *transport category (-5.5 per cent from 1.6 per cent in August 2014)* which accounts for 21.84 per cent and 18.98 per cent of the overall inflation basket, respectively. On average, prices increased by 0.2 per cent between July 2015 and August 2015. The annual inflation rate was within the inflation target range of 3 – 6 percent set out by the Bank of Botswana. During the month of August 2015 the bank rate¹ remained unchanged at 6.5 per cent, while the prime rate stood at 8.0 per cent.

In **Lesotho**, the annual inflation rate rose by 3.2 per cent in August 2015, unchanged from the preceding month. A year earlier inflation rate was 6.5 per cent during the corresponding month. The deceleration in annual inflation rate between August 2014 and August 2015 was mainly due to a drop in prices for *food & non-alcoholic beverages (5.8 per cent down from 6.1 per cent in August 2014)*, *housing & utilities (-6.7 per cent down from 6.2 per cent in August 2014)* and *transport (0.4 per cent down from 13.4 per cent in August 2014)*. On average, prices increased

¹ Bank rate is the rate at which the Central Bank lends to Commercial Banks

by 0.3 per cent between July 2015 and August 2015. Lesotho monetary policy targets the maintenance of adequate Net International Reserves (NIR). The NIR target is set to a minimum of US\$710 million a target that is consistent with the maintenance of the exchange rate peg between the Loti and the Rand. During the month of August 2015 the Lombard facility stood at 10.35 per cent, while the prime lending rate was recorded at 10.69 per cent.

In **Namibia**, the annual inflation rate slightly increased to 3.4 per cent in August 2015, from 3.3 per cent in the preceding month. A year earlier inflation rate was 5.4 per cent during the corresponding month. The deceleration in annual inflation rate between August 2014 and August 2015 was mainly reflected in *transport (-1.4 per cent down from 7.1 per cent in August 2014)*, *food & non-alcoholic beverages (5.5 per cent down from 8.6 per cent in August 2014)* and *housing & utilities (2.4 per cent down from 3.3 per cent in August 2014)*. On average, prices increased by 0.3 per cent between July and August 2015. During the month of August 2015, the repo rate stood at 6.50 per cent, while the prime rate stood at 10.25 per cent.

In **South Africa**, the annual inflation rate eased to 4.6 per cent in August 2015, down from 5.0 per cent registered in the previous month. The annual rate in August 2015 was lower than the 6.4 per cent recorded during the similar month in 2014. The main contributors to the annual inflation rate in August 2015 were *housing & utilities (1.5 percentage points)* and *miscellaneous goods & services (1.1 percentage points)*. On average, prices were unchanged between July 2015 and August 2015. The annual inflation rate continued to remain within the target range of 3-6 per cent set out by the South African Reserve Bank. Interest rate policy remained accommodative for growth with the repo rate at 6.0 per cent in August 2015 and the prime rate at 9.5 per cent.

In **Swaziland**, the annual inflation rate eased to 4.8 per cent in August 2015, from 4.9 per cent in the previous month. Annual inflation rate in August 2015 was lower than the 6.0 per cent recorded during the similar month in 2014. The deceleration in annual inflation rate between August 2014 and August 2015 was mainly reflected in *food & non-alcoholic beverages (3.5 per cent down from 7.2 per cent in August 2014)* and *transport (0.5 per cent down from 13.4 per cent in August 2014)* which accounts for 29.22 and 10.50 per cent of the overall inflation basket, respectively. On average, prices increased by 0.2 per cent between July 2015 and August 2015. Interest rate policy remained accommodative for growth in August 2015 with the bank rate recorded at 5.75 per cent, and the prime rate at 9.25 per cent.

Inflation Rate for Selected Economies

The **Euro area** recorded annual inflation rate of 0.1 per cent in August 2015, down from 0.2 per cent in July 2015. A year earlier the inflation rate was 0.4 per cent. The largest upward impacts to annual inflation rate came from *restaurants & cafes* (0.1 percentage points), *vegetables* (0.09 percentage points) and *tobacco* (0.08 percentage points), while fuels for *transport* (-0.55 percentage points), *heating oil* (-0.25 percentage points) and *milk, cheese & eggs* (-0.07 percentage points) had the biggest downward impact. The annual rate recorded for August 2015 was below the European Central Bank inflation target of below but close to 2.0 percent.

In the **UK**, the annual inflation rate was stagnant in August 2015, down from 0.1 per cent in July 2015. The rate was 1.5 per cent during a similar period a year earlier. The largest downward impact came from *transport* (-2.6 per cent), and *food & non-alcoholic beverages* (-2.4 per cent), while the largest upward impact came from *education* (10.0 per cent), *alcohol beverages & tobacco* (2.1 per cent), *health* (1.8 per cent) and *restaurants & hotel* (1.8 per cent). The annual inflation rate for August 2015 remained below the Bank of England's inflation target of 2.0 percent.

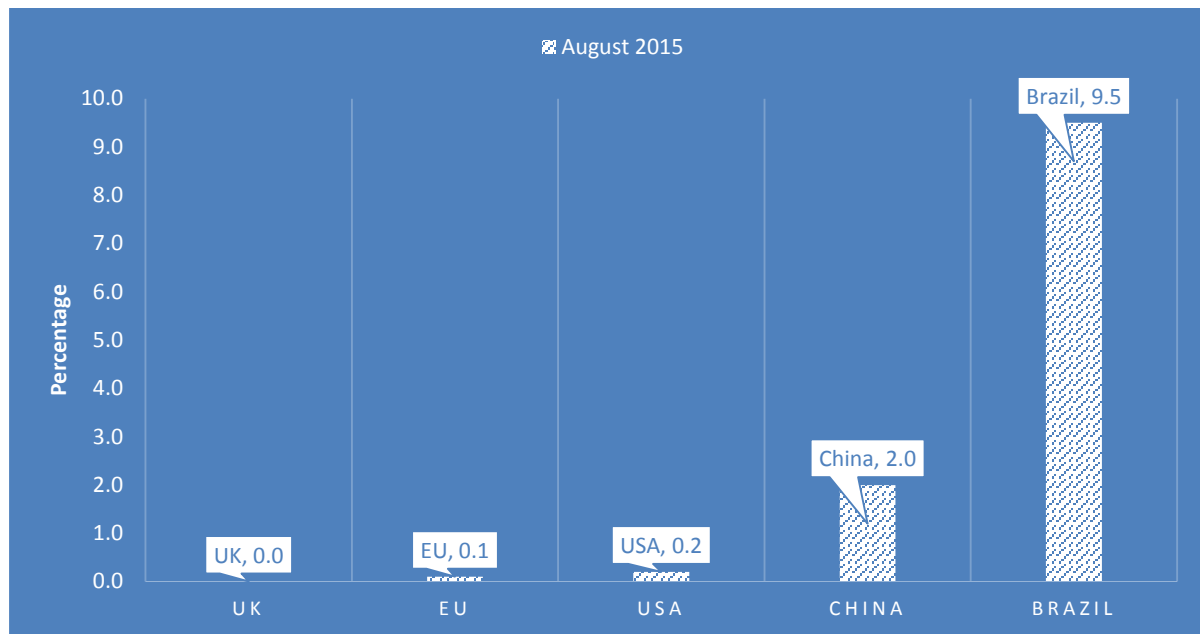
In the **USA**, the world's largest economy, the annual inflation rate rose by 0.2 per cent in August 2015, unchanged from the rate recorded in the preceding month. The inflation rate was 1.7 per cent during the similar period a year earlier. The index for *all items less food and energy* rose by 1.8 per cent in August 2015, unchanged from the preceding month. The *food index* rose by 1.6 per cent in August 2015, unchanged from the preceding month. The *energy index* registered a decline of 15.0 per cent in August 2015 compared to a decline of 14.2 per cent in the preceding month. The inflation rate for August 2015 continues to remain below the Federal Reserve Bank's long- term inflation estimate of 2.0 percent.

In **Brazil**, the annual inflation rate was 9.5 per cent in August 2015, down from 9.6 per cent in the preceding month. The rate was 6.5 per cent during the similar period a year earlier. The annual rate recorded for August 2015 continued to be above the Brazilian Central Bank inflation target of 4.5 per cent with a floating range of 2 percentage points.

In **China**, the annual inflation rate rose by 2.0 per cent in August 2015, from 1.6 per cent in the preceding month. The rate was 2.0 per cent during the similar period a year earlier. The main components with the highest annual rates were *tobacco, liquor & articles* (3.8 per cent), and *food* (3.7 per cent), while the lowest annual rates were observed on *transport &*

communication (-2.1 per cent). The annual inflation rate for August 2015 continued to be below the Government's inflation target of 3.0 per cent.

Chart 2: Annual Inflation Rates for Selected Economies

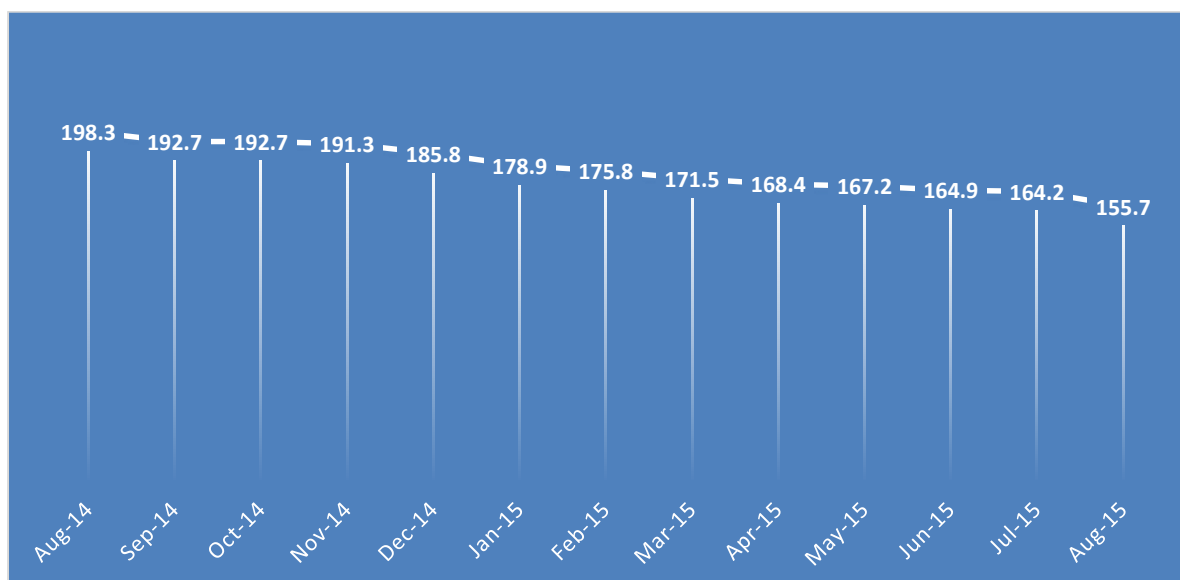


Source: inflation.eu

FAO Food Price Index

The FAO Food Price Index² averaged 155.7 points in August 2015, down by 8.5 points from its level in July 2015, recording the sharpest monthly drop since December 2008. The downward impact was observed in all the commodities except for meat.

Chart 3: FAO Food Price Index



Source: Food and Agriculture Organization of the United Nations

The FAO Cereal Price Index averaged 154.9 points in August 2015, down by 11.6 points from July 2015, primarily driven by the falling wheat and maize prices. The FAO Vegetable Oil Price Index averaged 134.9 points in August 2015, down by 12.7 per cent from July 2015, mainly driven by the fall in palm oil prices as a result of slowing import demand by India and China.

The FAO Dairy Price Index averaged 135.5 points in August 2015, down by 13.6 points from its level in July 2015. The downward pressure was mainly due to whole milk powder prices, prices of butter and cheese also declined substantially. The FAO Meat Price Index averaged 172.9 points essentially unchanged from July 2015. Prices for bovine meat moved higher, while prices for other types of meat were stable. The FAO Sugar Price Index averaged 163.2 points in August 2015, down by 18.1 points from July 2015. The sharp fall in the sugar prices was largely due to the continued depreciation of the Brazilian Real against the US Dollar and firmer

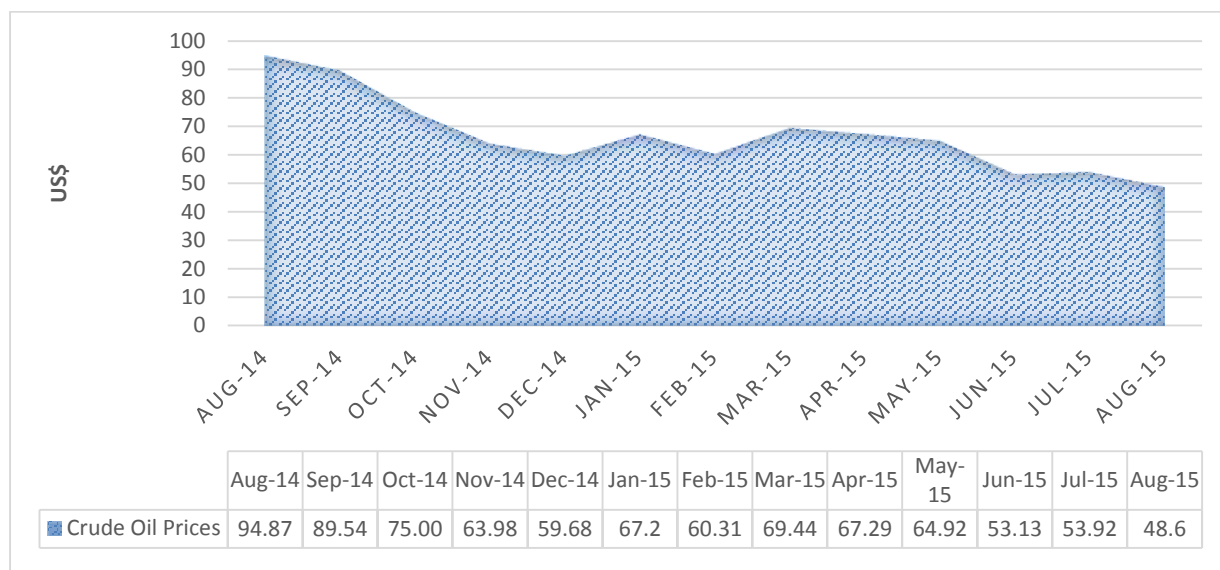
² Food Price index: consist of the average of 5 commodity group price indices(meat, dairy, cereals, oil & fat, and sugar) weighted with the average export share of each of the groups for 2002-2004

expectations that India, the world's second largest sugar producer will become a net exporter in the current 2015/16 season.

Brent Crude Oil Prices

Brent crude oil price closed at USD48.60 per barrel at the end of August 2015, which was 9.9 percent lower than at the end of July 2015, and lower than the USD94.87 per barrel recorded at the end of August 2014 as highlighted in Chart 4.

Chart 4: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual inflation rates by main categories (August 2015)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	1.1	5.8	5.5	4.3	3.5
Alcoholic beverages & tobacco	5.8	6.1	7.2	8.8	2.7
Clothing & footwear	8.0	4.6	0.3	5.3	7.1
Housing, water, electricity, gas & other fuels	7.5	-6.7	2.4	6.3	5.7
Furnishings, household equipment &...	6.0	3.7	3.5	2.7	3.5
Health	6.1	0.5	5.7	6.2	1.5
Transport	-5.5	0.4	-1.4	-0.7	0.5
Communications	0.5	-0.8	0.3	-0.8	6.6
Recreation & Culture	6.5	3.6	3.6	2.4	4.6
Education	6.6	3.6	4.3	9.3	6.7
Hotels, cafés & restaurants	5.2	4.7	6.2	5.5	10.4
Miscellaneous goods & services	7.9	4.6	6.2	7.0	10.6
All Items	3.0	3.2	3.4	4.6	4.8

Source: SACU Member States Statistics Offices

Consumer Price Index Basket Weights

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
<i>Food & non-alcoholic beverages</i>	21.84	38.14	16.45	15.41	29.22
<i>Alcoholic beverages & tobacco</i>	9.29	1.22	12.59	5.43	0.39
<i>Clothing & footwear</i>	7.52	17.43	3.05	4.07	3.42
<i>Housing, water, electricity, gas & other fuels</i>	11.46	10.60	28.36	24.52	29.15
<i>Furnishings, household equipment &...</i>	6.76	9.42	5.47	4.79	4.75
<i>Health</i>	2.71	1.88	2.01	1.46	3.39
<i>Transport</i>	18.98	8.47	14.28	16.43	10.50
<i>Communications</i>	3.01	1.24	3.81	2.63	2.74
<i>Recreation & Culture</i>	2.22	2.39	3.55	4.09	1.07
<i>Education</i>	3.37	2.75	3.65	2.95	9.11
<i>Hotels, cafés & restaurants</i>	3.27	0.66	1.39	3.50	1.79
<i>Miscellaneous goods & services</i>	9.57	5.81	5.39	14.72	4.47
All Items	100.00	100.00	100.00	100.00	100.00

Source: SACU Member States Statistics Offices