



SACU INFLATION REPORT

August 2016

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INTRODUCTION

The 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.

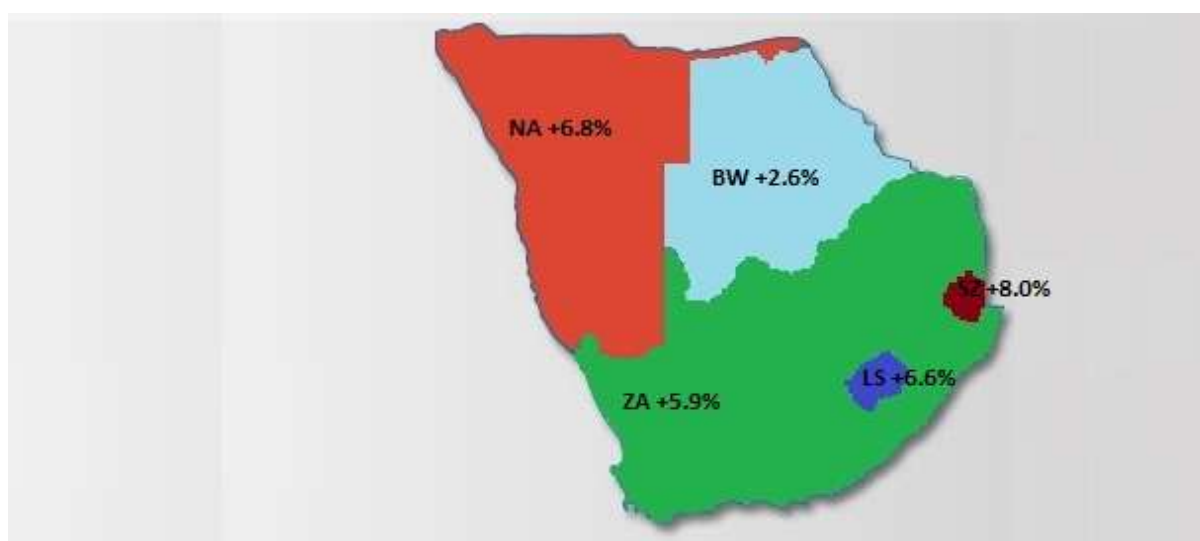
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the same month in the previous year (year-on-year change). The inflation rate is vital for purposes of economic policy-making, especially the conduct of monetary policy. It is further 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 2016 compared to the preceding month, it was observed that consumer prices eased in all Member States with exception of Swaziland where prices increased. For the month of August 2016 it was further observed that the *food & non-alcoholic beverages* category continued to register a double figure inflation in Member States with exception of Botswana. The inflationary pressure in food prices can be attributed to the prevailing drought in the region.

Inflation Rate in SACU Member States

During the month of August 2016, inflation rates when compared to July 2016 eased in all Member States with exception of Swaziland where prices increased. **Map I** shows that the change in consumer prices in August 2016 was high in Swaziland recording a change of 8.0 per cent followed by Namibia at 6.8 per cent, Lesotho at 6.6 per cent, South Africa at 5.9 per cent, and Botswana at 2.6 per cent. All Member States continued to record a single digit annual inflation rate during the month of August 2016.

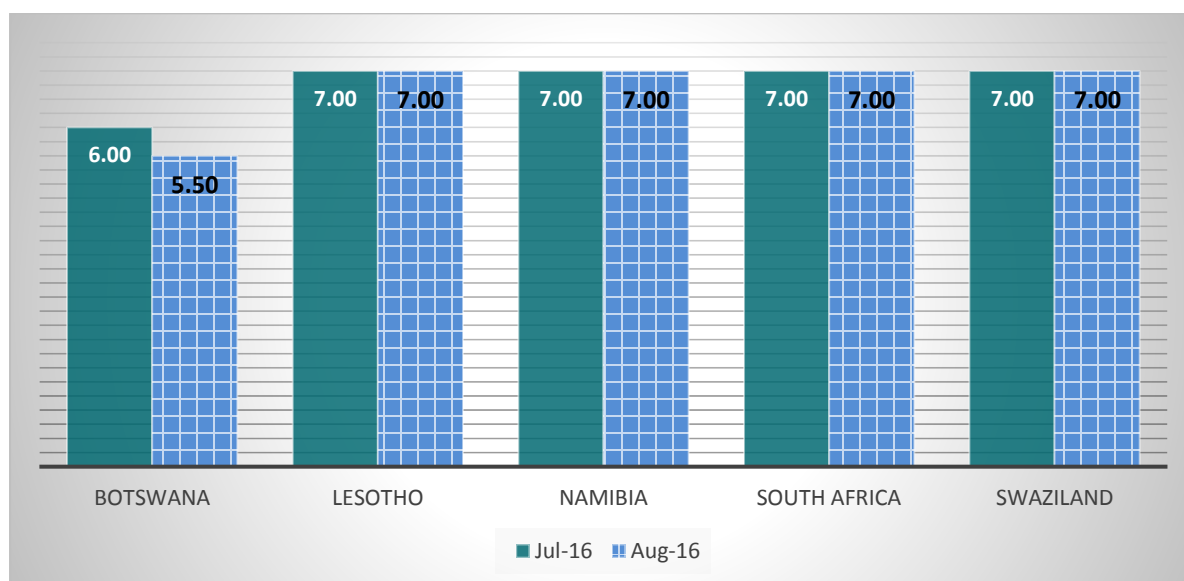
Map I: Annual Inflation Rates (%) for August 2016 in SACU Member States



Source: Member States Statistics Offices; (BW-Botswana; LS-Lesotho; NA-Namibia; ZA-South Africa; SZ- Swaziland)

By end of August 2016, monetary policy stance in Member States remained generally accommodative with the repo rate / bank rate¹ ranging between 5.50 per cent and 7.00 per cent, as depicted in **Chart I**. Monetary stance was unaltered between July 2016 and August 2016 in all Member States with exception of Botswana where the Bank Rate was reduced by half a percentage point. During the month of August, the highest prime lending rate was observed in Lesotho at 11.69 per cent, followed by Namibia at 10.75 per cent, South Africa (10.50 per cent), Swaziland (10.50 per cent), and Botswana (7.00 per cent).

Chart I: Member States' Repo/Bank rates

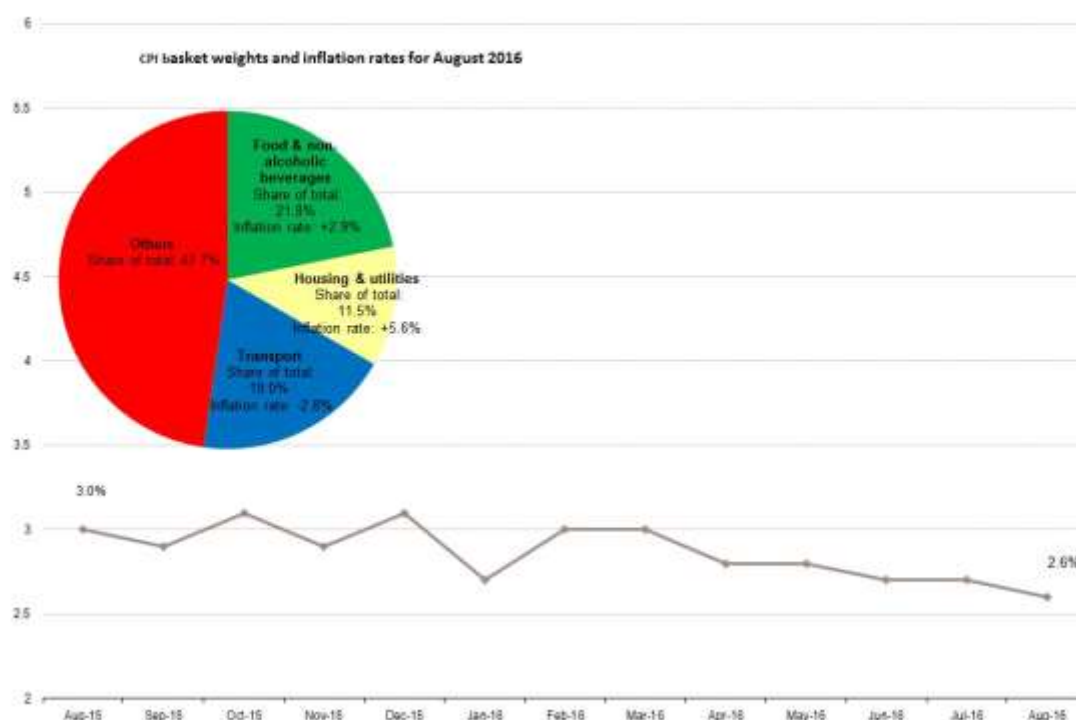


In **Botswana**, the annual inflation rate eased to 2.6 per cent in August 2016 from 2.7 per cent in the preceding month. The annual rate in August 2016 was lower than the 3.0 per cent recorded during the similar month in 2015. The deceleration in the annual inflation rate between August 2015 and August 2016 was mainly reflected in *alcohol beverages & tobacco* (2.0 per cent down from 5.8 per cent in August 2015) which accounts for 9.29 per cent of the overall inflation basket. Inflation rates of the main categories based on the basket weights shows that *food & non-alcoholic beverages* rose by 2.9 per cent in August 2016 as oppose to 1.1 per cent during the corresponding month of 2015, while the second main category, *transport* recorded a decline of 2.8 per cent compared to a decline of 5.5 per cent in August 2015. Lastly, the third main category in the basket, *housing & utilities*, accounting for 11.46 per cent of the overall inflation basket increased by 5.6 per cent in August 2016 compared to 7.5 per cent registered in August 2015, as reflected in **Chart 2**.

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

On average, consumer prices remained stagnant between July 2016 and August 2016. The annual inflation rate recorded in August 2016 was below the inflation target range of 3 – 6 percent set out by the Bank of Botswana.

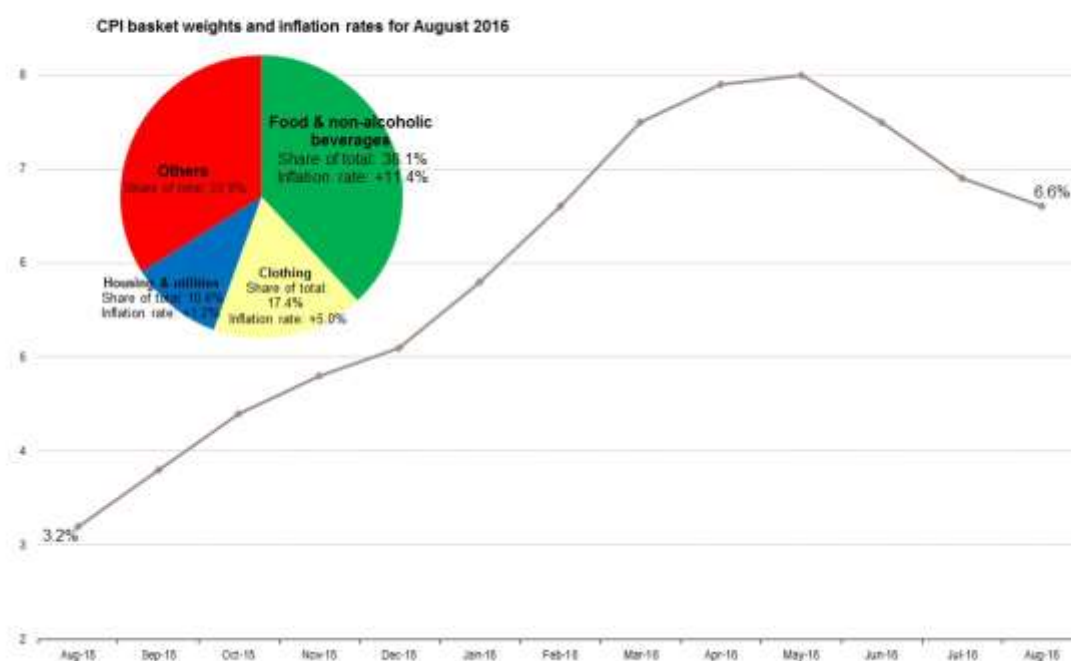
Chart 2: Consumer Price Index Basket Weights / Inflation rates for August 2016, and Overall inflation rate



Source: Statistics Botswana

In **Lesotho**, the annual inflation rate eased to 6.6 per cent in August 2016 from 6.9 per cent in the preceding month. A year earlier inflation rate was 3.2 per cent during the corresponding month. The acceleration in annual inflation rate between August 2015 and August 2016 was mainly reflected in *food & non-alcoholic beverages* (11.4 per cent up from 5.8 per cent in August 2015) that accounts for 38.1 per cent of the overall inflation basket. The other main categories based on the basket weights, the *clothing & footwear* category reflected that prices increased by 5.0 per cent in August 2016, while the prices of the third main category, *housing & utilities* increased by 1.2 per cent as reflected in **Chart 3**. On average, prices declined by 0.1 per cent between July 2016 and August 2016.

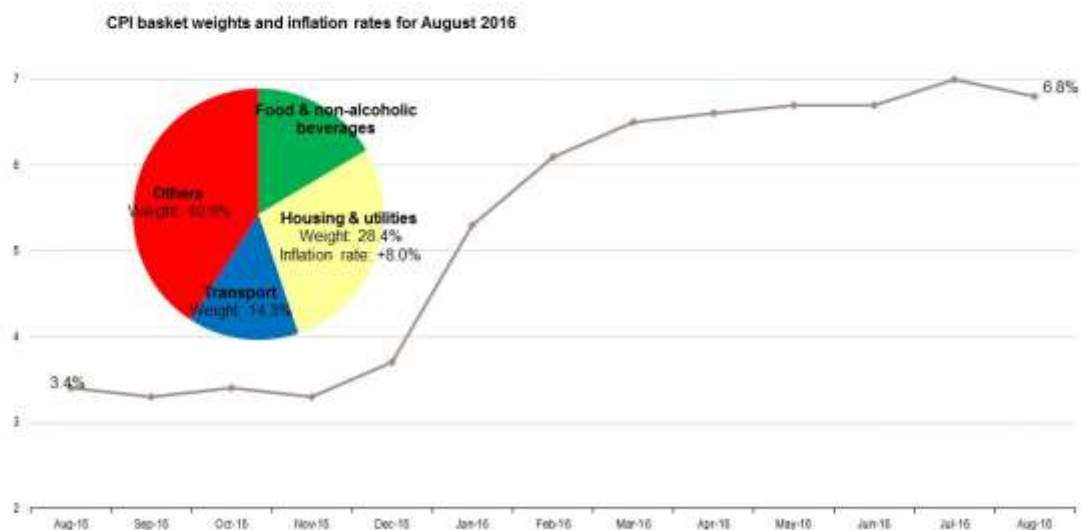
Chart 3: Consumer Price Index Basket Weights / Inflation rates for August 2016, and Overall inflation rate



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate eased to 6.8 per cent in August 2016 compared to 7.0 per cent in the preceding month. A year earlier inflation rate was 3.4 per cent during the corresponding month as reflected in **Chart 4**. The acceleration in annual inflation rate between August 2015 and August 2016 was mainly reflected in *housing & utilities* (8.0 per cent up from 2.4 per cent in August 2015) and *food & non-alcoholic beverages* (11.5 per cent up from 5.5 per cent in August 2015) which accounts for 28.36 per cent and 16.45 per cent respectively, of the overall inflation basket. The other main category based on the basket weight, the *transport* category recorded an increase in prices of 3.4 per cent in August 2016 compared to a decline of 1.4 per cent during the corresponding month of 2015. On average, prices increased by 0.2 per cent between July 2016 and August 2016.

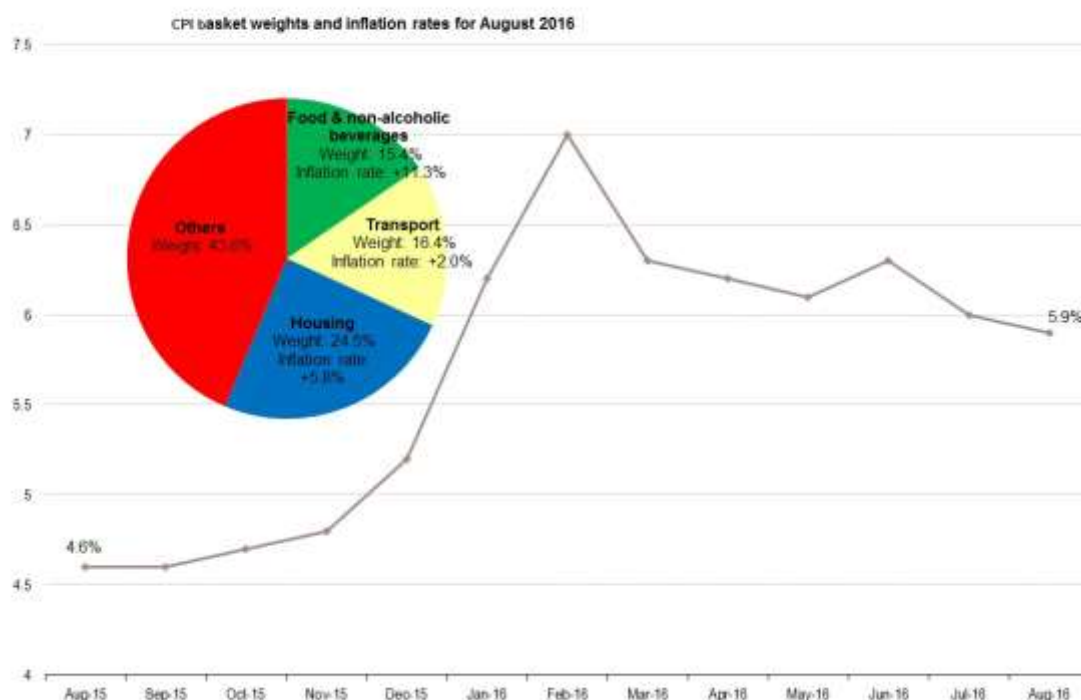
Chart 4: Consumer Price Index Basket Weights / Inflation rates for August 2016, and Overall inflation rate



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate eased to 5.9 per cent in August 2016 from 6.0 per cent recorded in the previous month as depicted in **Chart 5**. The annual rate in August 2016 was higher than the 4.6 per cent recorded during the similar month in 2015. The main contributors to the annual inflation rate in August 2016 were *food & non-alcoholic beverages* (1.7 percentage points) and *housing & utilities* (1.4 percentage points). On average, prices declined by 0.1 per cent between July 2016 and August 2016. The annual inflation rate was within the target range of 3-6 per cent set out by the South African Reserve Bank.

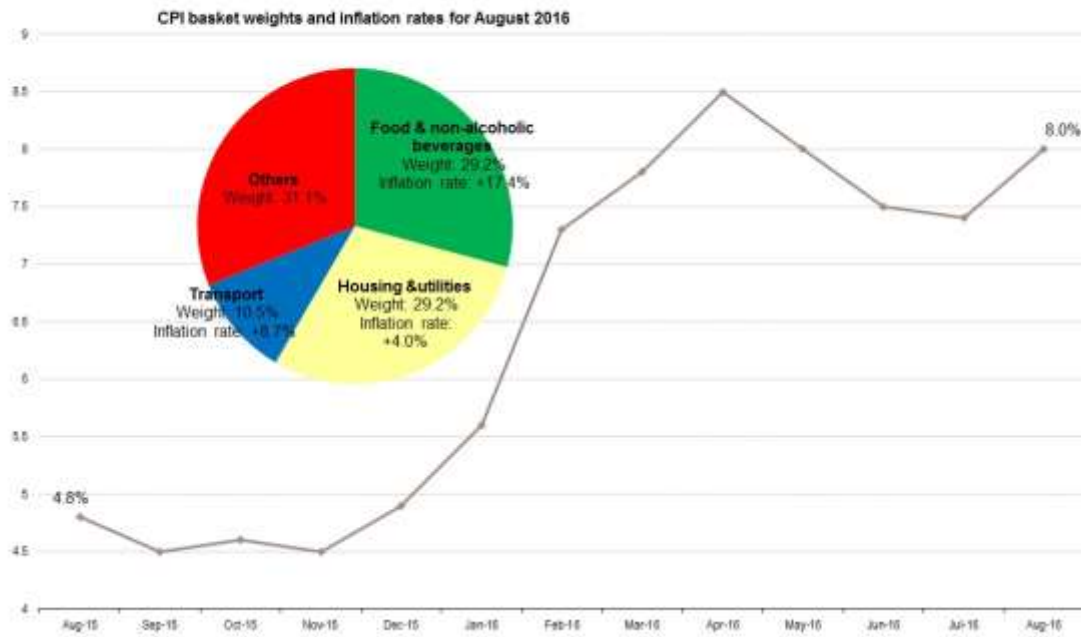
Chart 5: Consumer Price Index Basket Weights / Inflation rates for August 2016, and Overall inflation rate



Source: Statistics South Africa

In **Swaziland**, the annual inflation rate rose by 8.0 per cent in August 2016 compared to 7.4 per cent in the preceding month as indicated in **Chart 6**. Annual inflation rate in August 2016 was higher than the 4.8 per cent recorded during the similar month in 2015. The main contributor to the increase in prices between August 2015 and August 2016 was mainly the *food & non-alcoholic beverages* (17.4 per cent compared to 3.5 per cent in August 2015) which accounts for 29.22 per cent of the overall inflation basket. The second main category in the basket based on the weight, the *housing & utilities* category reflected an increase of 4.0 per cent in August 2016 compared to 5.7 per cent in August 2015. The third main category, *transport*, increased by 8.7 per cent in August 2016 compared to 0.5 per cent. On average, prices increased by 0.8 per cent between July 2016 and August 2016.

Chart 6: Consumer Price Index Basket Weights / Inflation rates for August 2016, and Overall inflation rate

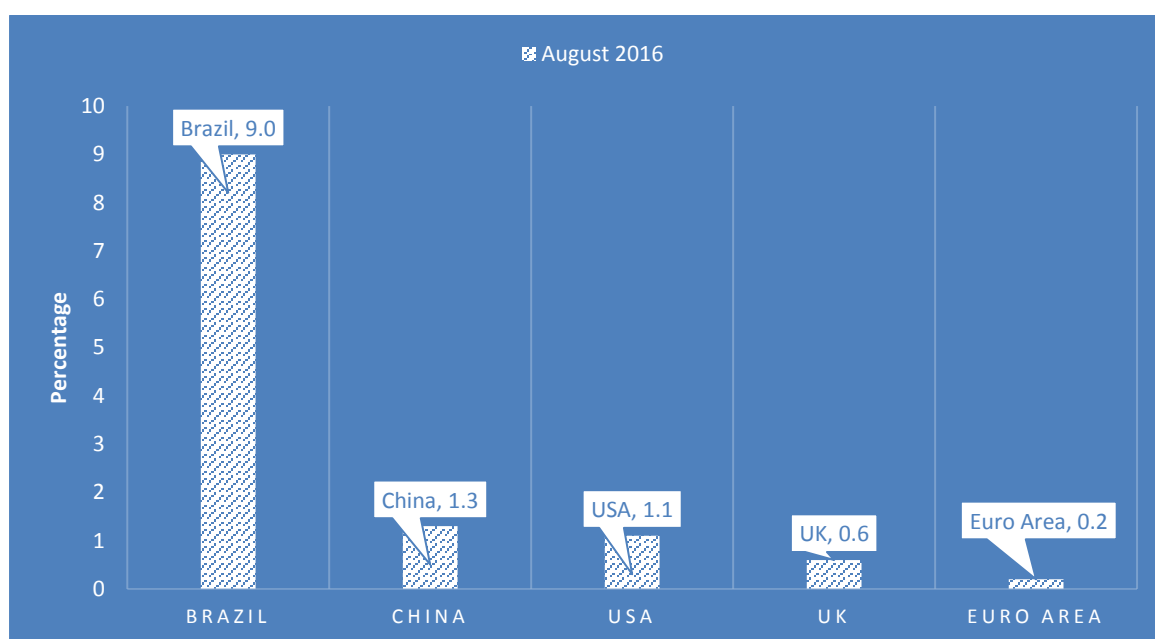


Source: Central Statistics Office

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in a selected economies for the month of August 2016. Brazil inflation rate rose by 9.0 per cent in August 2016 compared to 8.7 percent in the preceding month, while, China's inflation rate eased to 1.3 per cent in August 2016 from 1.8 per cent in the preceding month. In the USA, inflation rate rose by 1.1 per cent in August 2016 compared to 0.8 per cent in July 2016, while in the UK and the Euro Area, inflation rate remained unchanged at 0.6 per cent and 0.2 per cent respectively.

Chart 7: Annual Inflation Rates for Selected Economies

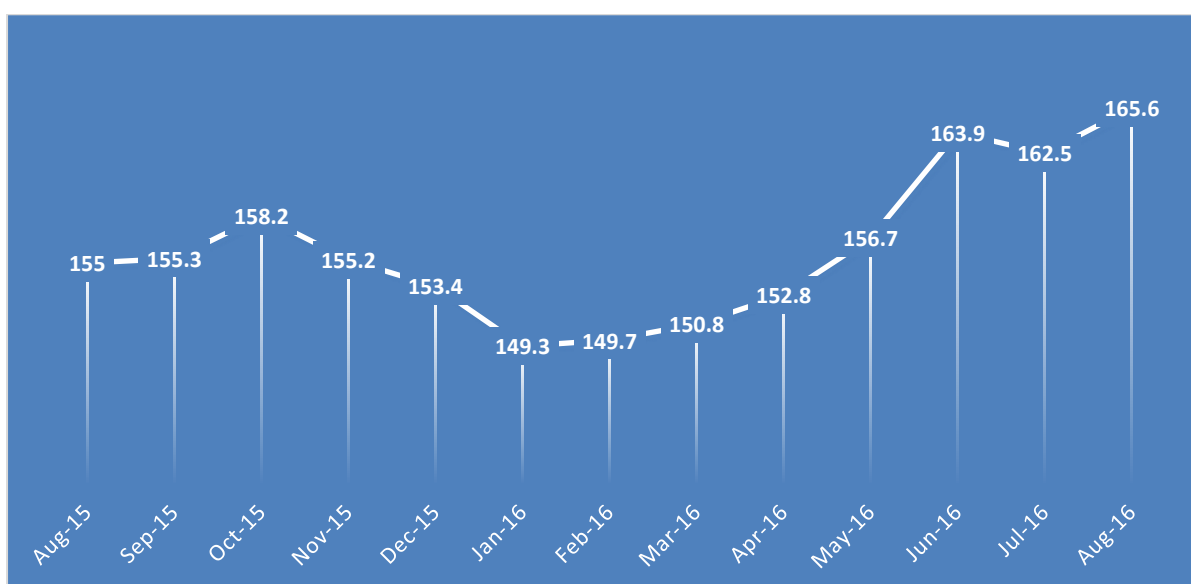


Source: inflation.eu

FAO Food Price Index

Chart 8 shows that the FAO Food Price Index² averaged at 165.6 points in August 2016, up by 3 points from July 2016. The increase in August was largely reflected in the prices for dairy, oils and sugar. The Cereal Price Index declined by 3.0 per cent in August 2016 due to the seasonal harvest pressure in the northern hemisphere. While the rest of the commodities used in the calculation of FAO Food Price Index registered increase in prices with Dairy Price Index recording the highest price increase of 8.6 per cent from July 2016.

Chart 8: FAO Food Price Index



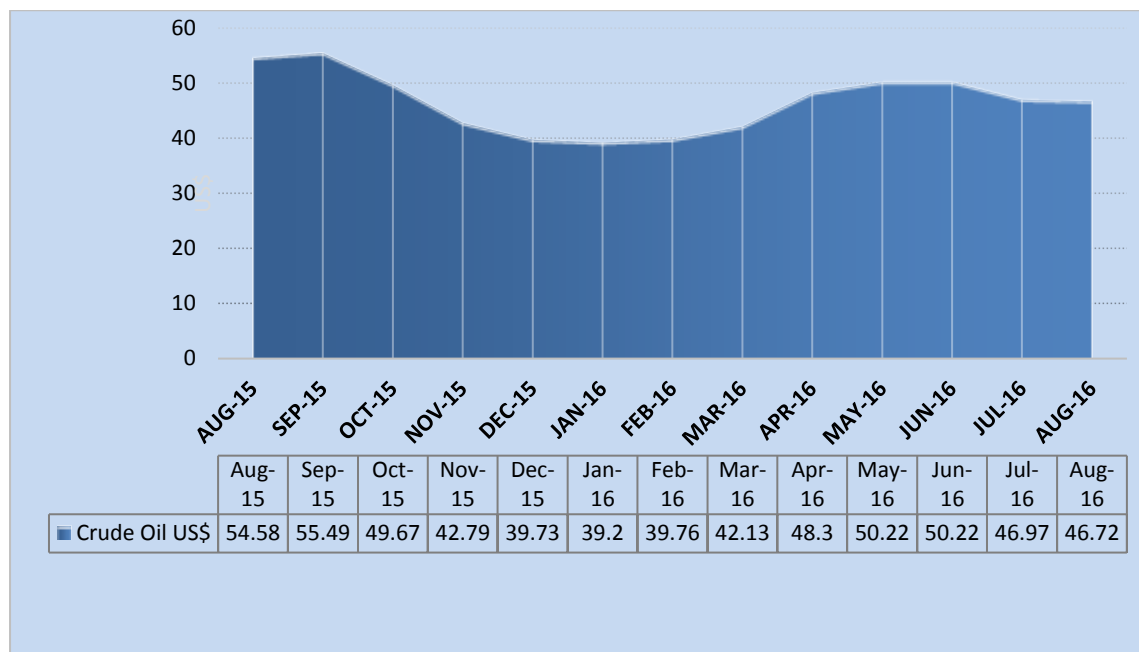
Source: Food and Agriculture Organization of the United Nations

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

Brent Crude Oil Prices

Brent crude oil price closed at USD46.72 per barrel at the end of August 2016, which was 0.5 per cent lower than at the end of July 2016. Similarly, the price level was lower than the USD54.58 per barrel recorded at the end of August 2015 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual inflation rates by main categories (August 2016)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	2.9	11.4	11.5	11.3	17.4
Alcoholic beverages & tobacco	2.0	4.2	5.6	5.2	2.9
Clothing & footwear	6.2	5.0	0.8	5.0	7.3
Housing, water, electricity, gas & other fuels	5.6	1.2	8.0	5.8	4.0
Furnishings, household equipment &...	2.6	3.7	4.8	3.9	6.2
Health	2.7	2.0	6.8	5.1	0.3
Transport	-2.8	1.8	3.4	2.0	8.7
Communications	0.0	0.0	2.7	-0.2	2.6
Recreation & Culture	1.8	1.2	5.7	6.7	5.3
Education	3.6	4.9	7.6	4.6	2.4
Hotels, cafés & restaurants	3.8	2.4	9.1	6.6	2.0
Miscellaneous goods & services	7.4	4.1	5.5	6.9	5.1
All Items	2.6	6.6	6.8	5.9	8.0

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