



# SACU INFLATION REPORT

June 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.

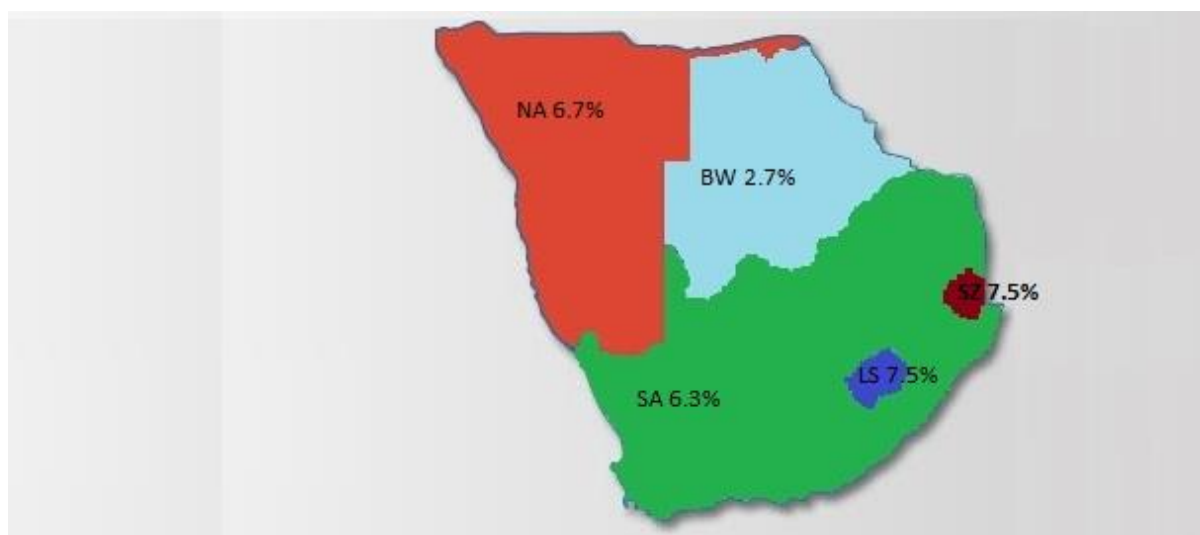
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the same month in the previous year (year-on-year 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 June 2016 compared to the preceding month, it was observed that consumer prices eased in Botswana, Lesotho and Swaziland, while it remained unchanged in Namibia. South Africa recorded slight increase in prices in June 2016. For the month of June 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. The annual inflation rates in Member States continued to be above the inflation target range of 3 – 6 percent with the exception of Botswana that continued to record inflation rate below the target range.

## Inflation Rate in SACU Member States

During the month of June 2016, inflation rates when compared to May 2016 eased in Botswana, Lesotho, and Swaziland, while it increased in South Africa. Consumer prices in Namibia remained unchanged in June 2016 from May 2016. **Map I** shows that the highest annual inflation rate among the Member States was registered in Lesotho and Swaziland both at 7.5 per cent followed by Namibia at 6.7 per cent, and South Africa at 6.3 per cent. While, Botswana continued to record low inflation rate at 2.7 per cent in June 2016. All Member States continued to record a single digit annual inflation rate during the month of June 2016. The annual inflation rates in Member States continued to be above the inflation target range of 3 – 6 percent with the exception of Botswana that continued to record inflation rate below the target range.

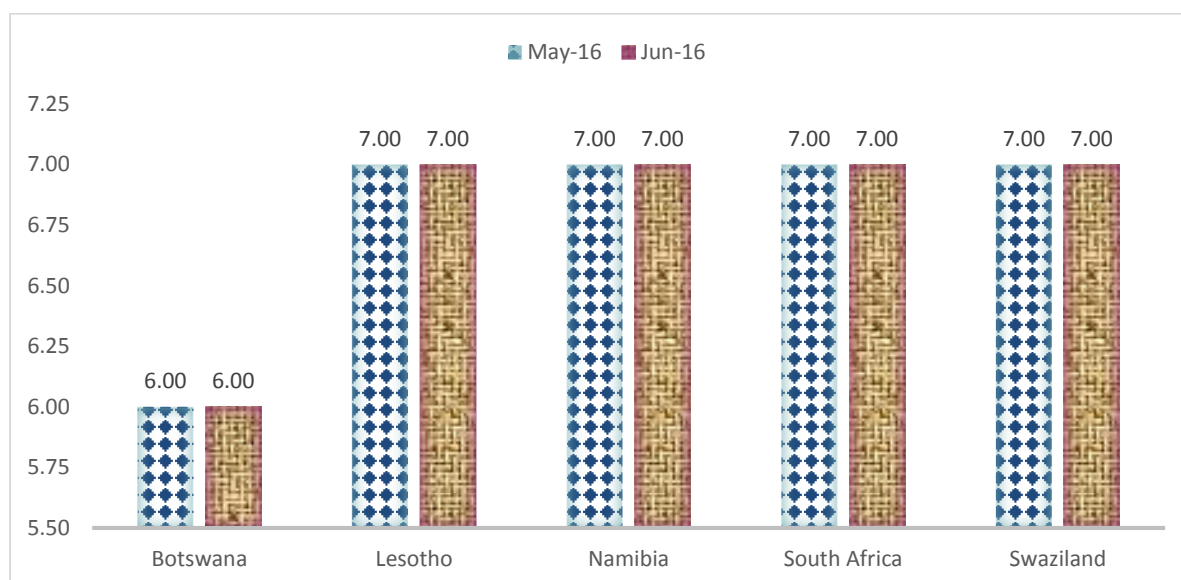
**Map I:** Annual Inflation Rates (%) for June 2016 in SACU Member States



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

By end of June 2016, monetary policy stance in Member States remained generally accommodative with the repo rate / bank rate<sup>1</sup> ranging between 6.00 per cent and 7.00 per cent, as depicted in **Chart I**. Monetary stance was unaltered between May 2016 and June 2016 in all Member States. During the month of June, the highest prime lending rate was observed in Lesotho at 11.69 per cent, followed by Namibia at 10.75 per cent, South Africa (10.5 per cent), Swaziland (10.5 per cent), and Botswana (7.5 per cent).

**Chart I: Member States' Repo/Bank rates**

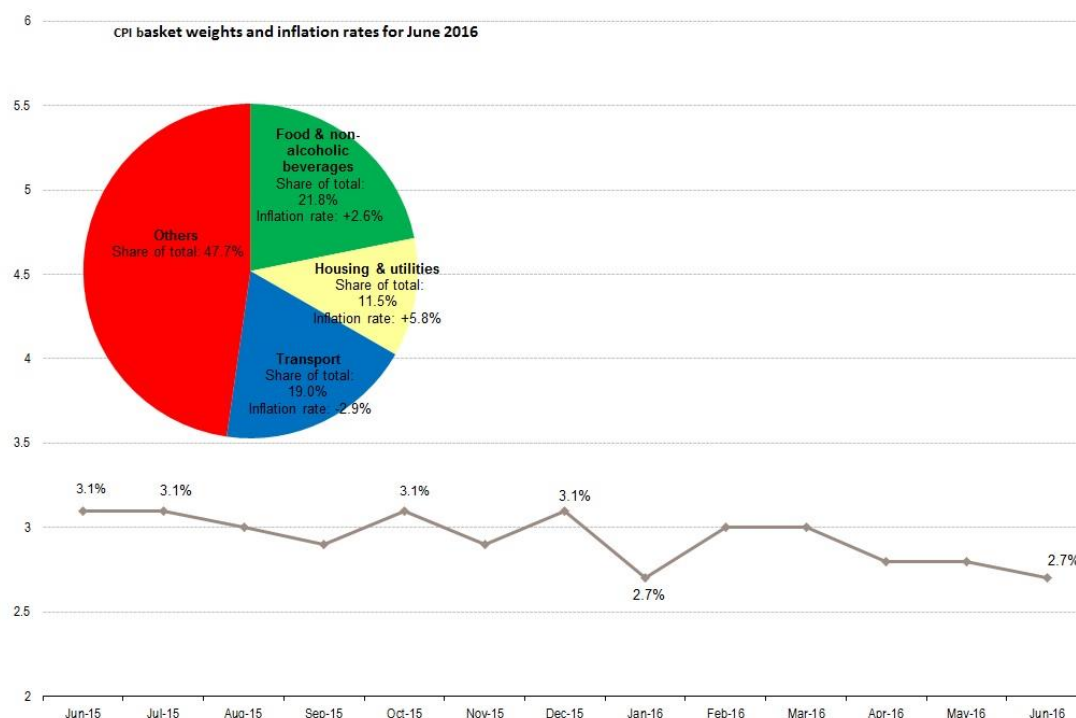


In **Botswana**, the annual inflation rate slightly eased to 2.7 per cent in June 2016 from 2.8 per cent in the preceding month. The annual rate in June 2016 was lower than the 3.1 per cent recorded during the similar month in 2015. The deceleration in the annual inflation rate between June 2015 and June 2016 was mainly reflected in prices of *alcoholic beverages & tobacco* (2.0 per cent down from 5.6 per cent in June 2015) that accounts for 9.29 per cent of the overall inflation basket. Inflation rates of the main categories based on the basket weights indicate that *food & non-alcoholic beverages* rose by 2.6 per cent in June 2016 compared to 1.0 per cent during the corresponding month of 2015, while the second main category, *transport* recorded a decline of 2.9 per cent compared to a decline of 4.6 per cent in June 2015. Lastly, the third main category in the basket, *housing & utilities*, accounting for 11 per cent of the overall inflation basket increased by 5.8 per cent in June 2016 compared to 7.4 per cent registered in June 2015, as reflected in **Chart 2**.

<sup>1</sup> Bank rate is the rate at which the Central Bank lends to Commercial Banks

On average, prices increased by 0.2 percent between May 2016 and June 2016. The annual inflation rate recorded in June 2016 was below the inflation target range of 3 – 6 percent set out by the Bank of Botswana.

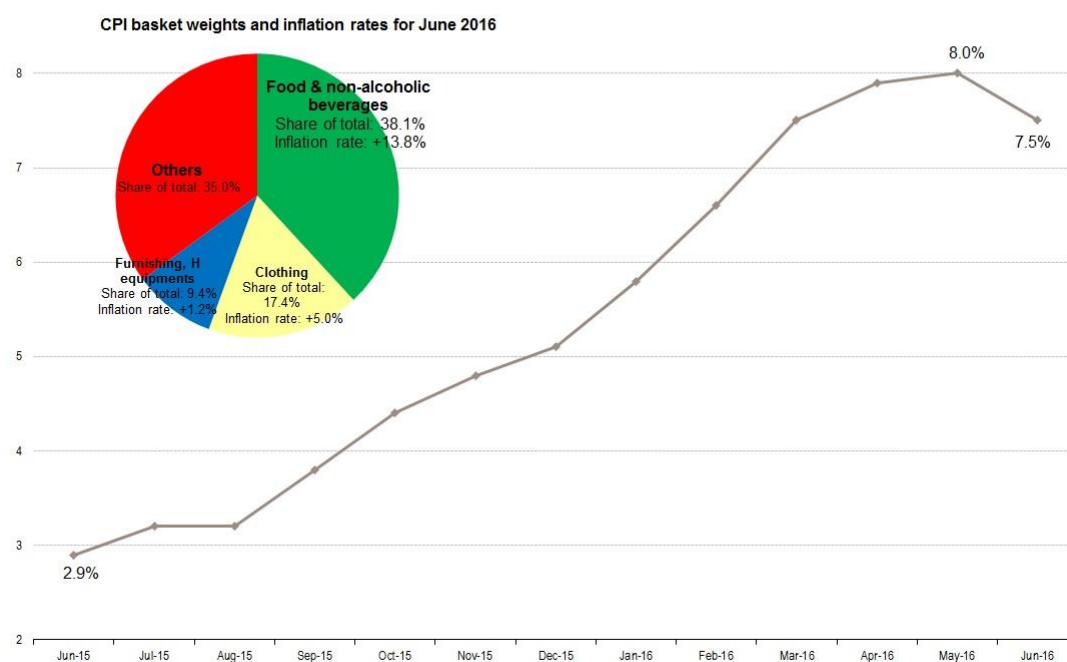
**Chart 2:** Consumer Price Index Basket Weights / Inflation rates for June 2016, and Overall inflation rate



Source: Statistics Botswana

In **Lesotho**, the annual inflation rate eased to 7.5 per cent in June 2016 from 8.0 per cent in the preceding month. A year earlier inflation rate was 2.9 per cent during the corresponding month. The acceleration in annual inflation rate between June 2015 and June 2016 was mainly reflected in *food & non-alcoholic beverages* (13.8 per cent up from 4.7 per cent in June 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 5.9 per cent in June 2016, while the prices of the third main category, *furnishings, household equipment* increased by 1.2 per cent as reflected in **Chart 3**. On average, prices increased by 0.6 per cent between May 2016 and June 2016.

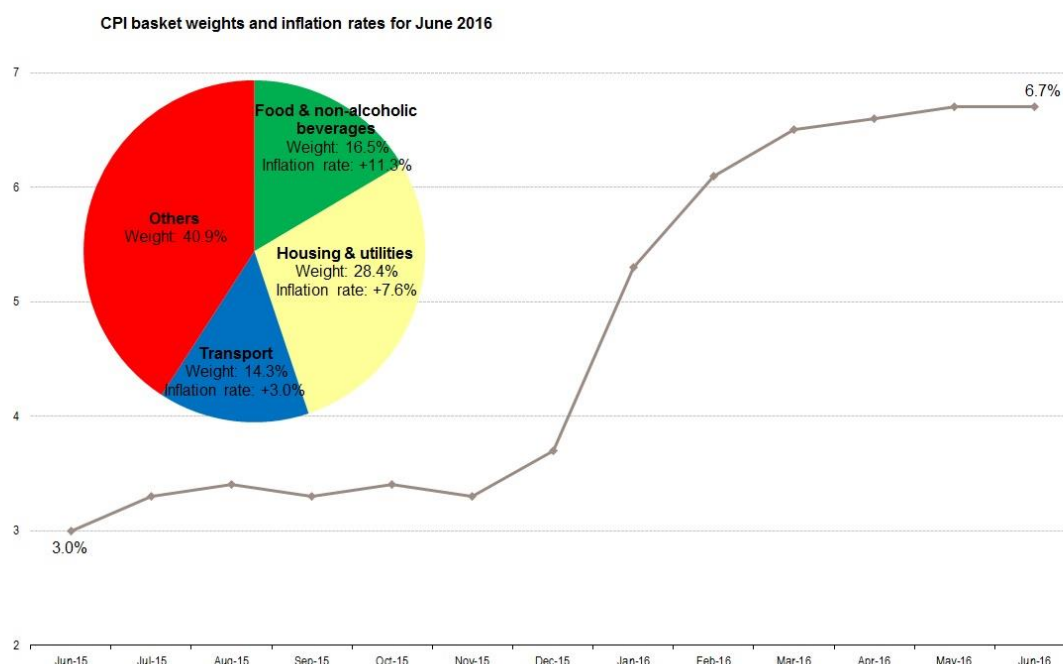
**Chart 3: Consumer Price Index Basket Weights / Inflation rates for June 2016, and Overall inflation rate**



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate rose by 6.7 per cent in June 2016, unchanged from the preceding month. A year earlier inflation rate was 3.0 per cent during the corresponding month as reflected in **Chart 4**. The acceleration in annual inflation rate between June 2015 and June 2016 was mainly reflected in *housing & utilities* (7.6 per cent up from 2.1 per cent in June 2015) and *food & non-alcoholic beverages* (11.3 per cent up from 4.5 per cent in June 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 3.0 per cent in June 2016 compared to a decline of 3.0 per cent during the corresponding month of 2015. On average, prices increased by 0.3 per cent between May 2016 and June 2016.

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

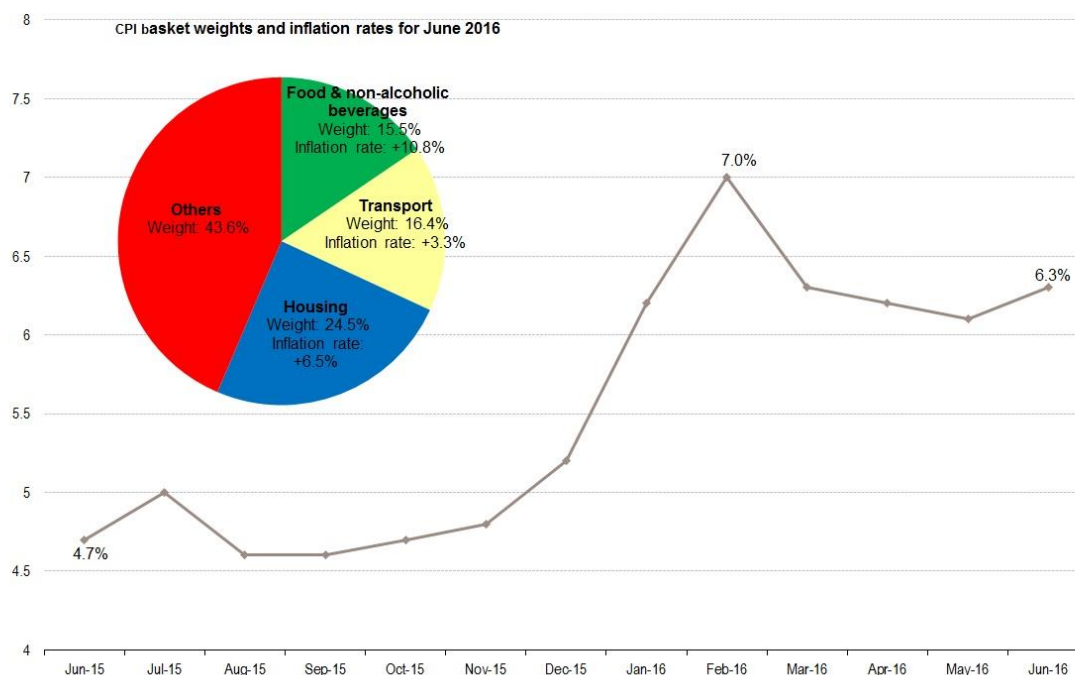


Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate increased to 6.3 per cent in June 2016, up from 6.1 per cent recorded in the previous month as depicted in **Chart 5**. The annual rate in June 2016 was higher than the 4.7 per cent recorded during the similar month in 2015. The main contributors to the annual inflation rate in June 2016 were *food & non-alcoholic beverages* (1.7 percentage points) and *housing & utilities* (1.6 percentage points). On average, prices increased by 0.6 per cent between May 2016 and June 2016. The annual inflation rate remained above 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 June 2016, and Overall inflation rate**

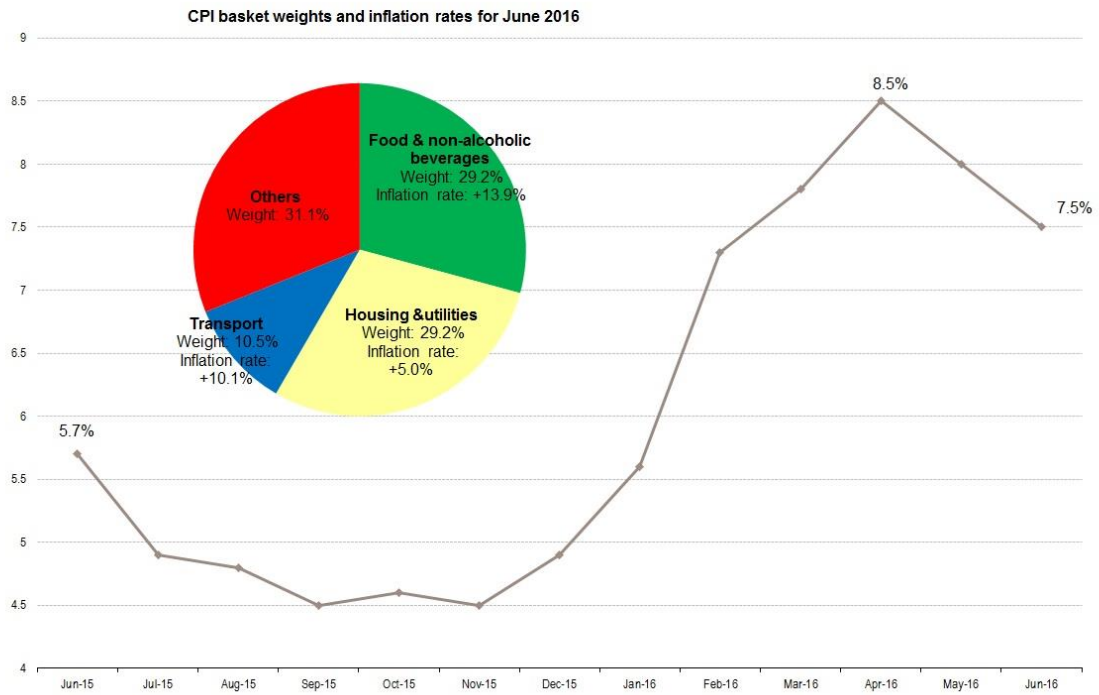


Source: Statistics South Africa

In **Swaziland**, the annual inflation rate eased to 7.5 per cent in June 2016 compared to 8.0 per cent in the preceding month as indicated in **Chart 6**. Annual inflation rate in June 2016 was higher than the 5.7 per cent recorded during the similar month in 2015. The main contributor to the increase in prices between June 2015 and June 2016 was mainly the *food & non-alcoholic beverages* (13.9 per cent compared to 4.4 per cent in June 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 5.0 per cent in June 2016 compared to 4.9 per cent in June 2015. The third main category, *transport*, increased by 10.1 per cent in June 2016 compared to 9.6 per cent. On average, prices remained stagnant between May 2016 and June 2016.



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

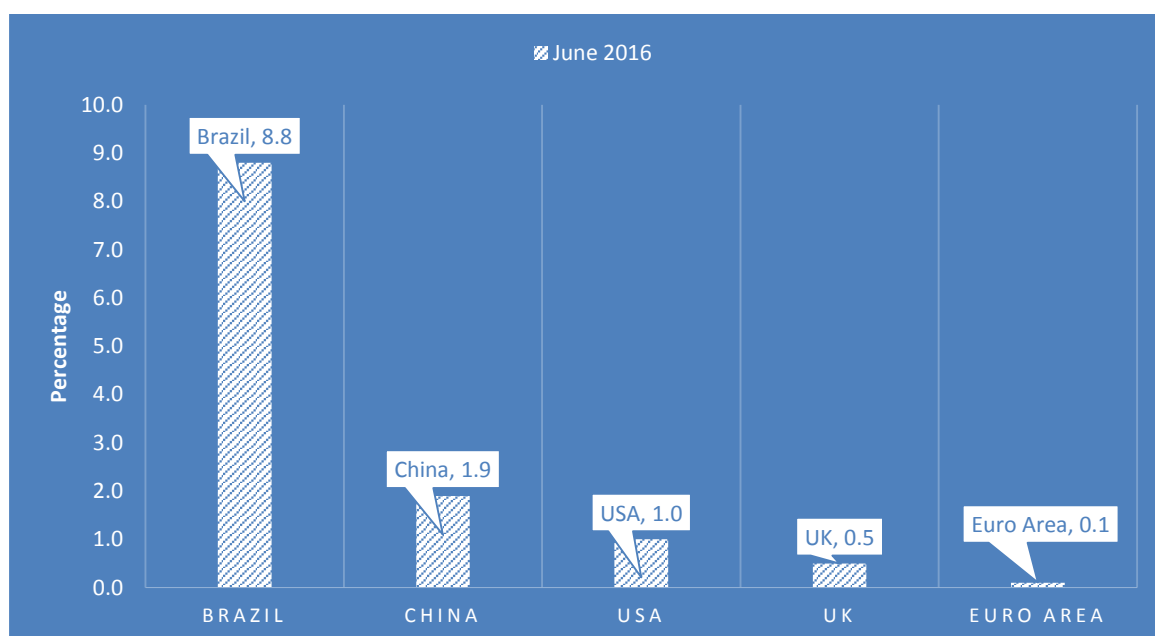


Source: Central Statistics Office

## Inflation Rate for Selected Economies

**Chart 7**, indicates inflation rates in a selected economies for the month of June 2016. Brazil inflation rate eased to 8.8 per cent in June 2016 from 9.3 percent in the preceding month, and similarly, China's inflation rate also eased to 1.9 per cent in June 2016 from 2.0 per cent in the preceding month. In the USA, inflation rate rose by 1.0 per cent in June 2016 unchanged from May 2016, while in the UK, inflation rate rose by 0.5 per cent in June 2016 from 0.3 per cent in the preceding month. Inflation rate rose by 0.1 per cent in the Euro Area compared to a decline of 0.1 per cent in the preceding month.

**Chart 7: Annual Inflation Rates for Selected Economies**

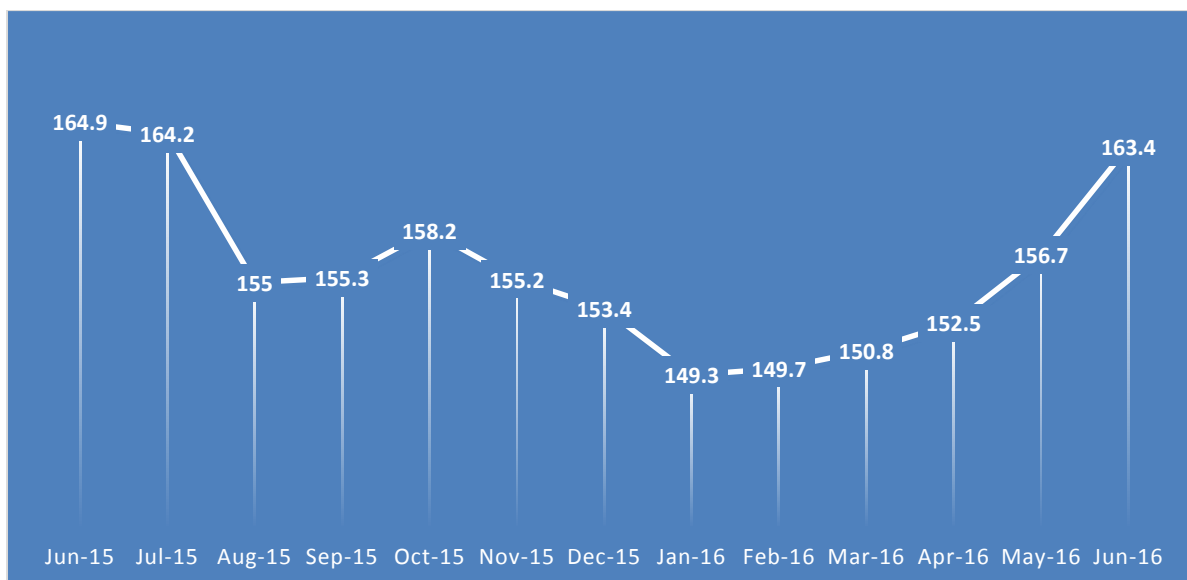


Source: [inflation.eu](http://inflation.eu)

## FAO Food Price Index

**Chart 8** shows that the FAO Food Price Index<sup>2</sup> continued with an upward trend, averaging at 163.4 points in June 2016, up by 6.6 points from May 2016. Except for vegetable oils, the values of all the commodity sub-indices moved up, led by a surge in the price of sugar.

**Chart 8:** FAO Food Price Index



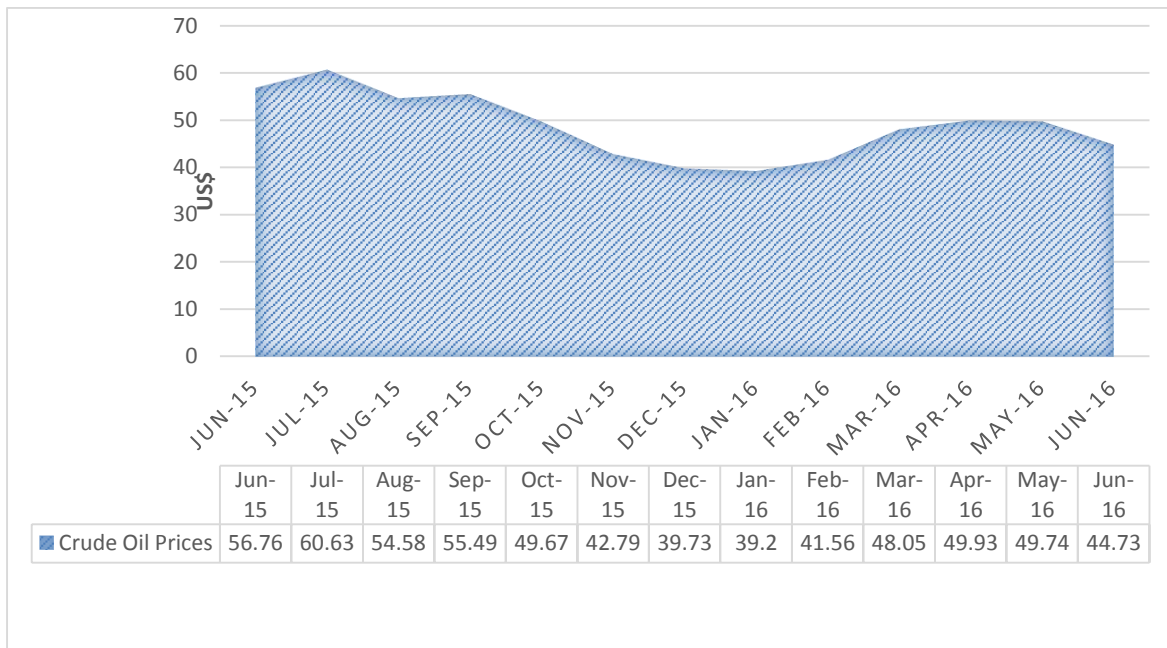
Source: Food and Agriculture Organization of the United Nations

## Brent Crude Oil Prices

Brent crude oil price closed at USD44.73 per barrel at the end of June 2016, which was 10.1 per cent lower than at the end of May 2016. Similarly, the price level was lower than the USD56.76 per barrel recorded at the end of June 2015 as highlighted in **Chart 8**.

<sup>2</sup> 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

**Chart 8: Brent Crude Oil**



Source: [www.cnn.com](http://www.cnn.com)

## Appendix

### Annual inflation rates by main categories (June 2016)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	2.6	13.8	11.3	10.8	13.9
Alcoholic beverages & tobacco	2.0	4.8	7.1	5.2	2.4
Clothing & footwear	6.9	5.0	-1.7	4.7	5.6
Housing, water, electricity, gas & other fuels	5.8	1.2	7.6	6.5	5.0
Furnishings, household equipment &...	2.8	3.9	6.3	3.9	4.7
Health	3.0	1.8	6.6	5.2	-0.2
Transport	-2.9	1.0	3.0	3.3	10.1
Communications	0.0	0.0	2.4	-0.4	6.0
Recreation & Culture	1.7	1.3	5.3	6.5	5.5
Education	3.8	4.9	7.6	4.6	3.1
Hotels, cafés & restaurants	4.0	2.3	7.6	6.2	2.0
Miscellaneous goods & services	7.5	4.2	4.3	7.2	4.3
<b>All Items</b>	<b>2.7</b>	<b>7.5</b>	<b>6.7</b>	<b>6.3</b>	<b>7.5</b>

Source: SACU Member States Statistics Offices

### Consumer Price Index Basket Weights

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
<i>Food &amp; non-alcoholic beverages</i>	21.84	38.14	16.45	15.41	29.22
<i>Alcoholic beverages &amp; tobacco</i>	9.29	1.22	12.59	5.43	0.39
<i>Clothing &amp; footwear</i>	7.52	17.43	3.05	4.07	3.42
<i>Housing, water, electricity, gas &amp; other fuels</i>	11.46	10.60	28.36	24.52	29.15
<i>Furnishings, household equipment &amp;...</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 &amp; 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 &amp; restaurants</i>	3.27	0.66	1.39	3.50	1.79
<i>Miscellaneous goods &amp; services</i>	9.57	5.81	5.39	14.72	4.47
<b>All Items</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: SACU Member States Statistics Offices