



SACU INFLATION REPORT

January 2017

The content of this publication is intended for general information only. While precaution is taken to ensure the accuracy of information, the SACU Secretariat shall not be liable to any person for inaccurate information or opinions contained in this publication. Enquiries related to this publication should be directed to Mr Abel Sindano, E-mail: abel.sindano@sacu.int

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.

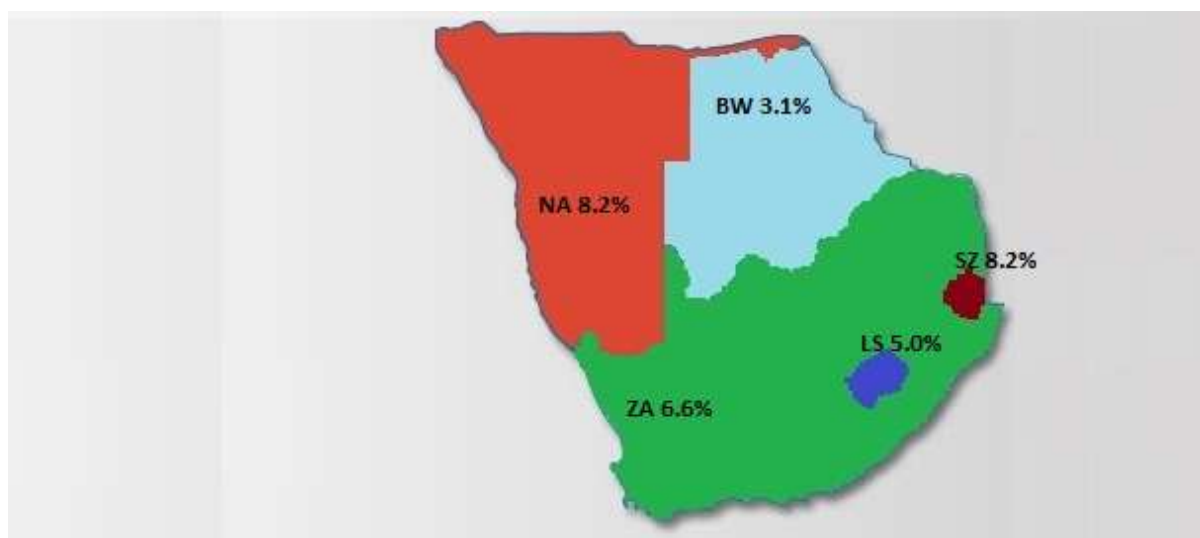
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the same month in the previous year (year-on-year 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 January 2017 compared to the preceding month, it was observed that inflation rate increased in Botswana and Namibia, while consumer prices eased in Lesotho, South Africa and Swaziland. The cost of *food & non-alcoholic beverages* continues to register a double figure inflation in Member States with the exception of Botswana and Lesotho. The inflationary pressure in food prices can be attributed to the persistent effects of drought on food supply in the region.

Inflation Rate in SACU Member States

The year 2017 started with consumer prices increasing in Namibia and Botswana during the month of January 2017 when compared to December 2016, while prices declined in Lesotho, South Africa and Swaziland. **Map I** shows that the change in consumer prices in January 2017 was high in Namibia and Swaziland both recording a change of 8.2 per cent followed by South Africa at 6.6 per cent, Lesotho at 5.0 per cent, and Botswana at 3.1 per cent. All Member States continued to record a single digit annual inflation rate during the month of January 2017.

Map I: Annual Inflation Rates (%) for January 2017 in SACU Member States

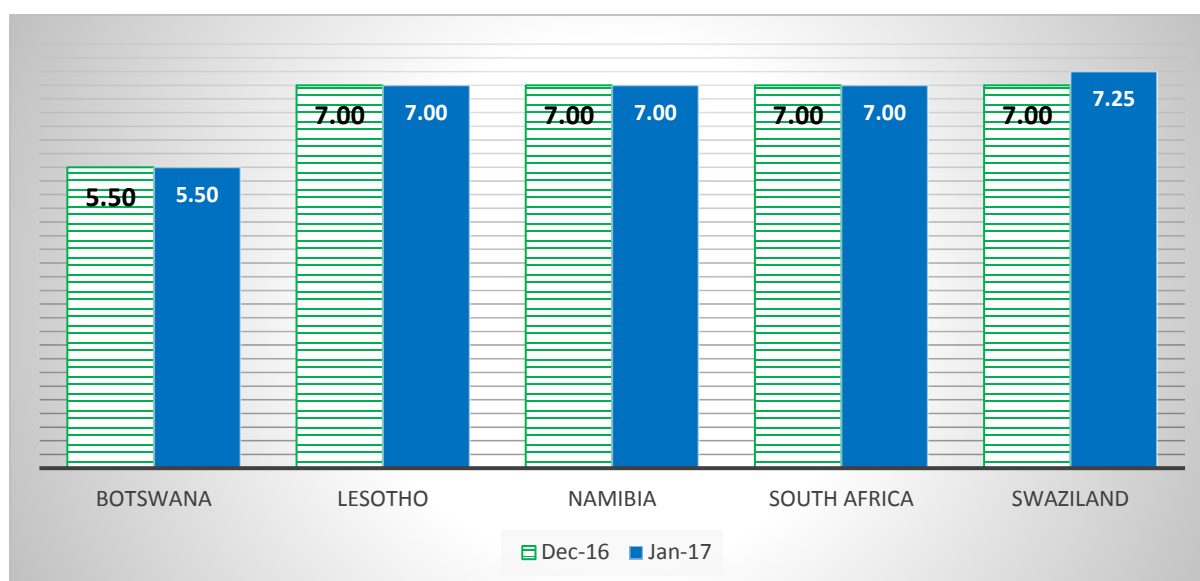


Source: Member States Statistics Offices; (BW-Botswana; LS –Lesotho; NA-Namibia; ZA-South Africa; SZ- Swaziland)

By end of January 2017, monetary policy stance in Member States remained generally accommodative with the repo rate / bank rate¹ ranging between 5.50 per cent and 7.25 per cent, as depicted in **Chart I**. Monetary stance was unaltered between January 2017 and December 2016 in all Member States with exception of Swaziland where the bank rate was increased by 25 basis points. During the month of January 2017, the highest prime lending rate was observed in Lesotho at 11.69 per cent, followed by Namibia at 10.75 per cent, Swaziland (10.75 per cent), South Africa (10.50 per cent), and Botswana (7.00 per cent).

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

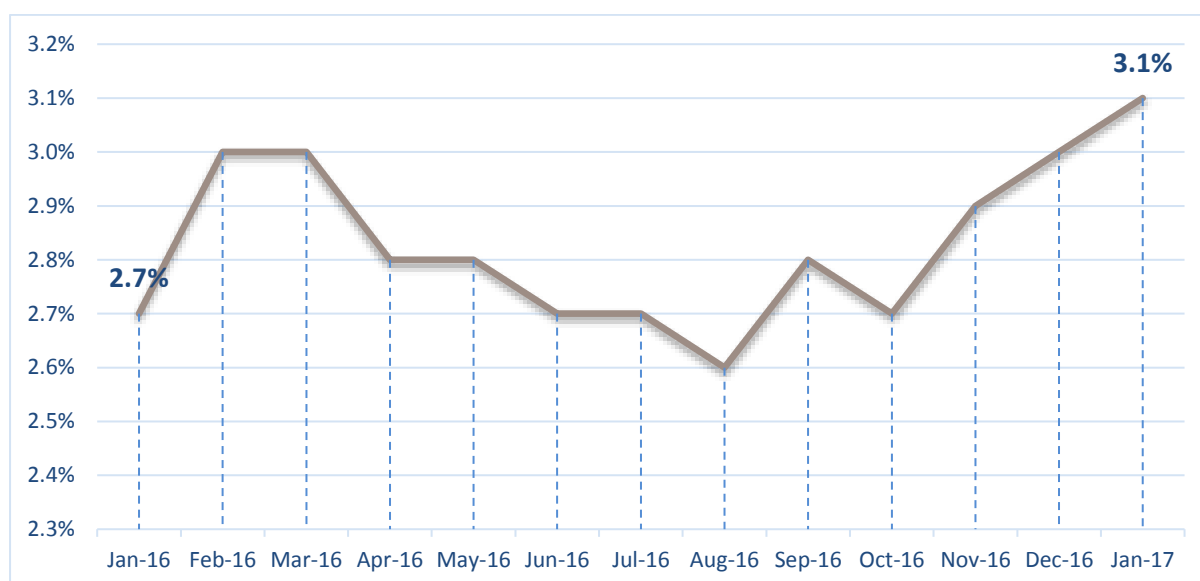
Chart I: Member States' Repo/Bank rates



In **Botswana**, the annual inflation rate continued with an upward trend, rising by 3.1 per cent in January 2017 from 3.0 per cent in the preceding month, as reflected in **Chart 2**. The annual rate in January 2017 was higher than the 2.7 per cent recorded during the similar month in 2016. The increase in the annual inflation rate to 3.1 per cent between January 2017 and January 2016 was mainly reflected in *transport* (-0.6 per cent compared to -6.0 per cent in January 2016) which accounts for 20.65 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 4.4 per cent in January 2017 as opposed to 1.2 per cent during the corresponding month in 2016, while, *housing & utilities* recorded an increase of 3.5 per cent compared to a rise of 9.7 per cent in January 2016.

On average, consumer prices increased by 0.4 per cent between January 2017 and December 2016. The annual inflation rate recorded in January 2017 was within the inflation target range of 3 – 6 per cent set out by the Bank of Botswana.

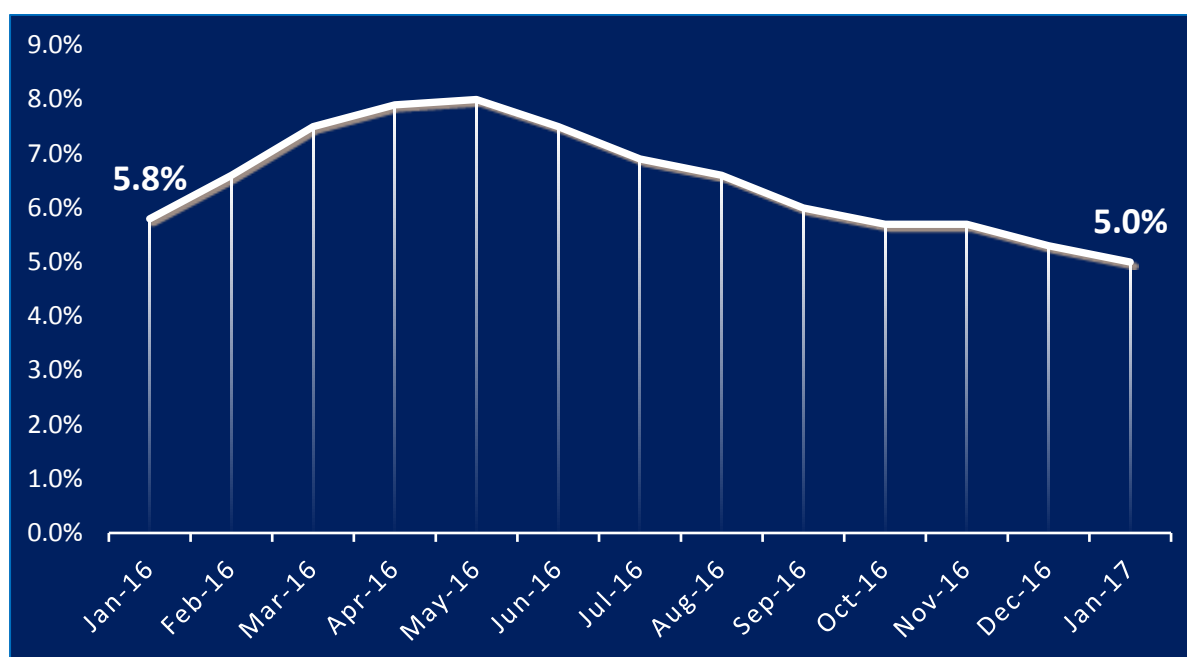
Chart 2: Annual inflation rates



Source: Statistics Botswana

In **Lesotho**, the annual inflation continued with a downward trend since November 2016, recording a rate of 5.0 per cent in January 2017 compared to 5.3 per cent in the preceding month as reflected in **Chart 3**. A year earlier inflation rate was 5.8 per cent during the corresponding month. The deceleration in the annual inflation rate between January 2017 and January 2016 was mainly due to the decline in cost of *food & non-alcoholic beverages* (8.4 per cent down from 10.2 per cent in January 2016) that accounts for 36.1 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 3.5 per cent in January 2017, while the prices of the third main category, *housing & utilities* rose by 5.3 per cent. On average, prices increased by 0.8 per cent between January 2017 and December 2016.

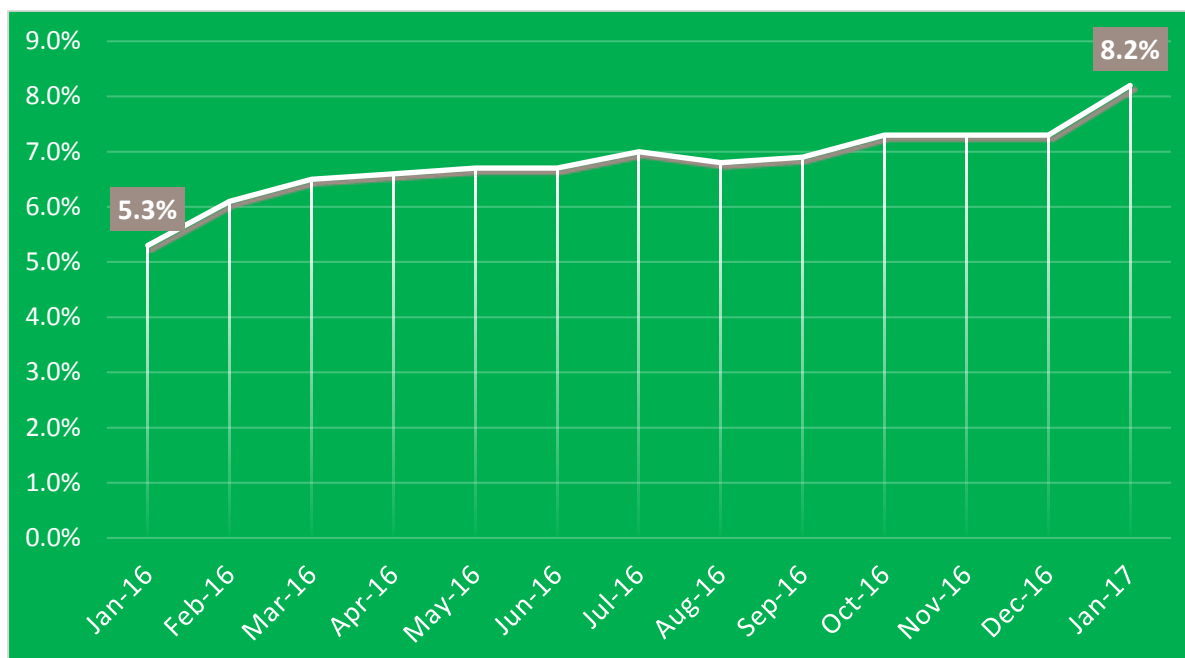
Chart 3: Annual inflation rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate rose by 8.2 per cent in January 2017 compared to 7.3 per cent in the preceding month. A year earlier inflation rate was 5.3 per cent during the corresponding month as reflected in **Chart 4**. The acceleration in annual inflation rate between January 2017 and January 2016 was mainly reflected in *housing & utilities* (9.3 per cent up from 7.6 per cent in January 2016) and *food & non-alcoholic beverages* (13.2 per cent up from 6.1 per cent in January 2016) 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 5.2 per cent in January 2017 compared to 0.9 per cent during the corresponding month of 2016. On average, prices increased by 3.2 per cent between January 2017 and December 2016.

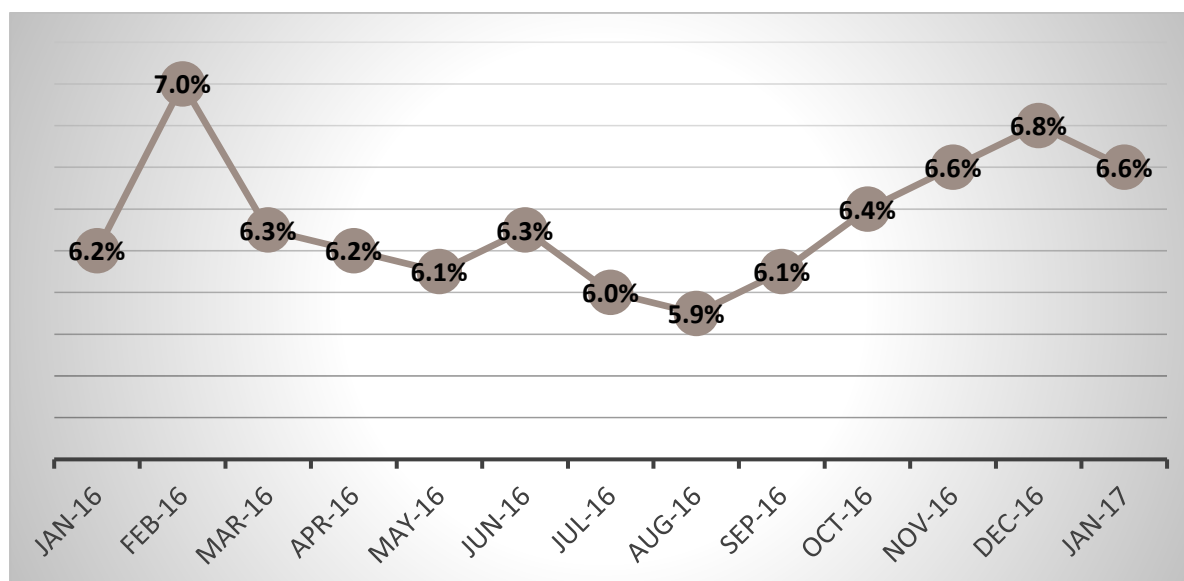
Chart 4: Annual inflation rates



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate eased to 6.6 per cent in January 2017 from 6.8 per cent recorded in the previous month as depicted in **Chart 5**. The annual rate in January 2017 was higher than the 6.2 per cent recorded during the similar month in 2016. The main contributors to the annual inflation rate in January 2017 were *food & non-alcoholic beverages (1.9 percentage points)* and *housing & utilities (1.4 percentage points)*. On average, prices increased by 0.6 per cent between January 2017 and December 2016. The annual inflation rate continued to be above the target range of 3-6 per cent set out by the South African Reserve Bank.

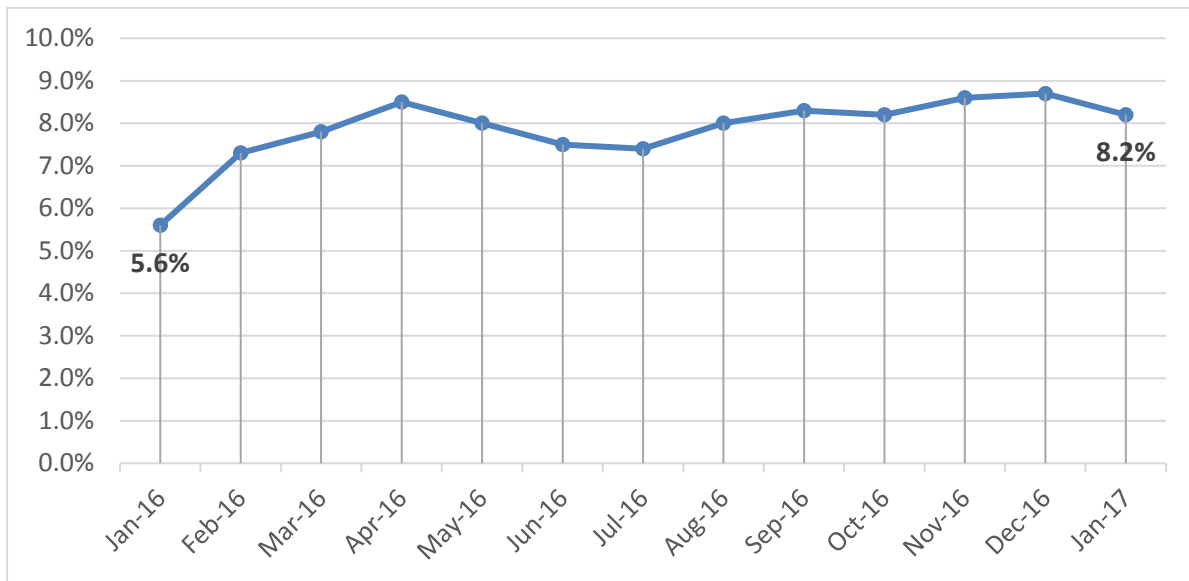
Chart 5: Annual inflation rates



Source: Statistics South Africa

In **Swaziland**, the annual inflation rate rose by 8.2 per cent in January 2017 compared to 8.7 per cent in the preceding month as indicated in **Chart 6**. Annual inflation rate in January 2017 was higher than the 5.6 per cent recorded during the similar month in 2016. The main contributor to the increase in prices between January 2017 and January 2016 was mainly the cost of *food & non-alcoholic beverages* (17.5 per cent compared to 6.6 per cent in January 2016) 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 3.4 per cent in January 2017 compared to 5.7 per cent in January 2016. The third main category, *transport*, increased by 8.4 per cent in January 2017 compared to 1.6 per cent during the similar month in 2016. On average, prices increased by 0.1 per cent between January 2017 and December 2016.

Chart 6: Annual inflation rates

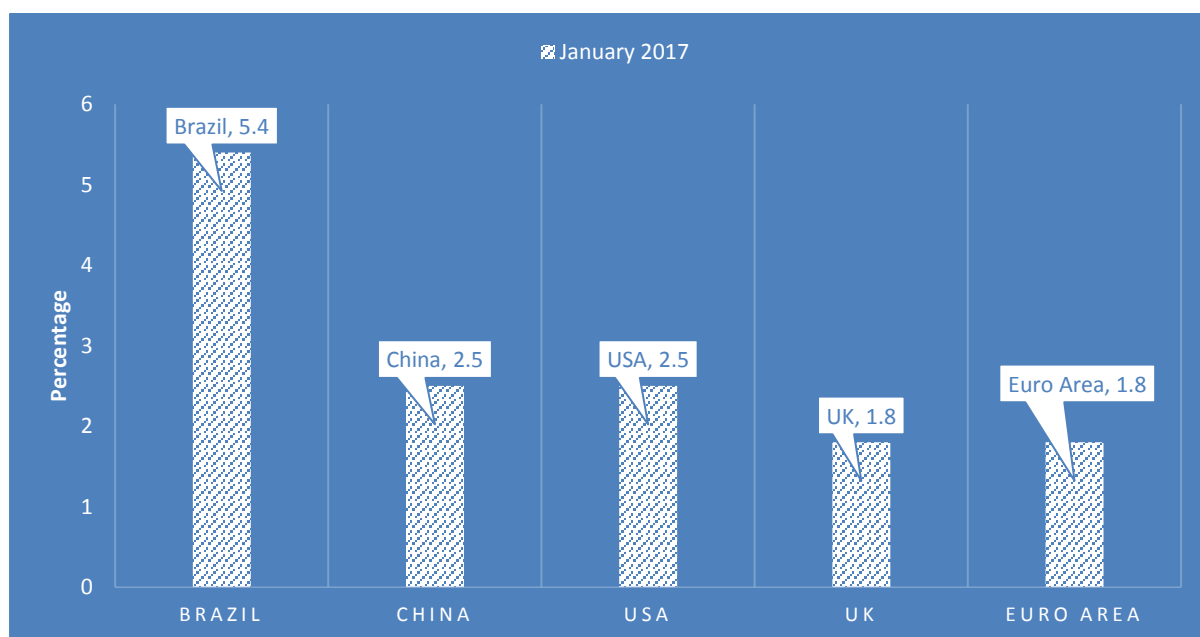


Source: Central Statistics Office

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in a selected economies for the month of January 2017. Consumer prices in Brazil eased to 5.4 per cent in January 2017 from 6.3 per cent in the preceding month, while, in China inflation rate increased to 2.5 per cent in January 2017 from 2.1 per cent in the preceding month. In the USA, inflation rate rose by 2.5 per cent in January 2017 compared to 2.1 per cent in December 2016, similarly in the UK, inflation rate rose by 1.8 per cent compared to 1.6 per cent in previous month. Inflation rate in the Euro area increased by 1.8 per cent compared to 1.1 per cent in the preceding month.

Chart 7: Annual Inflation Rates for Selected Economies

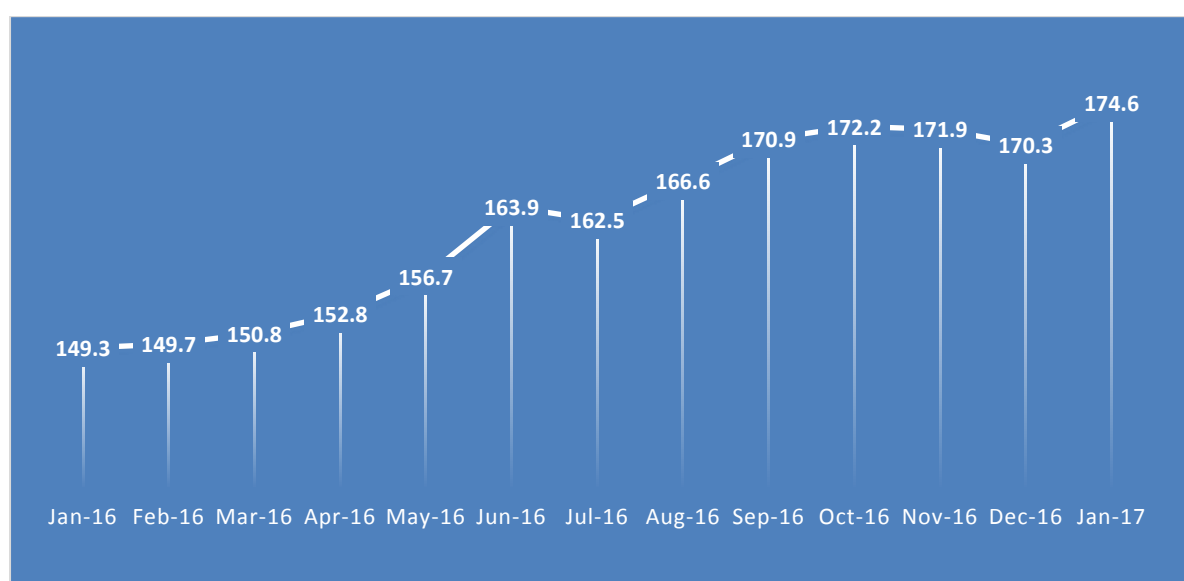


Source: inflation.eu

FAO Food Price Index

Chart 8 shows that the FAO Food Price Index² averaged at 174.6 points in January 2017, up from 170.3 points recorded in December 2016 mainly due to strong gains in the prices of sugar and cereals. The Sugar Price Index rose by 25.9 points due to the anticipated reduction in global sugar production for 2016-2017; Brazil and India, the world's largest sugar producers, are both expected to see production shortfalls. The Cereal Price Index also rose by 4.7 points in January, reaching a six-month high. Concerns about unfavorable weather and a reduction in wheat area in the United States drove up wheat prices, while maize prices rose due to uncertain crop prospects in South America coupled with strong global demand.

Chart 8: FAO Food Price Index



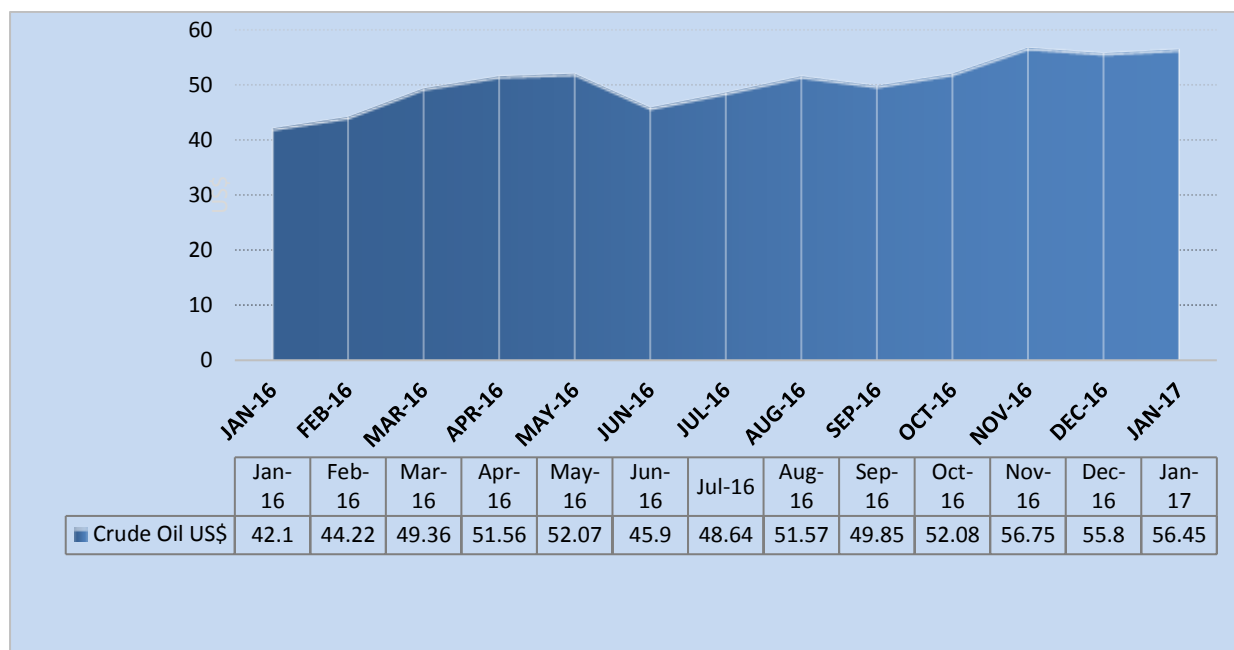
Source: Food and Agriculture Organization of the United Nations

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 USD56.45 per barrel at the end of January 2017, which was 1.2 per cent higher than at the end of December 2016. Year on year, the price level was higher than the USD42.1 per barrel recorded at the end of January 2016 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual inflation rates by main categories (January 2017)

| Main Categories | Botswana | Lesotho | Namibia | South Africa | Swaziland |
|--|------------|------------|------------|--------------|------------|
| Food & non-alcoholic beverages | 4.4 | 8.4 | 13.2 | 11.4 | 17.5 |
| Alcoholic beverages & tobacco | 3.8 | 3.3 | 5.8 | 3.5 | 5.2 |
| Clothing & footwear | 4.5 | 3.5 | -0.5 | 5.1 | 9.9 |
| Housing, water, electricity, gas & other fuels | 3.5 | 5.3 | 9.3 | 5.6 | 3.4 |
| Furnishings, household equipment &... | 3.1 | 3.2 | 9.5 | 4.2 | 9.6 |
| Health | 3.3 | 0.9 | 5.6 | 6.0 | 0.4 |
| Transport | -0.9 | 4.1 | 5.2 | 6.7 | 8.4 |
| Communications | 0.1 | 0.0 | 6.2 | -0.4 | 2.6 |
| Recreation & Culture | 1.8 | -0.1 | 4.2 | 3.7 | 7.1 |
| Education | 4.1 | 5.1 | 8.2 | 4.6 | 2.4 |
| Hotels, cafés & restaurants | 3.6 | 2.6 | 9.8 | 6.2 | 1.7 |
| Miscellaneous goods & services | 7.6 | 1.6 | 7.2 | 7.7 | 6.2 |
| All Items | 3.1 | 5.0 | 8.2 | 6.6 | 8.2 |

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> | 16.51 | 36.11 | 16.45 | 15.41 | 29.22 |
| <i>Alcoholic beverages & tobacco</i> | 7.83 | 3.33 | 12.59 | 5.43 | 0.39 |
| <i>Clothing & footwear</i> | 6.27 | 13.06 | 3.05 | 4.07 | 3.42 |
| <i>Housing, water, electricity, gas & other fuels</i> | 14.90 | 12.39 | 28.36 | 24.52 | 29.15 |
| <i>Furnishings, household equipment &...</i> | 6.39 | 8.47 | 5.47 | 4.79 | 4.75 |
| <i>Health</i> | 3.62 | 1.50 | 2.01 | 1.46 | 3.39 |
| <i>Transport</i> | 20.65 | 4.82 | 14.28 | 16.43 | 10.50 |
| <i>Communications</i> | 4.27 | 2.11 | 3.81 | 2.63 | 2.74 |
| <i>Recreation & Culture</i> | 2.92 | 5.71 | 3.55 | 4.09 | 1.07 |
| <i>Education</i> | 3.34 | 4.20 | 3.65 | 2.95 | 9.11 |
| <i>Hotels, cafés & restaurants</i> | 2.76 | 1.03 | 1.39 | 3.50 | 1.79 |
| <i>Miscellaneous goods & services</i> | 10.55 | 7.26 | 5.39 | 14.72 | 4.47 |
| All Items | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Source: SACU Member States Statistics Offices