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SACU INFLATION REPORT

July 2017

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INTRODUCTION

The report examines the monthly inflation rate performance of individual SACU Member States and 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.

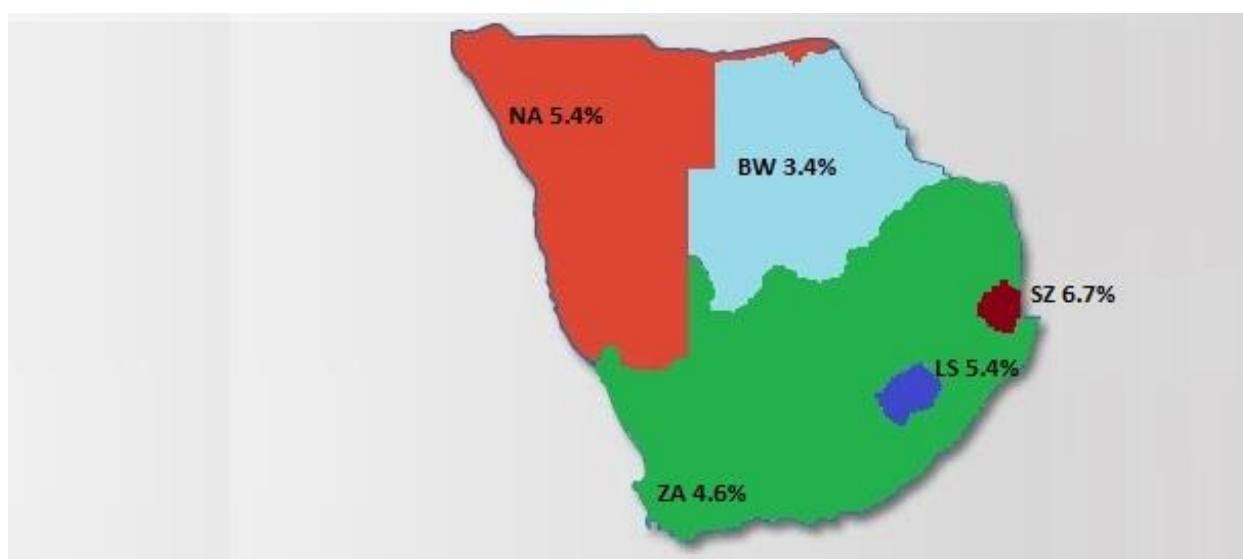
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the corresponding month in the previous year (year-on-year change). The inflation rate is vital for purposes of economic policy-making, especially the conduct of monetary policy and to consumers in general. 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 July 2017 compared to the preceding month, it was observed that prices eased in all Member States with exception of Lesotho where prices increased. It was further observed that Swaziland recorded the highest change in consumer prices of 6.7 per cent followed by Namibia (5.4 per cent), Lesotho (5.4 per cent), South Africa (4.6 per cent), and Botswana (3.4 per cent). All Member States continued to record a single digit annual inflation rate during the month of July 2017.

Inflation Rate in SACU Member States

Consumer prices eased in all Member States with exception of Lesotho where prices increased. **Map I** shows that Swaziland recorded the highest change in consumer prices in July 2017 recording a rate of 6.7 per cent followed by Namibia (5.4 per cent), Lesotho (5.4 per cent), South Africa (4.6 per cent), and Botswana (3.4 per cent). All Member States continued to record a single digit annual inflation rate during the month of July 2017.

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

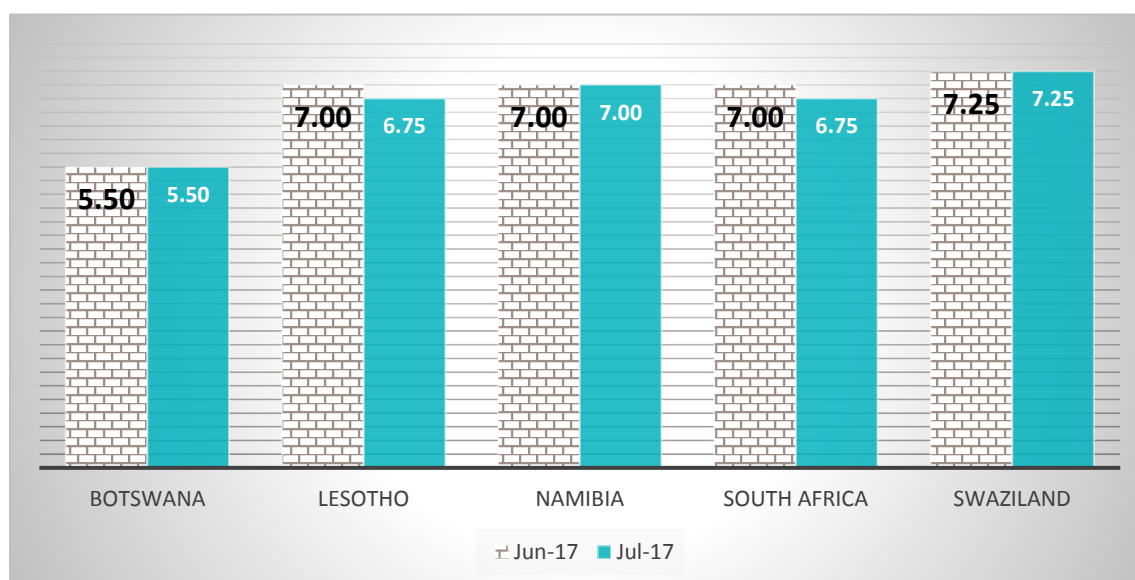


Source: Member States Statistics Offices; (BW-Botswana; LS-Lesotho; NA-Namibia; ZA-South Africa; SZ-Swaziland)

By the end of July 2017, monetary policy stance in Member States continued to remain 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 July 2017 and June 2017 in Botswana, Namibia and Swaziland, while the repo rate was reduced by 0.25 basis points in Lesotho and South Africa. During the month of July 2017, the highest prime lending rate was observed in Lesotho at 11.63 per cent, followed by Namibia at 10.75 per cent, Swaziland at 10.75 per cent, South Africa at 10.25 per cent, and Botswana at 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

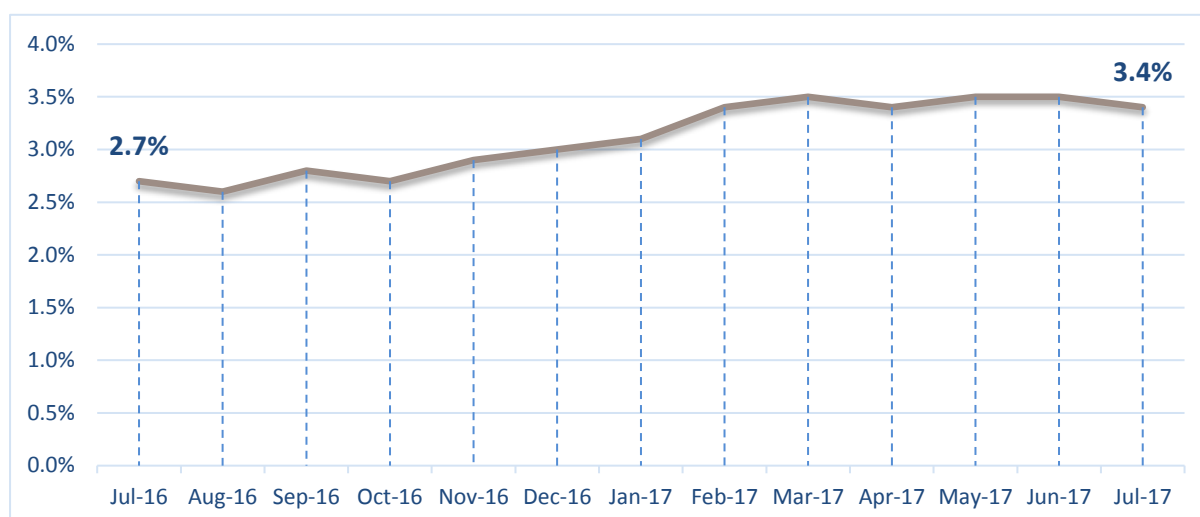


Source: Member States' Central Banks

In **Botswana**, the annual inflation rate increased by 3.4 per cent in July 2017 compared to 3.5 per cent in the preceding month, as reflected in **Chart 2**. The annual rate in July 2017 was higher than the 2.7 per cent recorded during the similar month in 2016. The increase in the annual inflation rate to 3.4 per cent between July 2017 and July 2016 was mainly reflected in the rising prices in *transport* (1.4 per cent compared to -2.9 per cent in July 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 4.3 per cent in July 2017 as opposed to 2.7 per cent during the corresponding month in 2016, while, *housing & utilities* recorded an increase of 6.3 per cent compared to 5.6 per cent in July 2016.

On average, consumer prices increased by 0.1 per cent between July 2017 and June 2017. The annual inflation rate recorded in July 2017 continued to be within the inflation target range of 3 – 6 per cent set out by the Bank of Botswana.

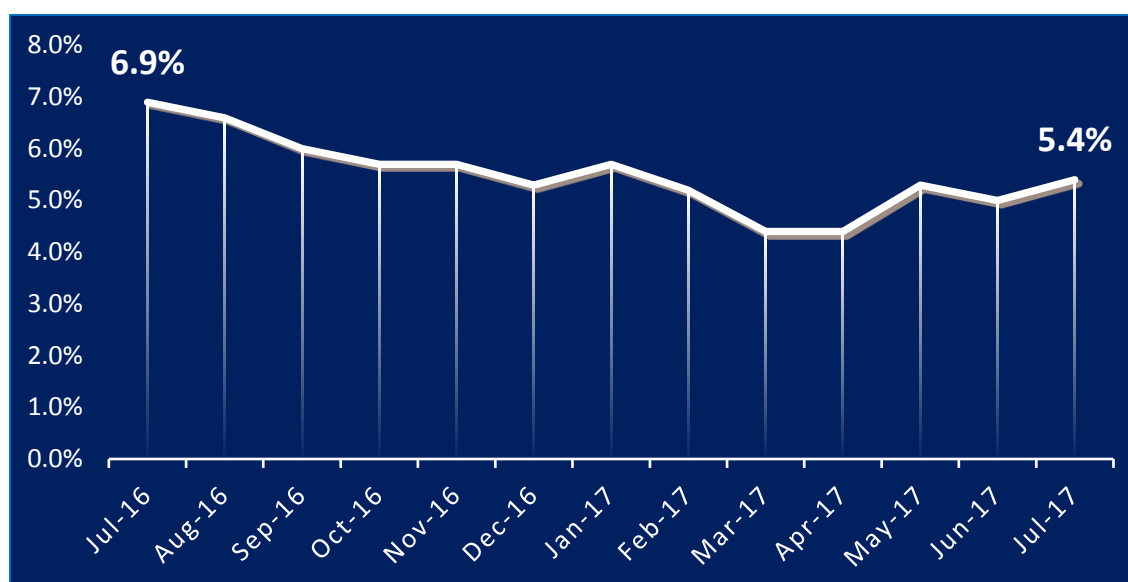
Chart 2: Botswana Annual Inflation Rates



Source: Statistics Botswana

In **Lesotho**, the annual inflation rate increased by 5.4 per cent in July 2017 compared to 5.0 per cent in the preceding month as reflected in **Chart 3**. A year earlier inflation rate was 7.5 per cent during the corresponding month. The deceleration in the annual inflation rate between July 2017 and July 2016 was mainly due to the decline in the cost of *food & non-alcoholic beverages* (7.9 per cent down from 12.1 per cent in July 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 2.6 per cent in July 2017, while the prices of the third main category, *housing & utilities* rose by 3.7 per cent. On average, prices increased by 0.2 per cent between July 2017 and June 2017.

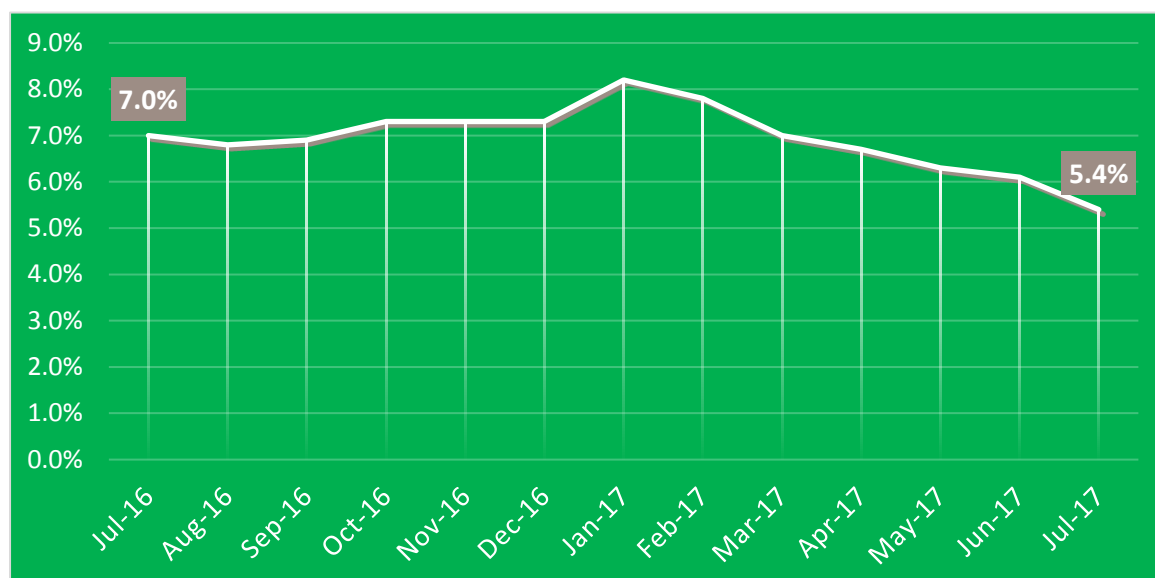
Chart 3: Lesotho Annual Inflation Rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate continued to ease, recording an increase of 5.4 per cent in July 2017 compared to 6.1 per cent in the preceding month. A year earlier inflation rate was 7.0 per cent during the corresponding month as reflected in **Chart 4**. The deceleration in the annual inflation rate between July 2017 and July 2016 was mainly reflected in *food & non-alcoholic beverages* (4.3 per cent down from 12.2 per cent in July 2016) which accounts for 16.45 per cent of the overall inflation basket. The other main categories based on the basket weight, the *housing & utilities* and *transport* categories recorded an increase in prices of 9.1 per cent and 2.4 per cent, respectively in July 2017. On average, prices were stagnant between July 2017 and June 2017.

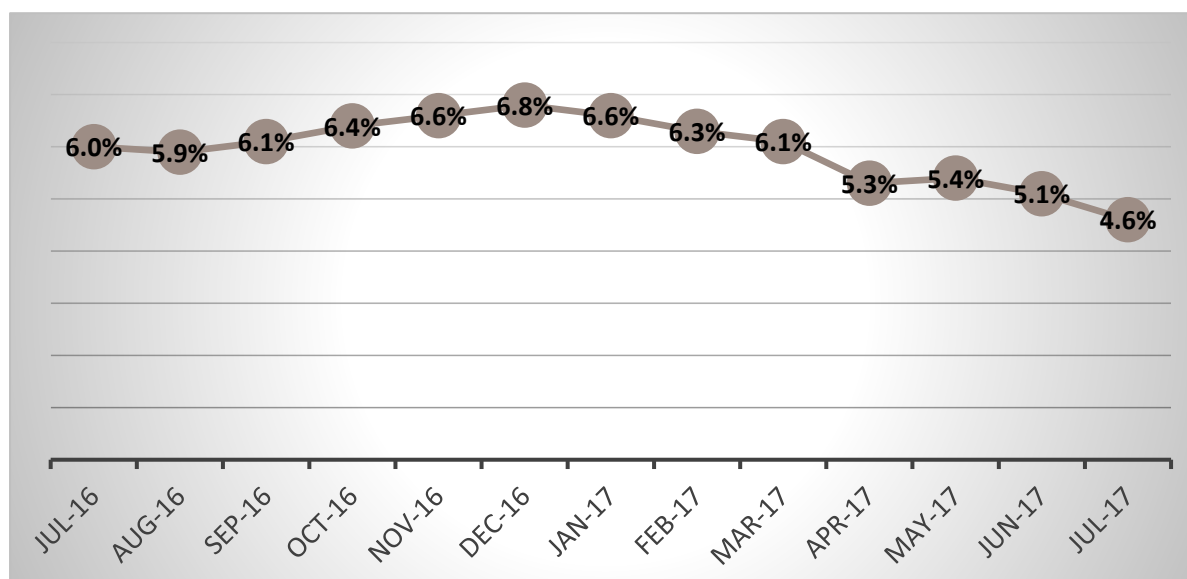
Chart 4: Namibia Annual Inflation Rates



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate increased by 4.6 per cent in July 2017 compared to 5.1 per cent recorded in the previous month as depicted in **Chart 5**. The annual rate in July 2017 was lower than the 6.3 per cent recorded during the similar month in 2016. The main contributors to the annual inflation rate in July 2017 were *miscellaneous goods & services (1.2 percentage points)* followed by *housing & utilities (1.1 percentage points)* and *food & non-alcoholic beverages (1.1 percentage points)*. On average, prices increased by 0.3 per cent between July 2017 and June 2017. The annual inflation rate in July 2017 remained within the target range of 3-6 per cent set out by the South African Reserve Bank.

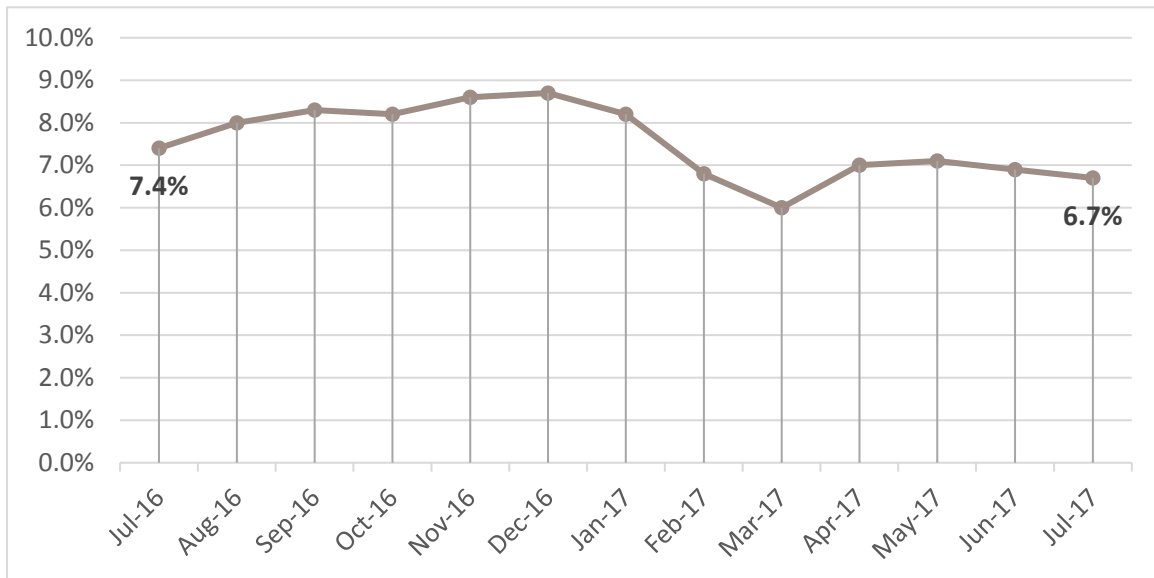
Chart 5: South Africa Annual Inflation Rates



Source: Statistics South Africa

In **Swaziland**, the annual inflation rate rose by 6.7 per cent in July 2017 compared to 6.9 per cent in the preceding month as indicated in **Chart 6**. Annual inflation rate in July 2017 was lower than the 7.4 per cent recorded during the similar month in 2016. The main contributor to the deceleration in prices between July 2017 and July 2016 was mainly the cost of *food & non-alcoholic beverages* (8.0 per cent down from 15.5 per cent in July 2016) which accounts for 29.22 per cent of the overall inflation basket. The other main categories in the basket based on the weight, the *housing & utilities* and *transport* increased by 8.0 per cent and 3.8 per cent, respectively, in July 2017. On average, prices increased by 0.2 per cent between July 2017 and June 2017.

Chart 6: Swaziland Annual Inflation Rates

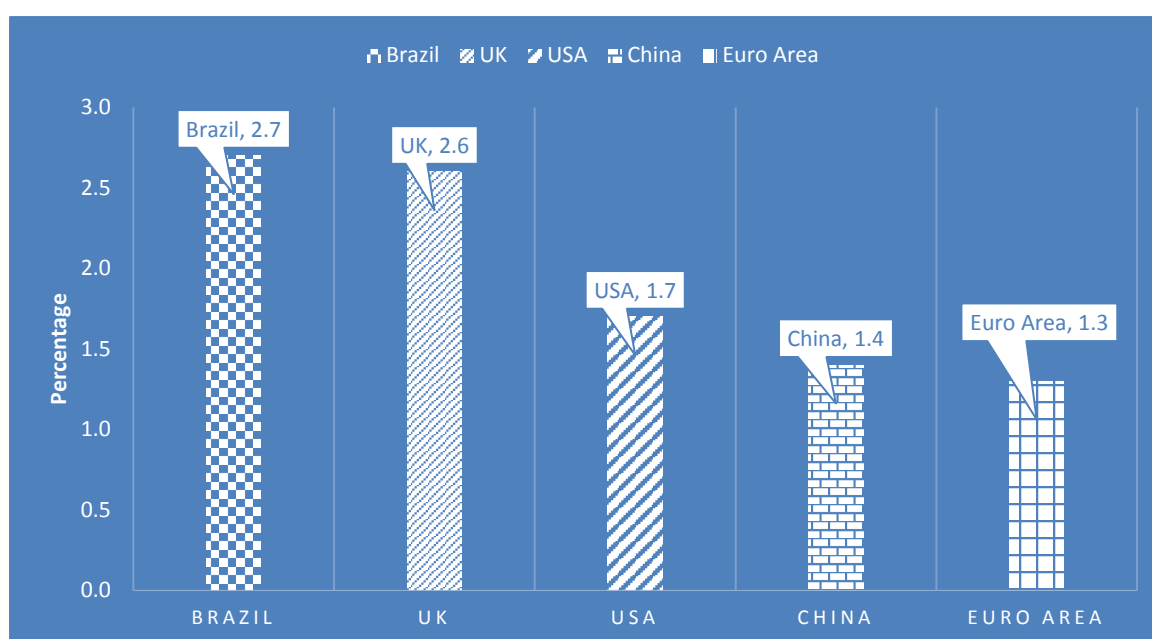


Source: Central Statistics Office

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in selected economies for the month of July 2017. In **Brazil** consumer prices continued to decelerate, recording a rate of 2.7 per cent in July 2017 compared to 3.0 per cent in the preceding month, and 8.7 per cent in July 2016. While in the **UK**, inflation rate rose by 2.6 per cent stable compared with the previous month and the rate was 0.6 per cent in July 2016. In the **USA**, inflation rate rose by 1.7 per cent in July 2017 compared to 1.6 per cent in June 2017, and 0.8 per cent in July 2016. In July 2017 consumer prices in **China** rose by 1.4 per cent compared to 1.5 per cent in the preceding month while the rate was 1.8 per cent during a similar month in 2016. **Euro area** annual inflation was 1.3 per cent in July 2017, stable compared with June 2017, while the rate was 0.2 per cent in July 2016.

Chart 7: Annual Inflation Rates for Selected Economies

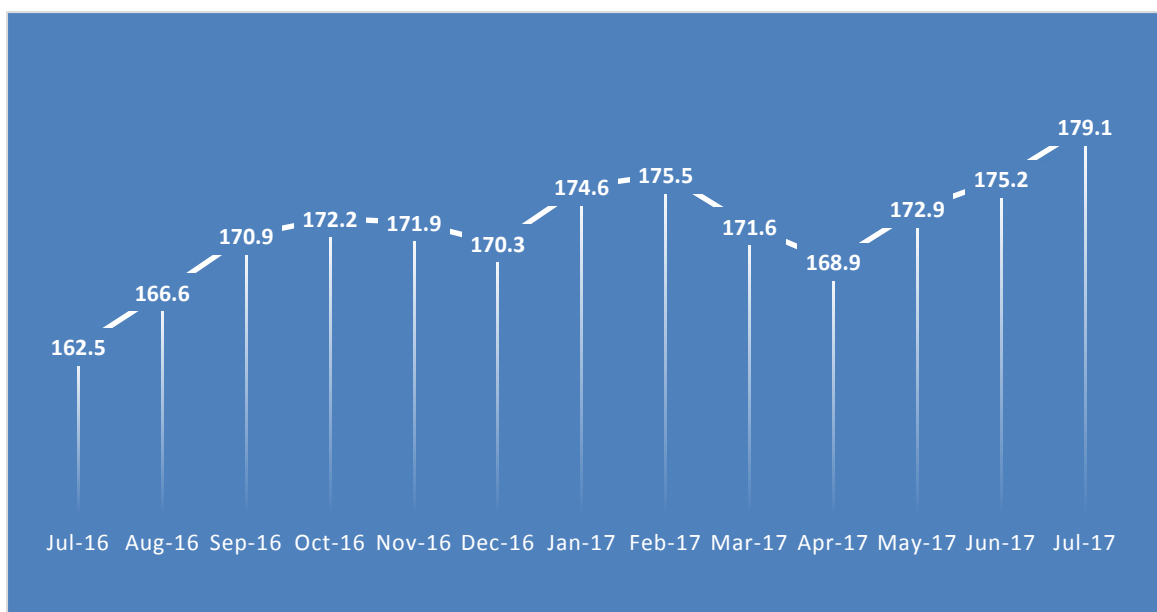


Source: inflation.eu

FAO Food Price Index

Chart 8 shows that the FAO Food Price Index² (FFPI) averaged at 179.1 points in July 2017, up by 2.3 per cent from June and 10.2 per cent higher than its level in July 2016. A combination of supply constraints and currency movements provided support to prices of most cereals, sugar and dairy. While, meat values remained steady month-on-month, whereas the Vegetable Oil Index edged down.

Chart 8: FAO Food Price Index



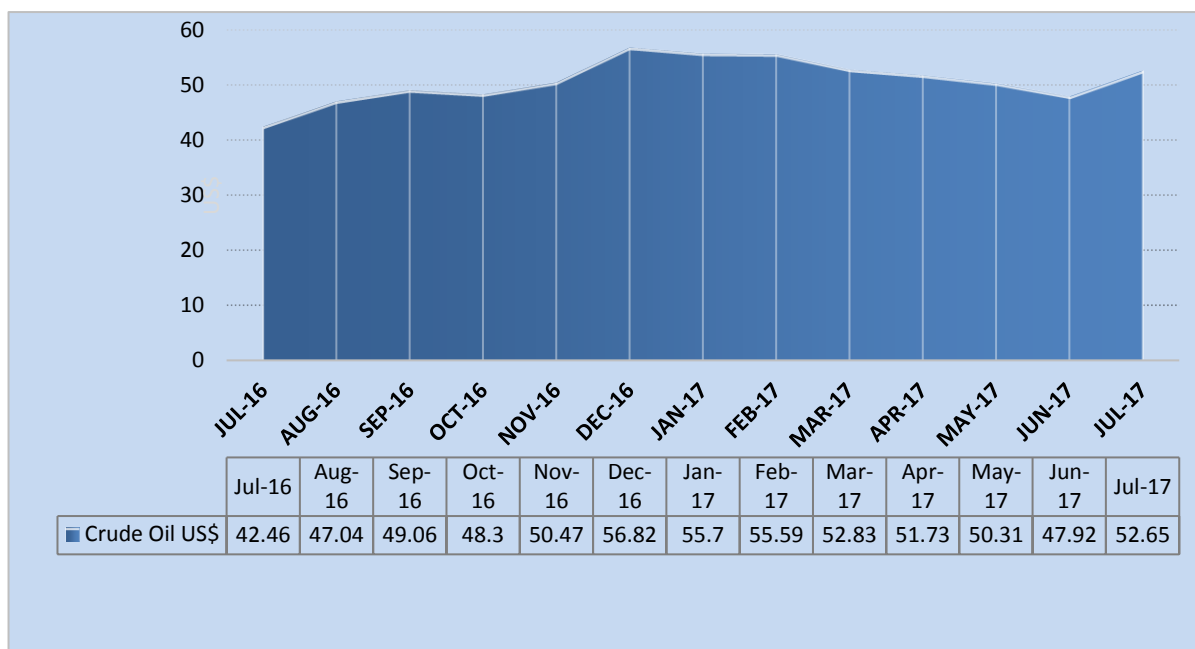
Source: Food and Agriculture Organization of the United Nations

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 USD52.65 per barrel at the end of July 2017, which was 9.9 per cent higher than at the end of June 2017. Year on year, the price level was higher than the USD42.46 per barrel recorded at the end of July 2016 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual Inflation Rates by Main Categories (July 2017)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	4.3	7.9	4.3	6.8	8.0
Alcoholic beverages & tobacco	4.9	4.6	3.6	3.3	7.4
Clothing & footwear	2.8	2.6	1.3	3.6	6.2
Housing, water, electricity, gas & other fuels	6.3	3.7	9.1	4.5	8.0
Furnishings, household equipment &...	3.5	6.5	4.1	2.3	7.9
Health	2.0	0.3	6.3	7.0	0.4
Transport	1.4	-1.3	2.4	1.0	3.8
Communications	0.3	0.0	3.5	-1.2	-0.1
Recreation & Culture	2.6	5.3	4.9	3.2	6.4
Education	4.2	6.1	7.8	7.0	7.5
Hotels, cafés & restaurants	4.0	1.5	6.1	4.1	2.4
Miscellaneous goods & services	2.7	5.1	5.8	7.6	5.7
All Items	3.4	5.4	5.4	4.6	6.7

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	36.1	16.45	15.41	29.22
<i>Alcoholic beverages & tobacco</i>	7.83	3.3	12.59	5.43	0.39
<i>Clothing & footwear</i>	6.27	13.1	3.05	4.07	3.42
<i>Housing, water, electricity, gas & other fuels</i>	14.90	12.4	28.36	24.52	29.15
<i>Furnishings, household equipment &...</i>	6.39	8.5	5.47	4.79	4.75
<i>Health</i>	3.62	1.5	2.01	1.46	3.39
<i>Transport</i>	20.65	4.8	14.28	16.43	10.50
<i>Communications</i>	4.27	2.1	3.81	2.63	2.74
<i>Recreation & Culture</i>	2.92	5.7	3.55	4.09	1.07
<i>Education</i>	3.34	4.2	3.65	2.95	9.11
<i>Hotels, cafés & restaurants</i>	2.76	1.0	1.39	3.50	1.79
<i>Miscellaneous goods & services</i>	10.55	7.3	5.39	14.72	4.47
All Items	100.00	100.00	100.00	100.00	100.00

Source: SACU Member States Statistics Offices