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SACU INFLATION REPORT

February 2018

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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).

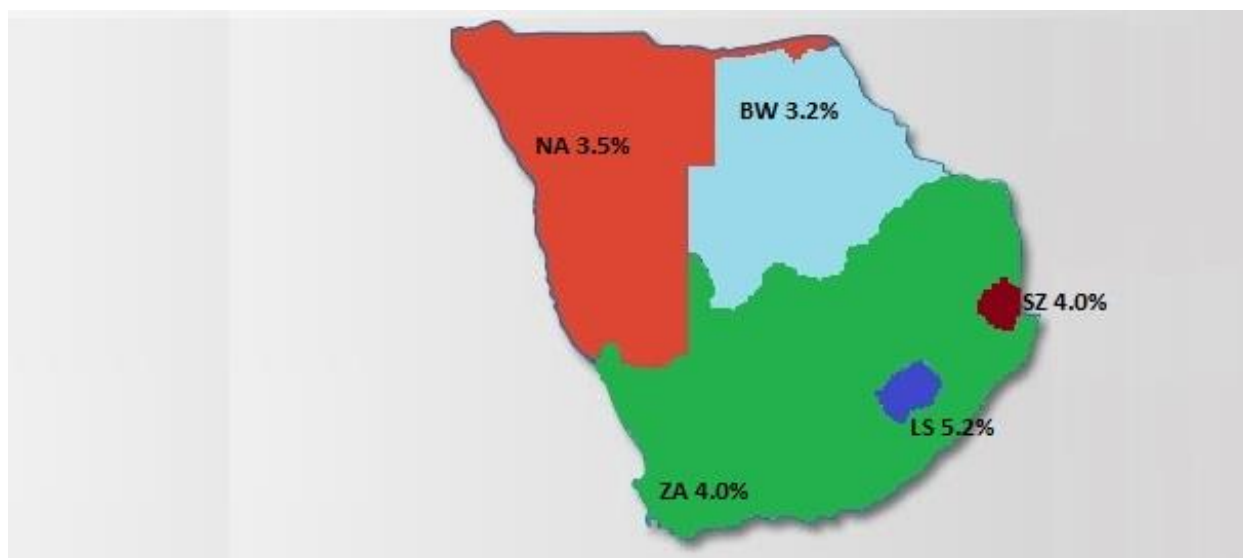
For the month of February 2018 compared to the preceding month, it was observed that prices decelerated in all Member States with exception of Botswana where prices increased. It was further observed that Lesotho recorded the highest change in consumer prices in February 2018 recording a rate of 5.2 percent followed by South Africa and Swaziland both at 4.0 percent, Namibia (3.5 percent), and Botswana (3.2 percent). All Member States continued to record a single digit annual inflation rate during the month of February 2018.

Inflation Rate in SACU Member States

Consumer prices continued to advancing at a lower rate in February 2018 compared to the preceding month in all Member States with the exception of Botswana where prices increased.

Map I shows that Lesotho continue to record the highest change in consumer prices in February 2018 recording a rate of 5.2 percent followed by South Africa and Swaziland both at 4.0 percent, Namibia (3.5 percent), and Botswana (3.2 percent). All Member States continued to record a single digit annual inflation rate during the month of February 2018.

Map I: Annual Inflation Rates (%) for February 2018 in SACU Member States

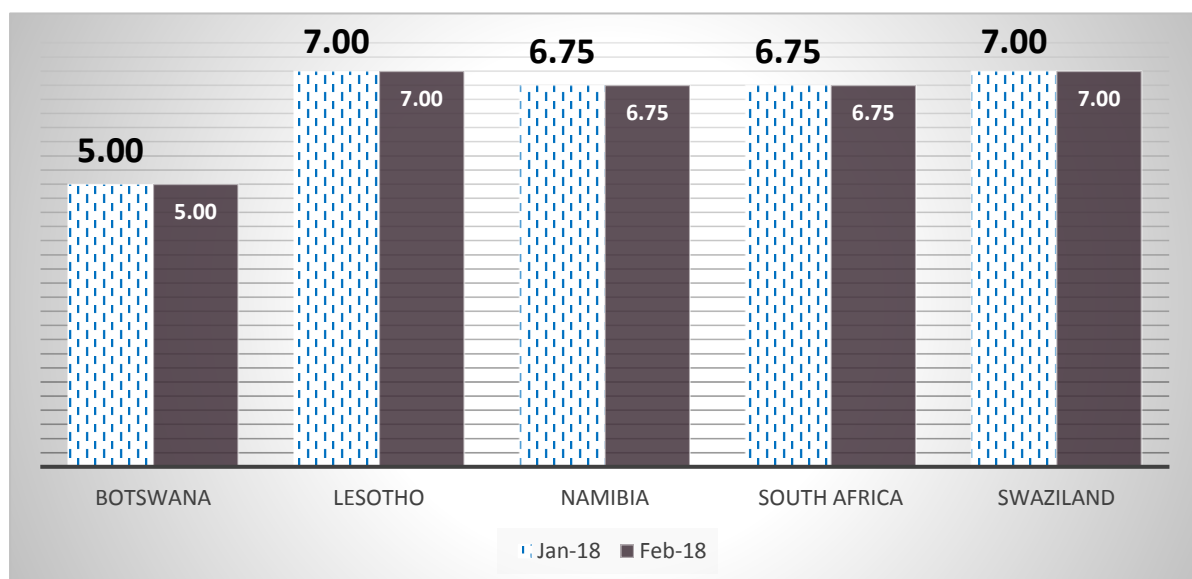


Source: Member States Statistics Offices; (BW-Botswana; LS –Lesotho; NA-Namibia; ZA-South Africa; SZ- Swaziland)

By the end of February 2018, monetary policy stance in Member States continued to remain accommodative with the repo rate / bank rate¹ ranging between 5.00 percent and 7.00 percent, as depicted in **Chart I**. Monetary stance was unaltered between February 2018 and December 2017 in all Member States. During the month of February 2018, the highest prime lending rate was observed in Lesotho at 11.56 percent, followed by Namibia at 10.50 percent, Swaziland at 10.25 percent, South Africa at 10.25 percent, and Botswana at 6.50 percent.

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

Chart I: Member States' Repo/Bank rates

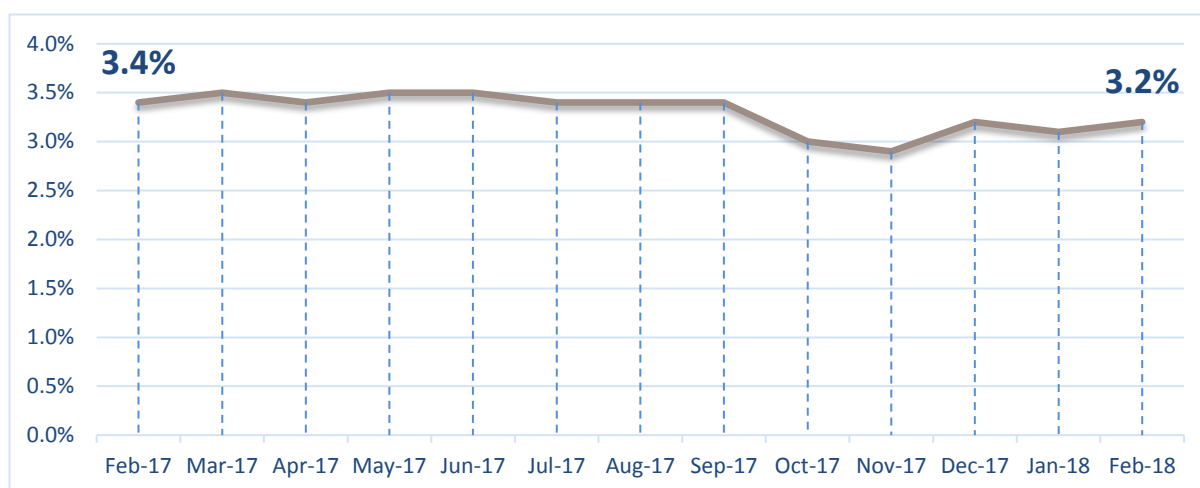


Source: Member States' Central Banks

In **Botswana**, the annual inflation rate increased by 3.2 percent in February 2018 compared to 3.1 percent in the preceding month, as reflected in **Chart 2**. The annual rate in February 2018 was 3.4 percent when compared to a similar month in 2017. The deceleration in annual inflation rate in February 2018 when compared to February 2017 was mainly reflected in the drop of prices in *food & non-alcoholic beverages* (0.4 percent compared to 4.2 percent in February 2017) which accounts for 16.51 percent of the overall inflation basket. Inflation rates of the other main categories based on the basket weights shows that *transport* rose by 5.2 percent in February 2018 as opposed to 0.7 percent during the corresponding month in 2017, while, the *housing & utilities* recorded an increase of 5.8 percent compared to 3.8 percent in February 2017.

On average, consumer prices increased by 0.3 percent between February 2018 and January 2018. The annual inflation rate recorded in February 2018 remained within the inflation target range of 3 – 6 percent set out by the Bank of Botswana.

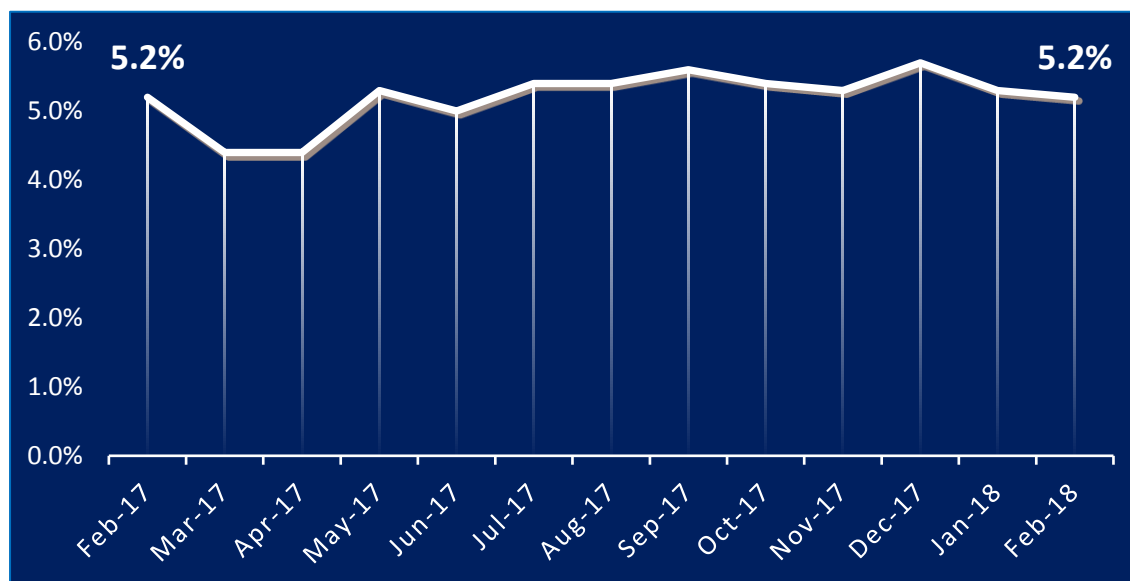
Chart 2: Botswana Annual Inflation Rates



Source: Statistics Botswana

In **Lesotho**, the annual inflation rate increased by 5.2 percent in February 2018 compared to 5.3 percent in the preceding month as reflected in **Chart 3**. A year earlier inflation rate was 5.2 percent during the corresponding month. The main driver of the annual inflation rate between February 2018 and February 2017 was mainly reflected in the increase in cost of *housing & utilities* category (7.9 percent up from 7.5 percent in February 2017) that accounts for 12.4 percent of the overall inflation basket. The other main categories based on the basket weights, the *clothing & footwear* category reflected that prices increased by 1.7 percent in February 2018, while the prices of the other main category *food & non-alcoholic beverages* rose by 7.0 percent. On average, prices increased by 0.1 percent between February 2018 and January 2018.

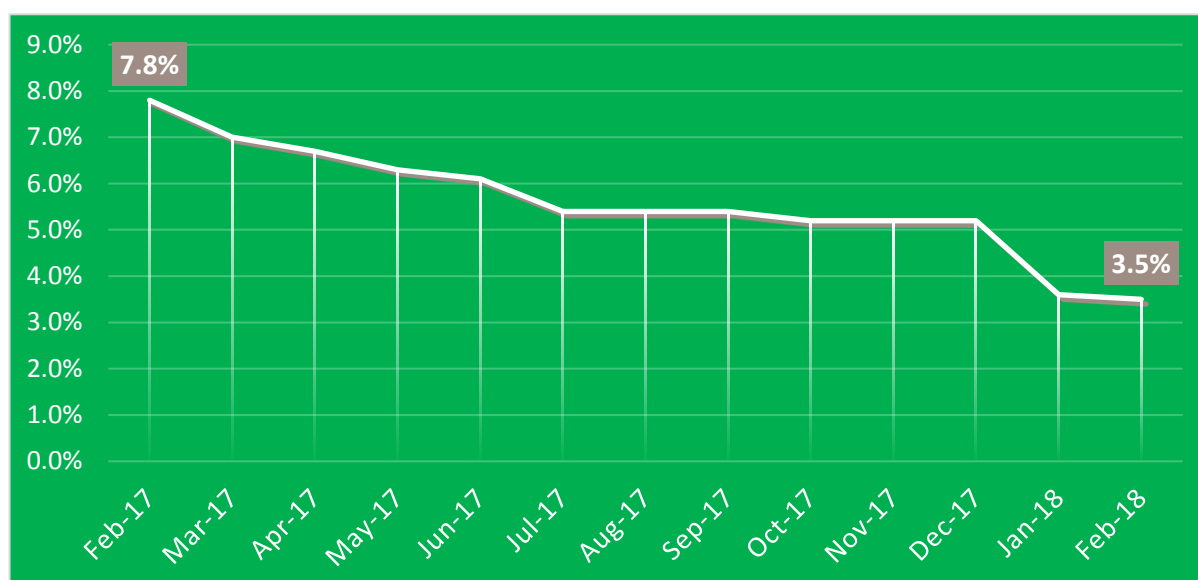
Chart 3: Lesotho Annual Inflation Rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate increased by 3.5 percent in February 2018 compared to 3.6 percent in the previous month, recording the lowest rate since November 2015. A year earlier inflation rate was 7.8 percent during the corresponding month as reflected in **Chart 4**. The deceleration in the annual inflation rate between February 2018 and February 2017 was mainly reflected in *food & non-alcoholic beverages* (2.0 percent down from 11.3 percent in February 2017) which accounts for 16.45 percent 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 3.2 percent and 6.6 percent, respectively in February 2018. On average, prices increased by 0.1 percent between February 2018 and January 2018.

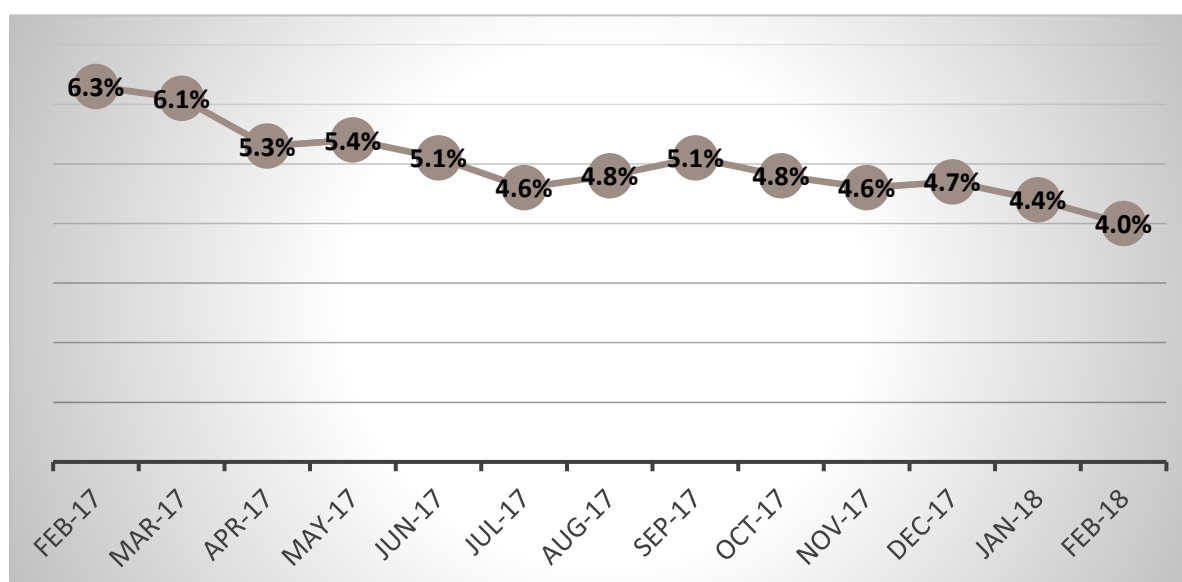
Chart 4: Namibia Annual Inflation Rates



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate increased by 4.0 percent in February 2018 compared to 4.4 percent recorded in the previous month as depicted in **Chart 5**. The annual rate in February 2018 was lower than the 6.3 percent recorded during the similar month in 2017. The main contributors to the annual inflation rate in February 2018 were *housing & utilities (1.1 percentage points)* followed by *miscellaneous goods & services (1.0 percentage points)* and *food & non-alcoholic beverages (0.7 percentage points)*. On average, prices increased by 0.8 percent between February 2018 and January 2018. The annual inflation rate in February 2018 remained within the target range of 3-6 percent set out by the South African Reserve Bank.

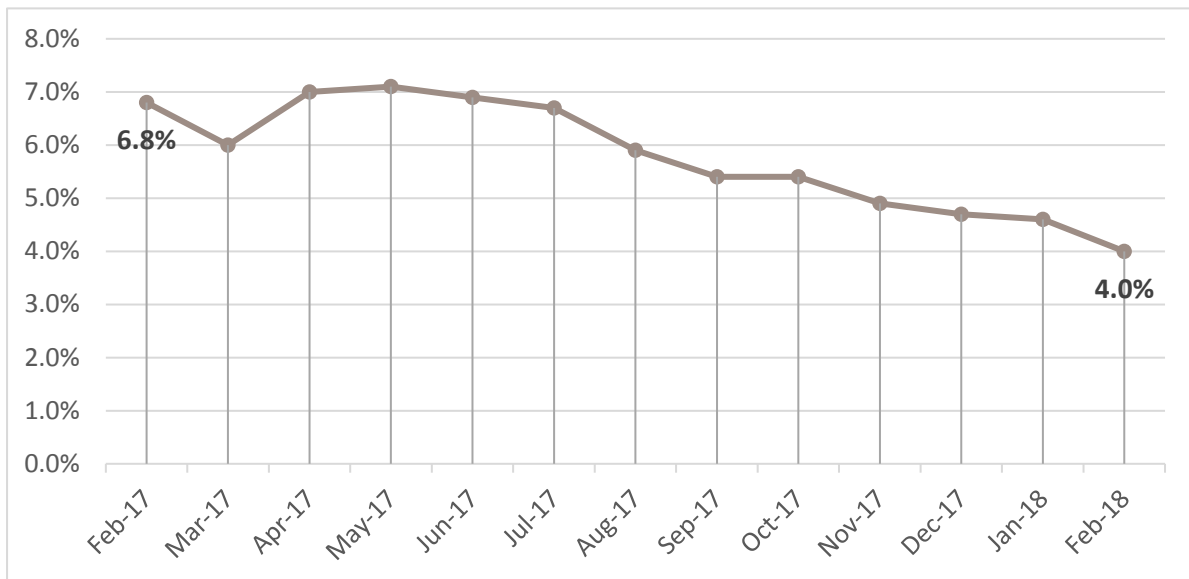
Chart 5: South Africa Annual Inflation Rates



Source: Statistics South Africa

In **Swaziland**, the annual inflation rate increased by 4.0 percent in February 2018 compared to 4.6 percent in the preceding month as indicated in **Chart 6**. Annual inflation rate in February 2018 was lower than the 6.8 percent recorded during a similar month in 2017. The main contributor to the deceleration in prices between February 2018 and February 2017 was mainly the decline in prices of *food & non-alcoholic beverages* (1.1 percent down from 12.8 percent in February 2017) which accounts for 29.22 percent 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 percent and 4.6 percent, respectively, in February 2018. On average, prices increased by 0.6 percent between February 2018 and January 2018.

Chart 6: Swaziland Annual Inflation Rates

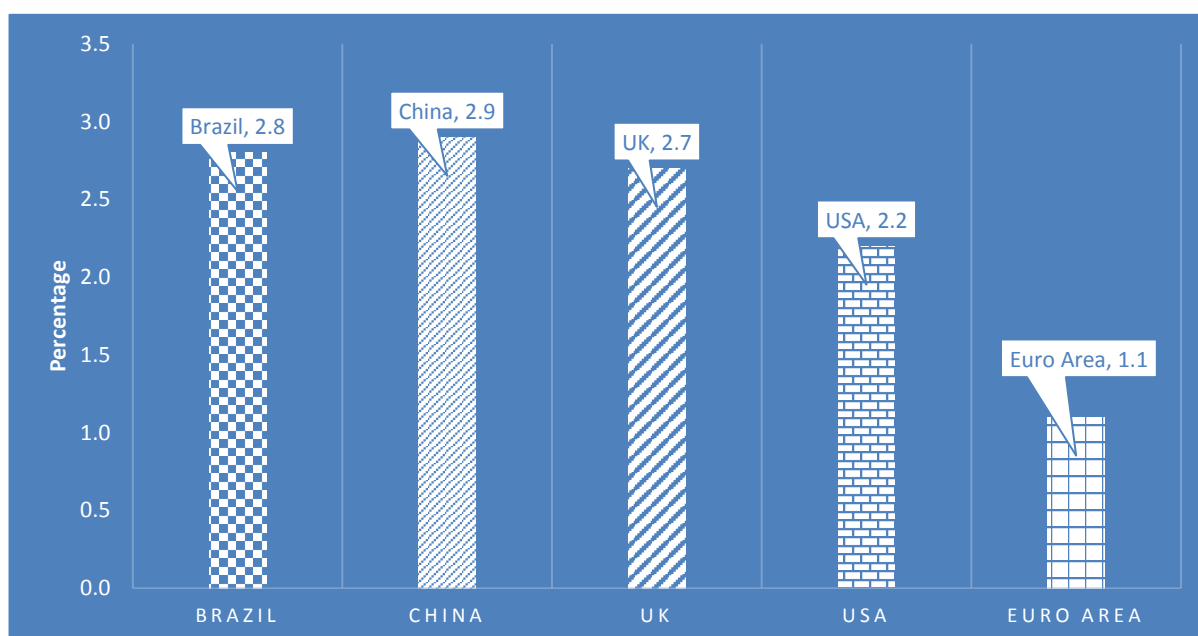


Source: Central Statistics Office

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in selected economies for the month of February 2018. In **Brazil**, inflation rate rose by 2.8 percent in February 2018 compared to 2.9 percent in the previous month and the rate was 4.8 percent in February 2017. While in **China** consumer prices rose by 2.9 percent compared to 1.5 percent in the preceding month while the rate was 0.8 percent during a similar month in 2017. In the **UK** consumer prices rose by 2.7 percent in February 2018 compared to 3.0 percent in the preceding month, while the rate was 2.3 percent in February 2017. In the **USA**, inflation rate rose by 2.2 percent in February 2018 compared to 2.1 percent recorded in January 2018, and 2.7 percent in February 2017. In February 2018 consumer prices in **Euro area** annual inflation was 1.1 percent in February 2018 compared with 1.3 percent in January 2018, while the rate was 2.0 percent in February 2017.

Chart 7: Annual Inflation Rates for Selected Economies (February 2018)

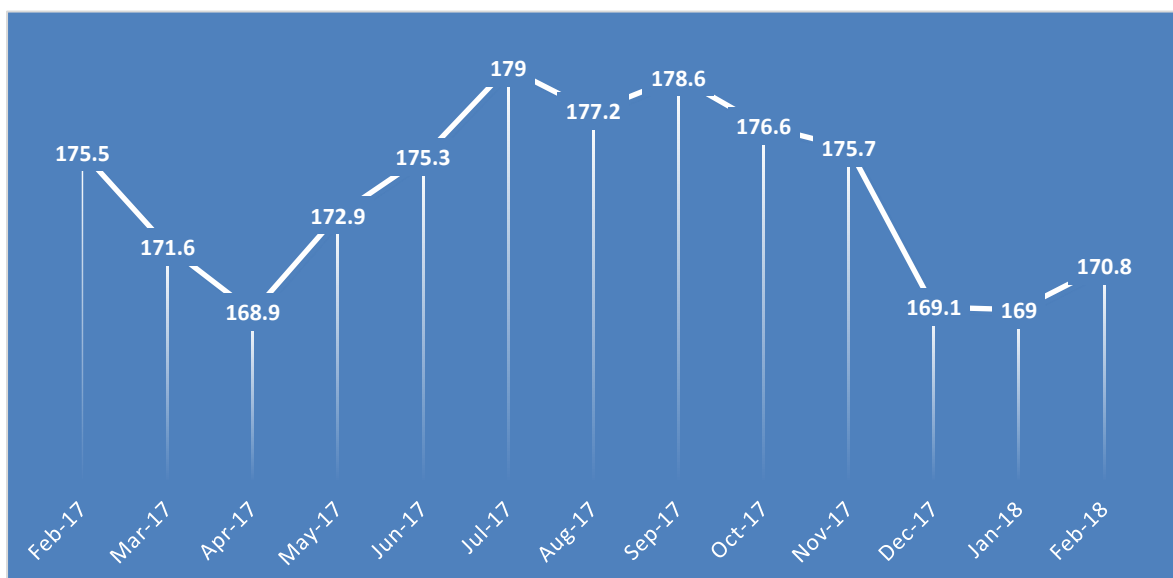


Source: inflation.eu

FAO Food Price Index

Chart 8 shows that the FAO Food Price Index² (FFPI) averaged at 170.8 points in February 2018, up by 1.1 percent from the preceding month, mainly due to the increase registered in the prices of meat, dairy and cereals.

Chart 8: FAO Food Price Index



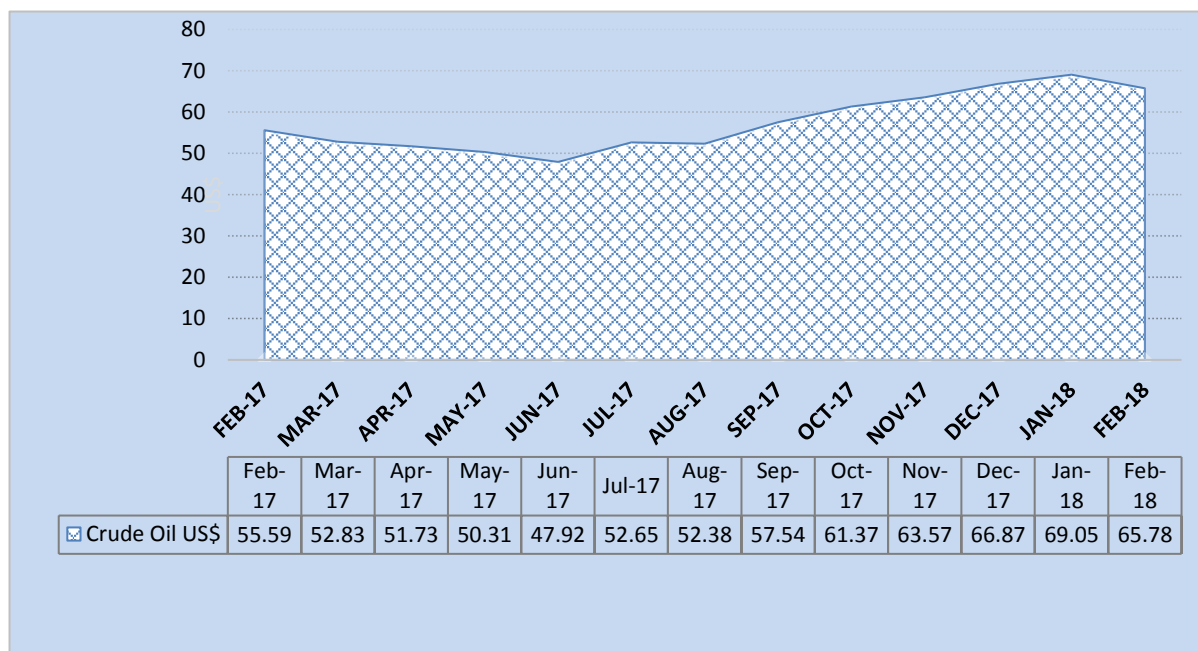
Source: Food and Agriculture Organization of the United Nations

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 USD65.78 per barrel at the end of February 2018, which was 4.7 percent lower than at the end of January 2018. Year on year, the price level was higher than the USD55.59 per barrel recorded at the end of February 2017 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual Inflation Rates by Main Categories (February 2018)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	0.4	7.0	2.0	3.9	1.1
Alcoholic beverages & tobacco	1.8	5.4	4.4	6.1	6.2
Clothing & footwear	2.0	1.7	-4.1	1.6	-2.6
Housing, water, electricity, gas & other fuels	5.8	7.9	3.2	4.5	8.0
Furnishings, household equipment &...	2.0	5.5	0.1	1.9	2.3
Health	1.4	0.3	6.2	5.7	1.0
Transport	5.2	-0.3	6.6	3.2	4.6
Communications	1.2	-1.6	-0.1	-1.6	-1.3
Recreation & Culture	1.8	5.8	2.3	0.5	3.7
Education	5.5	3.5	9.9	7.0	7.8
Hotels, cafés & restaurants	3.5	2.1	5.0	3.0	5.7
Miscellaneous goods & services	3.2	4.6	4.6	6.2	1.5
All Items	3.2	5.2	3.5	4.0	4.0

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>	16.51	36.1	16.45	17.24	29.22
<i>Alcoholic beverages & tobacco</i>	7.83	3.3	12.59	5.82	0.39
<i>Clothing & footwear</i>	6.27	13.1	3.05	3.83	3.42
<i>Housing, water, electricity, gas & other fuels</i>	14.90	12.4	28.36	24.62	29.15
<i>Furnishings, household equipment &...</i>	6.39	8.5	5.47	4.35	4.75
<i>Health</i>	3.62	1.5	2.01	1.40	3.39
<i>Transport</i>	20.65	4.8	14.28	14.28	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	5.16	1.07
<i>Education</i>	3.34	4.2	3.65	2.53	9.11
<i>Hotels, cafés & restaurants</i>	2.76	1.0	1.39	3.09	1.79
<i>Miscellaneous goods & services</i>	10.55	7.3	5.39	15.05	4.47
All Items	100.00	100.00	100.00	100.00	100.00

Source: SACU Member States Statistics Offices