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SACU INFLATION REPORT

December 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).

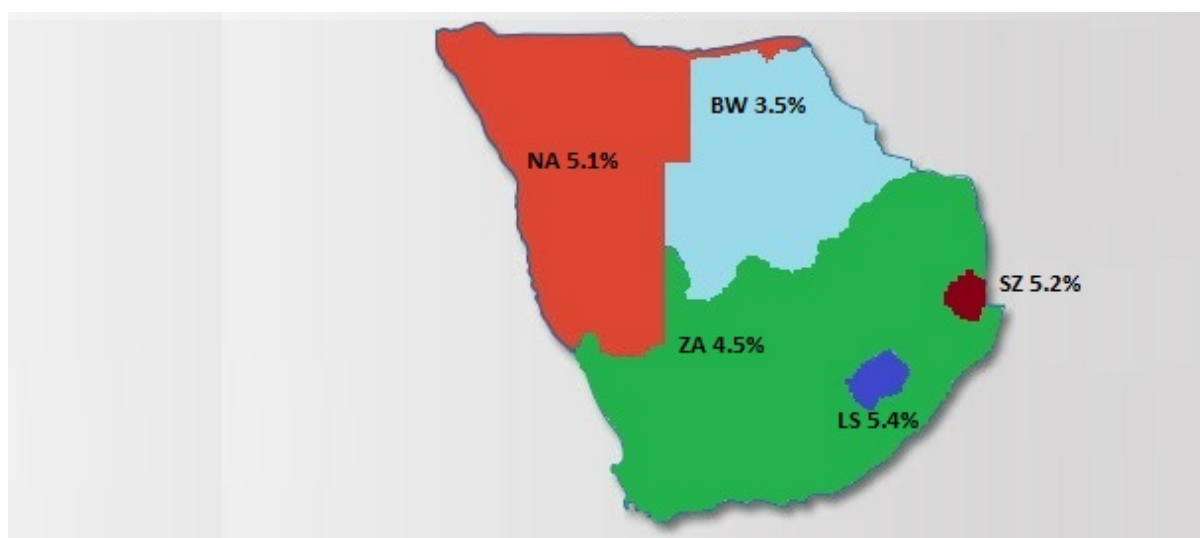
For the month of December 2018 compared to the preceding month, it was observed that prices decelerated in all Member States. Lesotho recorded the highest change in consumer prices in December 2018, recording a rate of 5.4 percent followed by Eswatini at 5.2 percent, Namibia (5.1 percent), South Africa (4.5 percent), and Botswana (3.5 percent). All Member States continued to record a single digit annual inflation rate during the month of December 2018.

Inflation Rate in SACU Member States

Consumer prices advanced at a lower rates in December 2018 compared to the preceding month in all Member States. **Map I** shows that Lesotho recorded the highest change in consumer prices in December 2018, recording a rate of 5.4 percent followed by Eswatini at 5.2 percent, Namibia (5.1 percent), South Africa (4.5 percent), and Botswana (3.5 percent). All Member States continued to record a single digit annual inflation rate during the month of December 2018.

Overall in 2018, consumer prices decelerated in all Member States. Member States recorded the following inflation rates for 2018: Botswana (3.2% compared to 3.3% in 2017); Eswatini (4.8% compared to 6.3% in 2017); Lesotho (4.8% compared to 5.2% in 2017); Namibia (4.3% compared to 6.2% in 2017); and South Africa (4.7% compared to 5.3% in 2017).

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



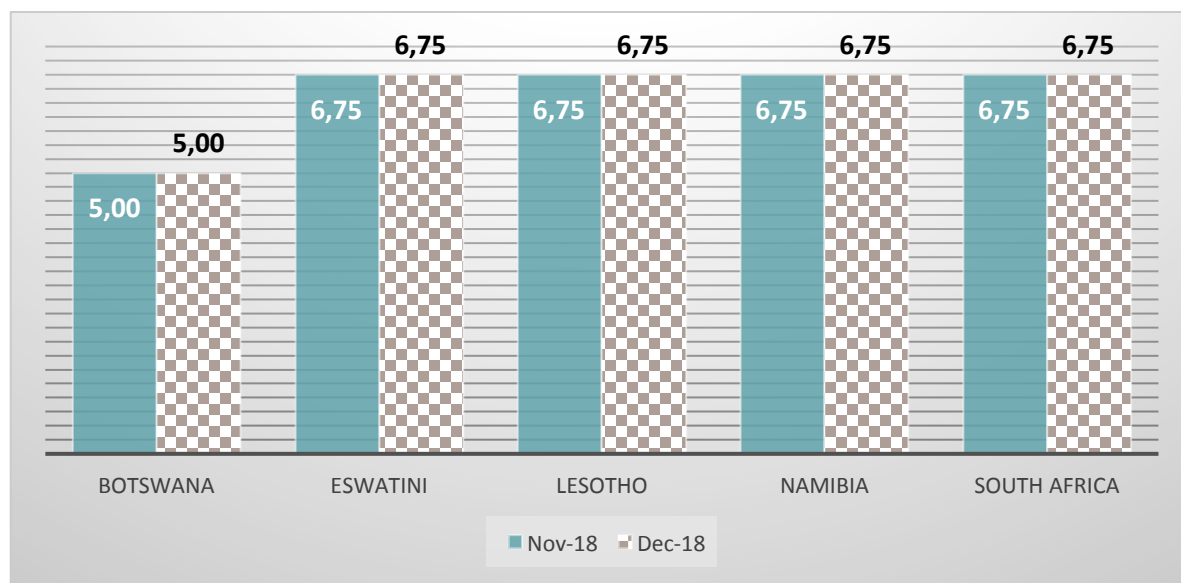
Source: Member States Statistics Offices; (BW-Botswana; LS –Lesotho; NA-Namibia; ZA-South Africa; SZ- Eswatini)

By the end of December 2018, monetary policy stance in Member States continued to remain accommodative with the repo rate / bank rate¹ ranging between 5.00 percent and

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

6.75 percent, as depicted in **Chart I**. Monetary stance was unaltered between December 2018 and November 2018 in all Member States. During the month of December 2018, the highest prime lending rate was observed in Lesotho at 11.6 percent, followed by Namibia at 10.50 percent, Eswatini at 10.25 percent, South Africa at 10.25 percent, and Botswana at 6.50 percent.

Chart I: Member States' Repo/Bank rates

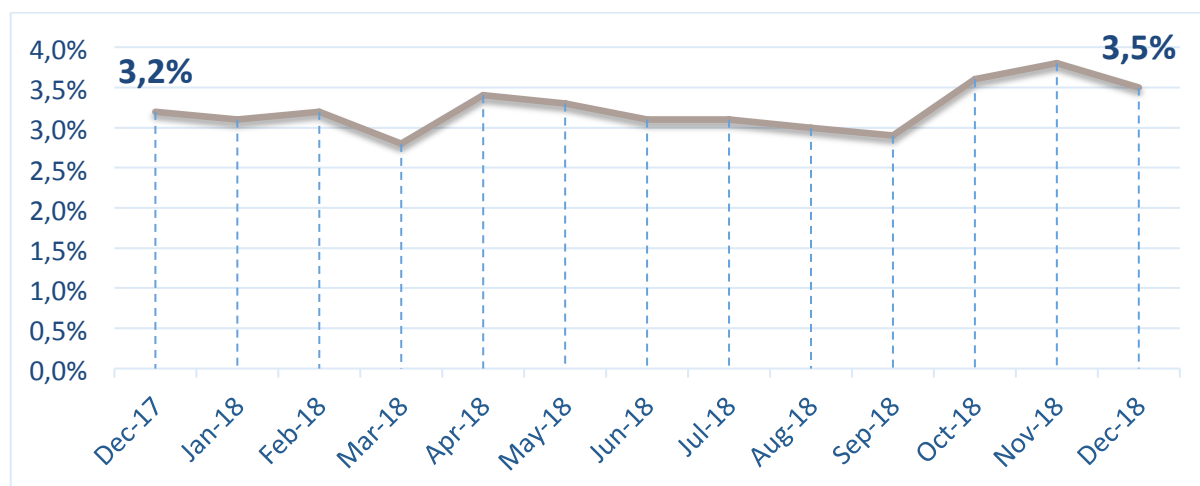


Source: Member States' Central Banks

In **Botswana**, the annual inflation rate decelerated to 3.5 percent in December 2018 compared to 3.8 percent in the preceding month, as reflected in **Chart 2**. The annual rate in December 2018 was higher than the 3.2 percent recorded during a similar month in 2017. The acceleration in the annual inflation rate in December 2018 when compared to December 2017 was mainly driven by the rise of prices in *transport* (10.0 percent compared to 4.1 percent in December 2017) and *miscellaneous goods & services* (6.5 percent compared to 2.8 percent in December 2017). The main categories based on the basket weights performed as follows: *food & non-alcoholic beverages* (-0.2 percent compared to 1.1 percent in December 2017); and *housing & utilities* (3.5 percent compared to 5.8 percent in December 2017).

On average, consumer prices increased by 0.1 percent between December 2018 and November 2018. The annual inflation rate recorded in December 2018 was within the inflation target range of 3 – 6 percent set out by the Bank of Botswana.

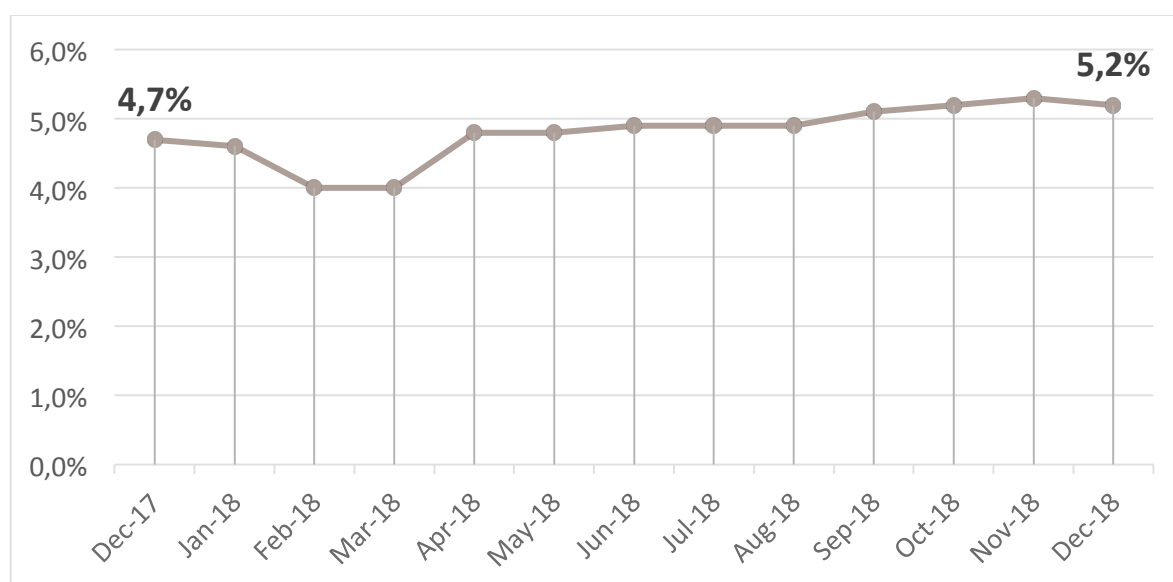
Chart 2: Botswana Annual Inflation Rates



Source: Statistics Botswana

In **Eswatini**, the annual inflation rate increased by 5.2 percent in December 2018 compared to 5.3 percent in the preceding month as indicated in **Chart 3**. Annual inflation rate in December 2018 was higher than the 4.7 percent recorded during a similar month in 2017. The main contributor to the acceleration in prices between December 2018 and December 2017 was mainly due to the increase in prices of *housing & utilities* (14.0 percent up from 8.2 percent in December 2017) which accounts for 29.15 percent of the overall inflation basket. The other main categories in the basket based on the weight, the *food & non-alcoholic beverages* and *transport* increased by 0.5 percent and 2.4 percent, respectively, in December 2018. On average, prices increased by 0.1 percent between December 2018 and November 2018.

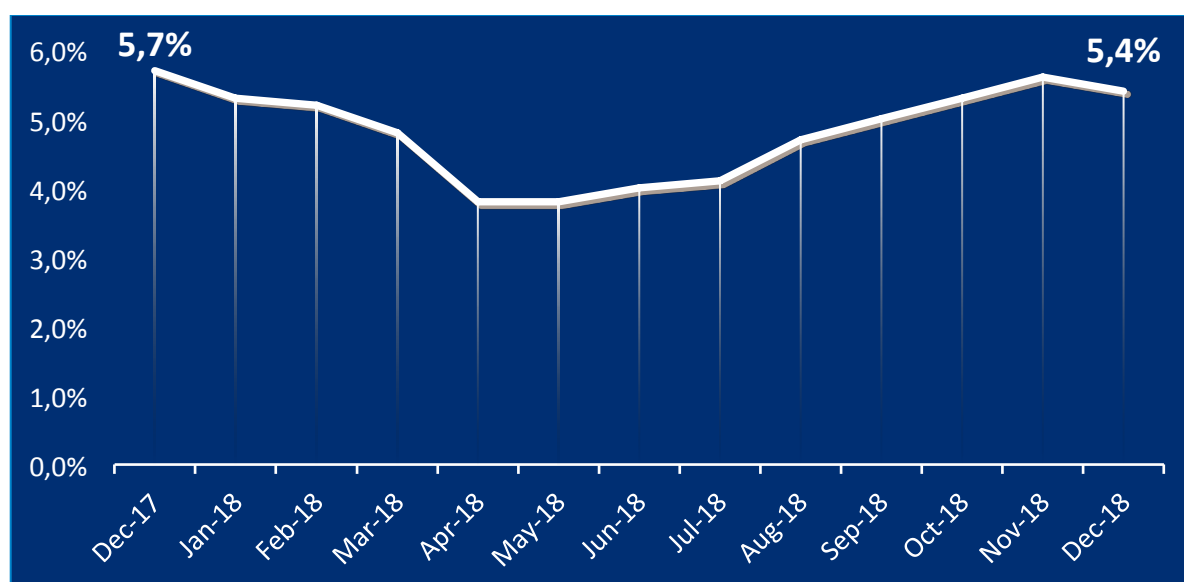
Chart 3: Eswatini Annual Inflation Rates



Source: Central Statistics Office

In **Lesotho**, the annual inflation rate increased by 5.4 percent in December 2018 compared to 5.6 percent in the preceding month as reflected in **Chart 4**. A year earlier inflation rate was 5.7 percent during the corresponding month. The main driver of the deceleration in annual inflation rate between December 2018 and December 2017 was mainly due to the decrease in cost of *food & non-alcoholic* category (5.3 percent down from 7.2 percent in December 2017) that accounts for 36.11 percent of the overall inflation basket. The other main categories based on the basket weights, the *clothing & footwear* and *housing & utilities* categories reflected that prices increased by 2.7 percent and 14.0 percent, respectively in December 2018. On average, prices increased by 0.1 percent between December 2018 and November 2018.

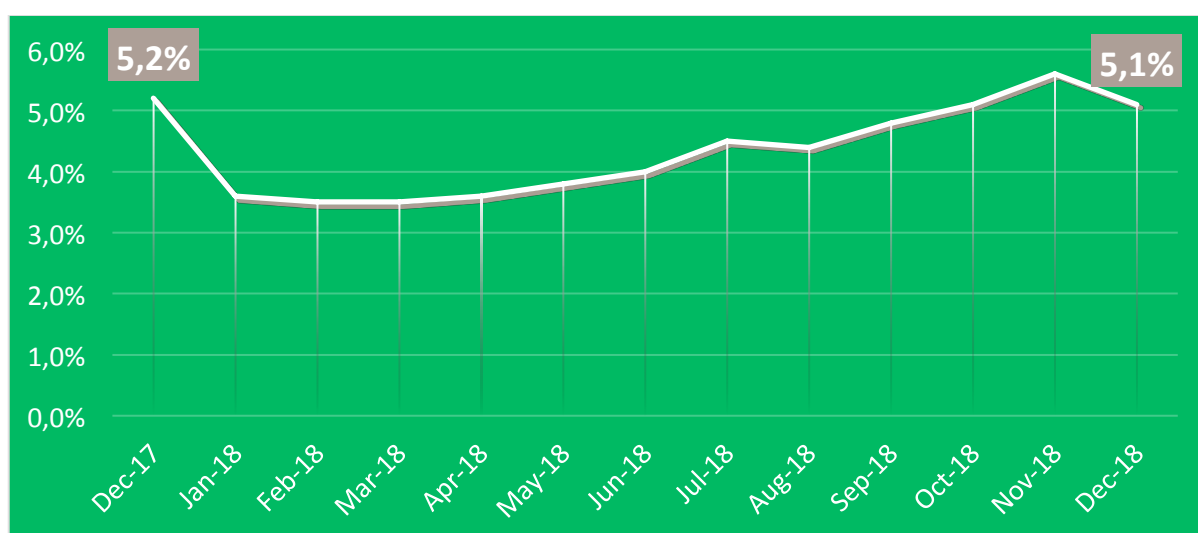
Chart 4: Lesotho Annual Inflation Rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate increased by 5.1 percent in December 2018 compared to 5.6 percent in the previous month. A year earlier inflation rate was 5.2 percent during the corresponding month as reflected in **Chart 5**. The deceleration in the annual inflation rate between December 2018 and December 2017 was mainly reflected in prices of *housing & utilities* (-0.2 percent down from 9.2 percent in December 2017) which accounts for 28.36 percent of the overall inflation basket. The other main categories based on the basket weight, the *food & non-alcoholic beverages* and *transport* recorded increase in prices of 5.2 percent, and 10.9 percent. On average, prices contracted by 0.2 percent between December 2018 and November 2018.

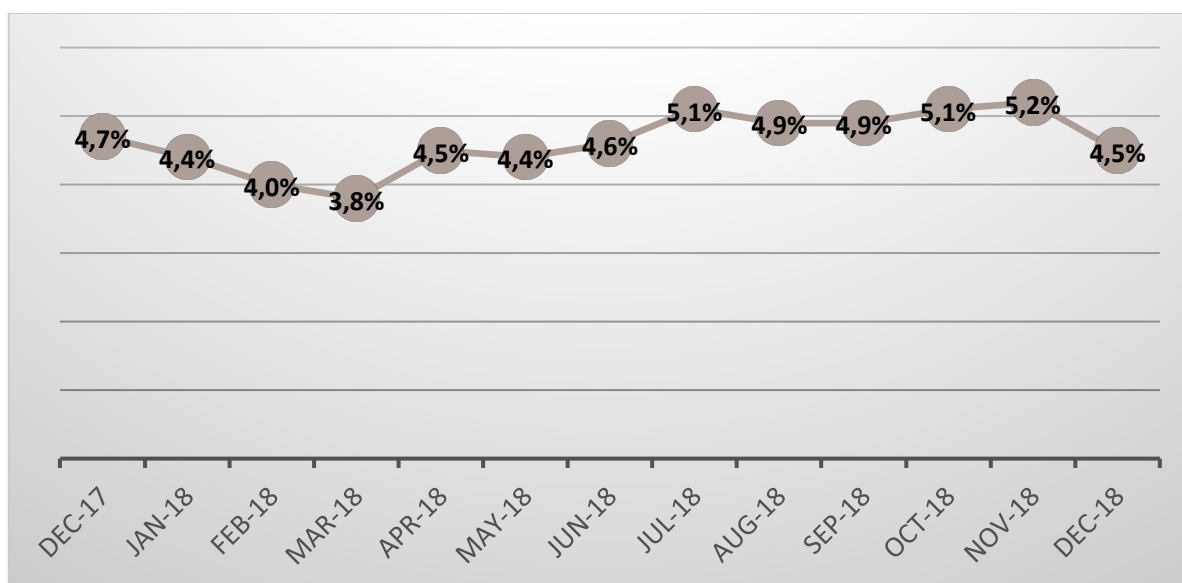
Chart 5: Namibia Annual Inflation Rates



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate increased by 4.5 percent in December 2018 compared with 5.2 percent in the previous month as depicted in **Chart 6**. The annual rate in December 2018 was lower than the 4.7 percent recorded during the similar month in 2017. The main contributors to the annual inflation rate in December 2018 were *housing & utilities* (1.3 percentage points) followed by *miscellaneous goods & services* (0.9 percentage points) and *transport* (0.9 percentage points). On average, prices contracted by 0.2 percent between December 2018 and November 2018. The annual inflation rate in December 2018 remained within the target range of 3-6 percent set out by the South African Reserve Bank.

Chart 6: South Africa Annual Inflation Rates

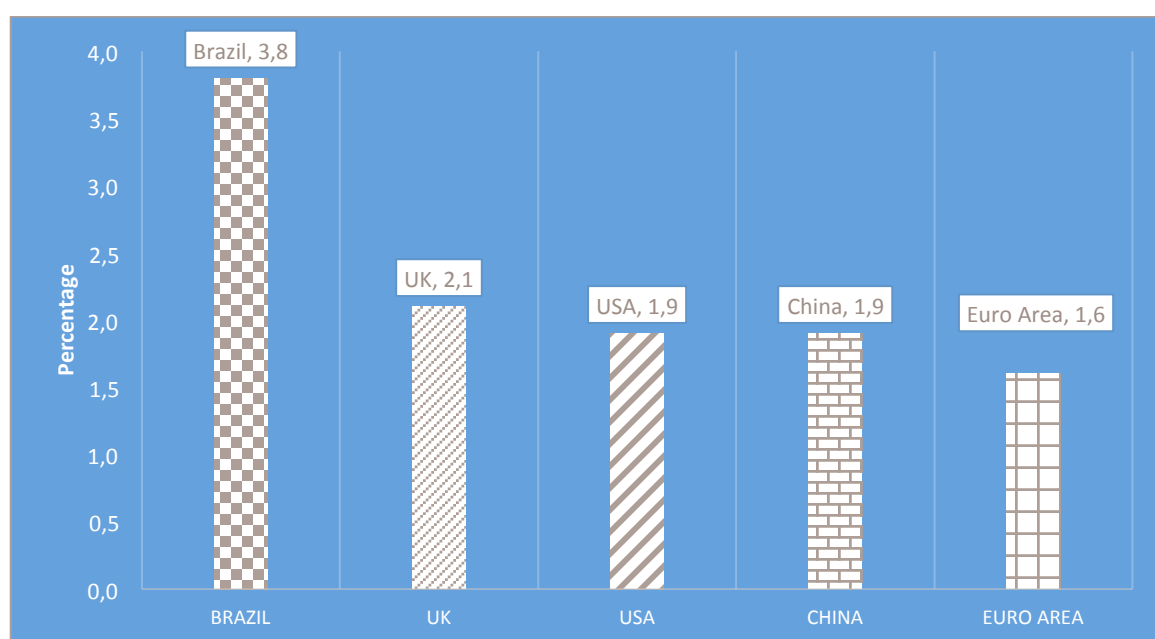


Source: Statistics South Africa

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in selected economies for the month of December 2018. In **Brazil**, inflation rate rose by 3.8 percent in December 2018 compared to 4.1 percent in the previous month and the rate was 3.0 percent in December 2017. In the **UK**, inflation rate rose by 2.1 percent in December 2018 compared to 2.3 percent in the preceding month, and 3.0 percent in December 2017. While in the **USA**, inflation rate rose by 1.9 percent in December 2018 compared to 2.2 percent in the preceding month, and 2.1 percent in December 2017. In **China** consumer prices rose by 1.9 percent compared to 2.2 percent in the preceding month while the rate was 1.8 percent during a similar month in 2017. In the **Euro area** annual inflation was 1.6 percent in December 2018 compared with 1.9 percent in November 2018, while the rate was 1.4 percent during a similar month in 2017.

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



Source: inflation.eu

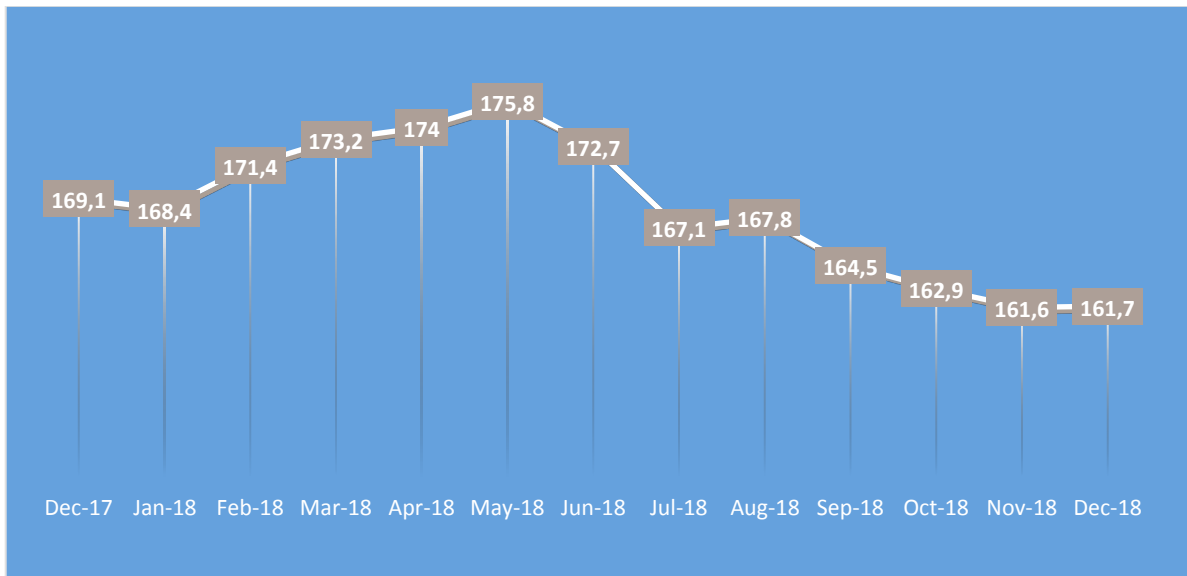
FAO Food Price Index

Chart 8 shows that the FAO **Food Price Index**² (FFPI) averaged at 161.7 points in December 2018, nearly unchanged from its November value as lower dairy and sugar quotations were largely offset by firmer cereal prices and somewhat higher prices of meat and oils. Overall in 2018, the FFPI averaged at 168.4 points, down by 3.5 percent from 2017. Sugar values dropped the most in 2018, similarly vegetable oil, meat and dairy prices also register year-on-year decreases. However, international prices of all major cereals rose in 2018.

The **FAO Cereal Price Index** averaged at 167.1 points in December 2018, 1.8 percent higher than in November and 9.6 percent above December 2017. The increase was mainly reflected in wheat and maize prices. The **FAO Vegetable Oil Price Index** averaged at 125.8 points in December 2018, up by 0.4 percent from November 2018, marking the first rebound after ten consecutive monthly declines. The decline reflects weakening prices across the vegetable oil sector. The **FAO Meat Price Index** averaged at 163.6 points in December 2018, 0.8 percent higher than its value for November 2018. The **FAO Dairy Price Index** averaged at 170.0 points in December 2018, down by 3.3 percent from November 2018, continuing the downward trajectory for the seventh consecutive month. The **FAO Sugar Price Index** averaged at 179.6 points in December 2018, down by 1.9 percent from November 2018. International sugar prices fell under renewed downward pressure, in part because of reportedly faster growth in sugar production in India in recent months. Falling international prices of crude oil also contributed to the slide in sugar quotations, as lower energy prices tend to reduce the use of sugarcane to produce ethanol, resulting in more supplies for the production of sugar, notably in Brazil.

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

Chart 8: FAO Food Price Index

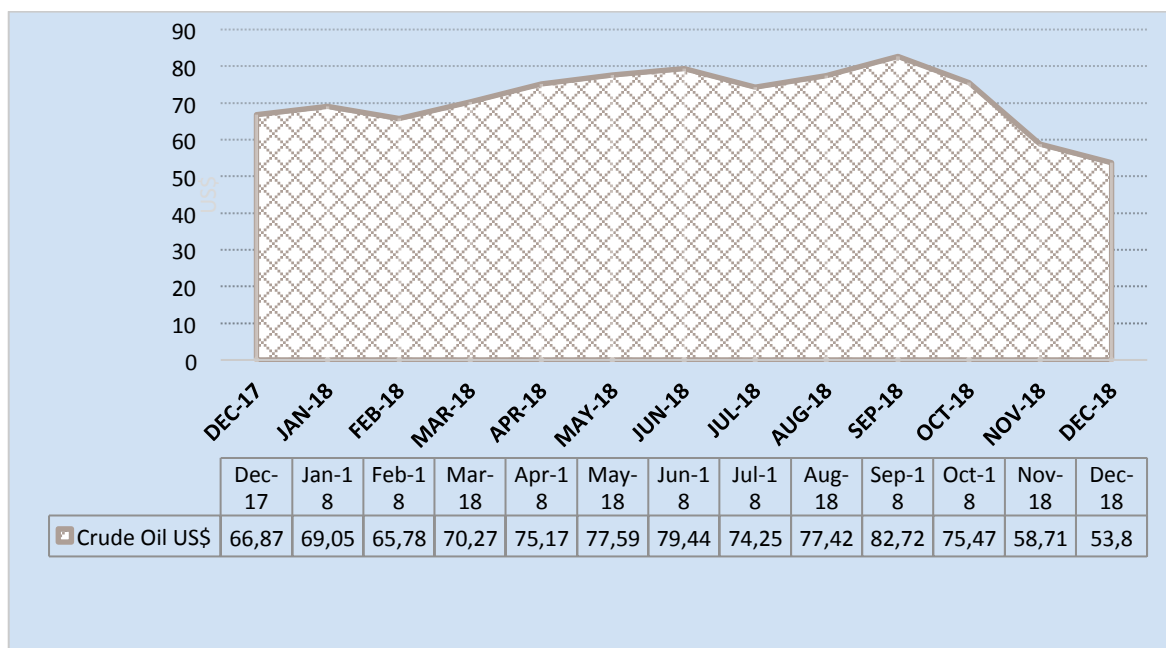


Source: Food and Agriculture Organization of the United Nations

Brent Crude Oil Prices

Brent crude oil price closed at USD53.80 per barrel at the end of December 2018, which was 8.4 percent lower than at the end of November 2018. Year-on-year, the price level was lower than the USD66.87 per barrel recorded at the end of December 2017 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Appendix

Annual Inflation Rates by Main Categories (December 2018)

| Main Categories | Botswana | Eswatini | Lesotho | Namibia | South Africa |
|--|------------|------------|------------|------------|--------------|
| Food & non-alcoholic beverages | -0.2 | 0.5 | 5.3 | 5.2 | 3.0 |
| Alcoholic beverages & tobacco | 0.9 | 2.7 | 5.0 | 5.9 | 4.9 |
| Clothing & footwear | 1.6 | 0.1 | 2.7 | -0.2 | 1.7 |
| Housing, water, electricity, gas & other fuels | 3.5 | 14.0 | 14.0 | 3.1 | 5.4 |
| Furnishings, household equipment &... | 2.1 | 2.6 | 3.1 | 2.0 | 3.2 |
| Health | 1.1 | 0.8 | 1.2 | 4.8 | 5.2 |
| Transport | 10.0 | 2.4 | 6.7 | 10.9 | 6.0 |
| Communications | -9.2 | 0.0 | 0.0 | 1.2 | 1.4 |
| Recreation & Culture | 1.5 | 3.0 | 5.3 | 5.5 | 1.1 |
| Education | 5.4 | 6.9 | 1.4 | 9.9 | 6.7 |
| Hotels, cafés & restaurants | 2.9 | 1.5 | 2.2 | 4.3 | 3.7 |
| Miscellaneous goods & services | 6.5 | 0.9 | 3.1 | 4.0 | 5.6 |
| All Items | 3.5 | 5.2 | 5.4 | 5.1 | 4.5 |

Source: SACU Member States Statistics Offices

Consumer Price Index Basket Weights

| Main Categories | Botswana | Eswatini | Lesotho | Namibia | South Africa |
|---|---------------|---------------|---------------|---------------|---------------|
| <i>Food & non-alcoholic beverages</i> | 16.51 | 29.22 | 36.11 | 16.45 | 17.24 |
| <i>Alcoholic beverages & tobacco</i> | 7.83 | 0.39 | 3.33 | 12.59 | 5.82 |
| <i>Clothing & footwear</i> | 6.27 | 3.42 | 13.05 | 3.05 | 3.83 |
| <i>Housing, water, electricity, gas & other fuels</i> | 14.90 | 29.15 | 12.39 | 28.36 | 24.62 |
| <i>Furnishings, household equipment &...</i> | 6.39 | 4.75 | 8.48 | 5.47 | 4.35 |
| <i>Health</i> | 3.62 | 3.39 | 1.50 | 2.01 | 1.40 |
| <i>Transport</i> | 20.65 | 10.50 | 4.82 | 14.28 | 14.28 |
| <i>Communications</i> | 4.27 | 2.74 | 2.11 | 3.81 | 2.63 |
| <i>Recreation & Culture</i> | 2.92 | 1.07 | 5.71 | 3.55 | 5.16 |
| <i>Education</i> | 3.34 | 9.11 | 4.20 | 3.65 | 2.53 |
| <i>Hotels, cafés & restaurants</i> | 2.76 | 1.79 | 1.03 | 1.39 | 3.09 |
| <i>Miscellaneous goods & services</i> | 10.55 | 4.47 | 7.25 | 5.39 | 15.05 |
| All Items | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Source: SACU Member States Statistics Offices