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SACU INFLATION REPORT

July 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.

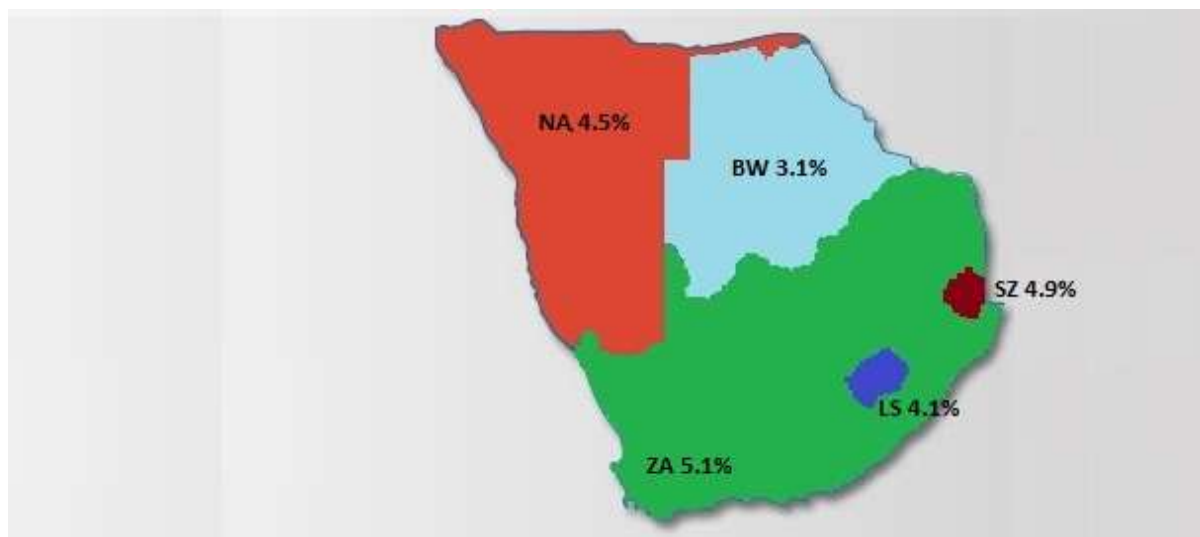
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the corresponding month in the previous year (year-on-year 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 July 2018 compared to the preceding month, it was observed that prices accelerated in Lesotho, Namibia and South Africa, while it remained unchanged in Botswana and Eswatini. South Africa recorded the highest change in consumer prices in July 2018 recording a rate of 5.1 percent followed by Eswatini at 4.9 percent, Namibia (4.5 percent), Lesotho (4.1 percent), and Botswana (3.1 percent). All Member States continued to record a single digit annual inflation rate during the month of July 2018.

Inflation Rate in SACU Member States

Consumer prices advanced at a higher rate in July 2018 compared to the preceding month in Namibia and South Africa, while prices slightly increased in Lesotho. Consumer prices remained unchanged in July 2018 in Botswana and Eswatini compared to June 2018. **Map I** shows that South Africa recorded the highest change in consumer prices in July 2018 recording a rate of 5.1 percent followed by Eswatini at 4.9 percent, Namibia (4.5 percent), Lesotho (4.1 percent), and Botswana (3.1 percent). All Member States continued to record a single digit annual inflation rate during the month of July 2018.

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

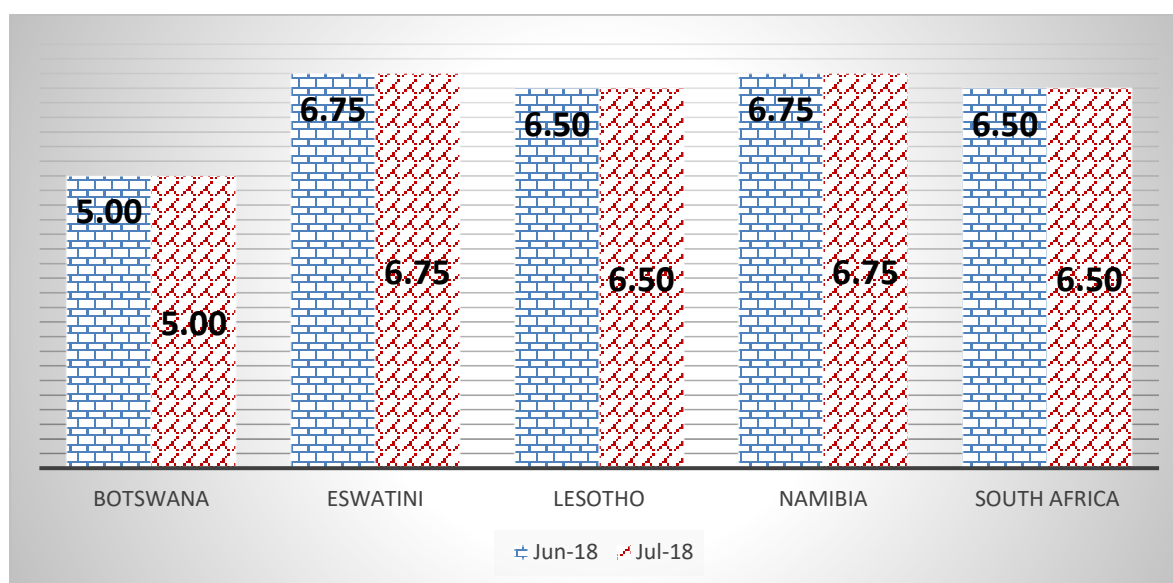


Source: Member States Statistics Offices; (BW-Botswana; LS –Lesotho; NA-Namibia; ZA-South Africa; SZ- Swaziland)

By the end of July 2018, monetary policy stance in Member States continued to remain accommodative with the repo rate / bank rate¹ ranging between 5.00 percent and 6.75 percent, as depicted in **Chart I**. Monetary stance was unaltered between July 2018 and June 2018 in all Member States. During the month of July 2018, the highest prime lending rate was observed in Lesotho at 11.2 percent, followed by Namibia at 10.50 percent, Eswatini at 10.25 percent, South Africa at 10.00 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

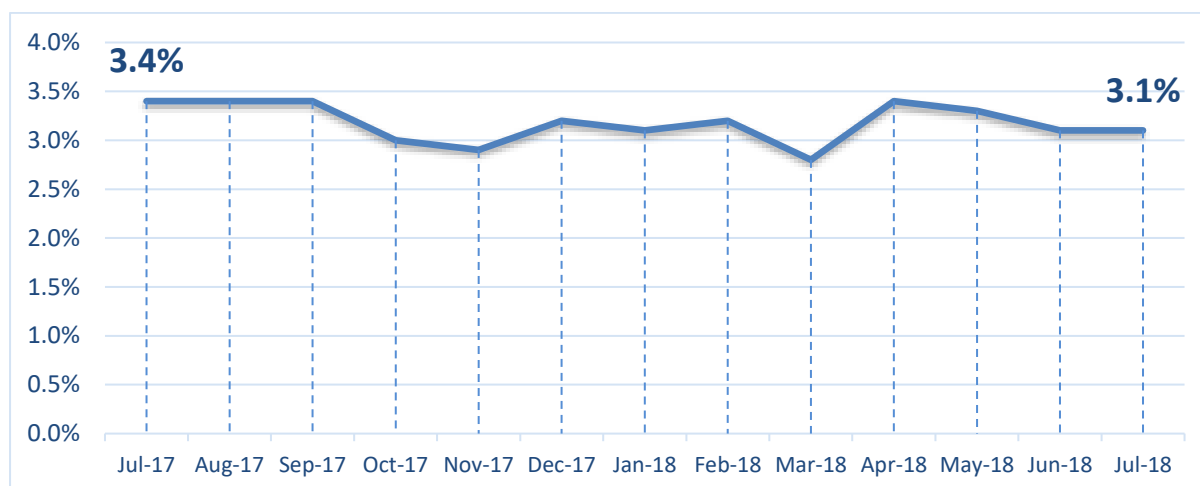


Source: Member States' Central Banks

In **Botswana**, the annual inflation rate decelerated to 3.1 percent in July 2018 unchanged from the preceding month, as reflected in **Chart 2**. The annual rate in July 2018 was lower than the 3.5 percent recorded during a similar month in 2017. The deceleration in the annual inflation rate in July 2018 when compared to July 2017 was mainly driven by the decline of prices in *food & non-alcoholic beverages* (-1.1 percent compared to 4.3 percent in July 2017) and *housing & utilities* (3.5 percent compared to 6.3 percent in July 2017) which accounts for 16.51 percent and 14.90 percent of the overall inflation basket, respectively. Inflation rates of the other main categories based on the basket weights shows that *transport* increased by 7.7 percent in July 2018 compared to an increase of 1.4 percent during the corresponding month in 2017.

On average, consumer prices increased by 0.2 percent between July 2018 and June 2018. The annual inflation rate recorded in July 2018 remained within the inflation target range of 3 – 6 percent set out by the Bank of Botswana.

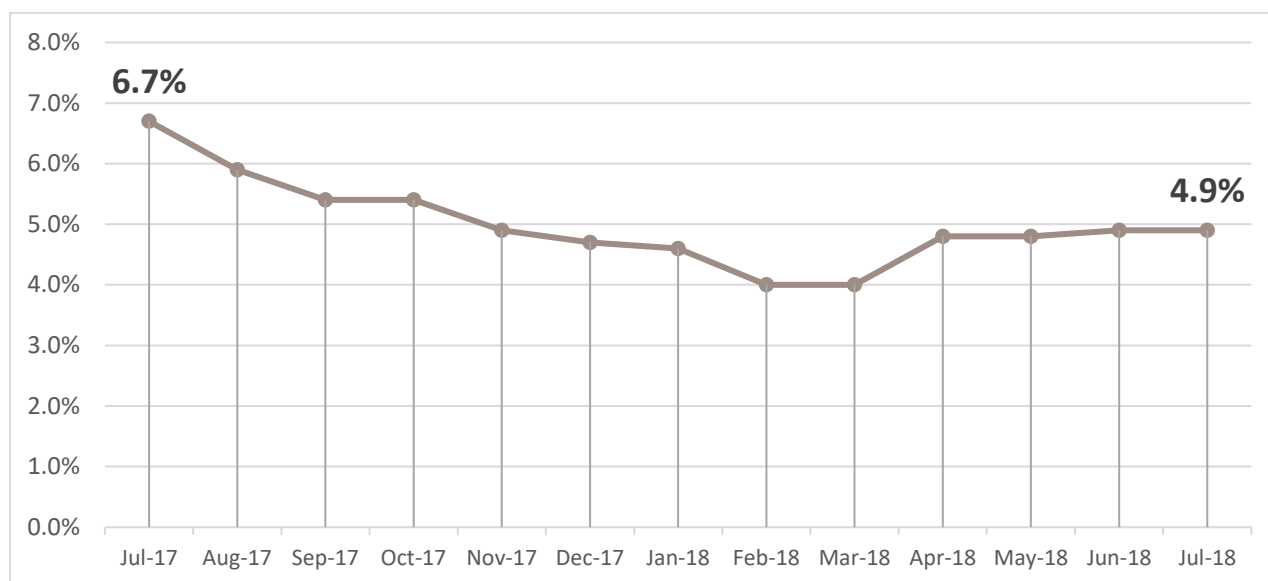
Chart 2: Botswana Annual Inflation Rates



Source: Statistics Botswana

In **Eswatini**, the annual inflation rate increased by 4.9 percent in July 2018 unchanged from the preceding month as indicated in **Chart 3**. Annual inflation rate in July 2018 was lower than the 6.7 percent recorded during a similar month in 2017. The main contributor to the deceleration in prices between July 2018 and July 2017 was mainly due to the decline in prices of *food & non-alcoholic beverages* (-1.1 percent down from 8.0 percent in July 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 13.9 percent and 4.3 percent, respectively, in July 2018. On average, prices declined by 0.1 percent between July 2018 and June 2018.

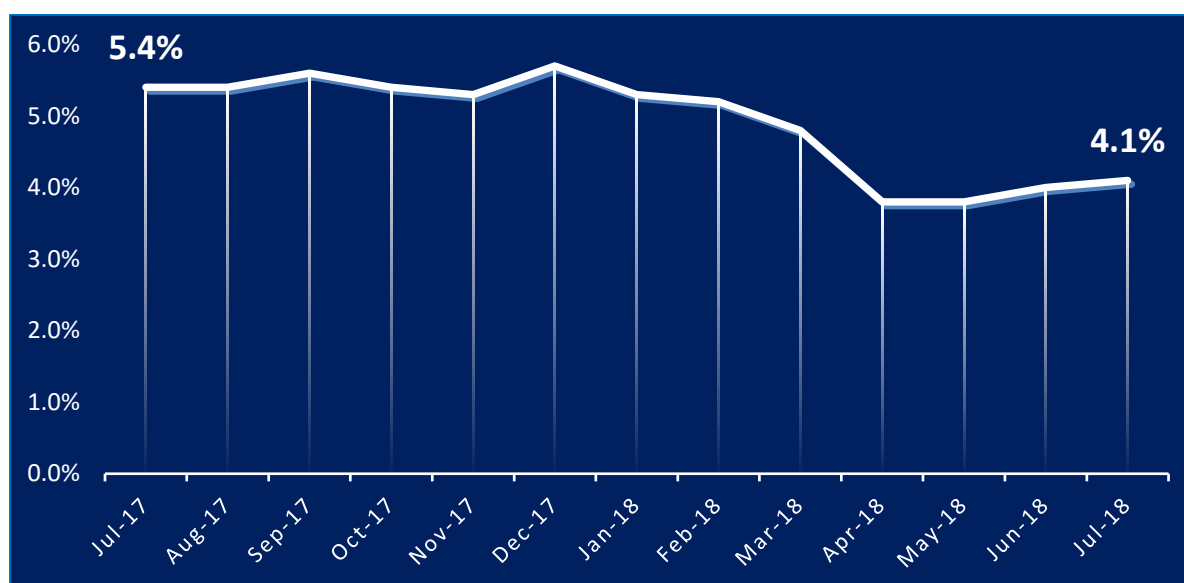
Chart 3: Eswatini Annual Inflation Rates



Source: Central Statistics Office

In **Lesotho**, the annual inflation rate increased by 4.1 percent in July 2018 compared to 4.0 percent in the preceding month as reflected in **Chart 4**. A year earlier inflation rate was 5.4 percent during the corresponding month. The main driver of the deceleration in annual inflation rate between July 2018 and July 2017 was mainly reflected in the decline in cost of *food & non-alcoholic* category (4.4 percent down from 7.9 percent in July 2017) and *clothing & footwear* category (1.7 percent down from 2.6 percent in July 2017) that accounts for 36.1 percent and 13.1 percent of the overall inflation basket, respectively. The other main category based on the basket weights, the *housing & utilities* category reflected that prices increased by 8.3 percent in July 2018. On average, prices increased by 0.3 percent between July 2018 and June 2018.

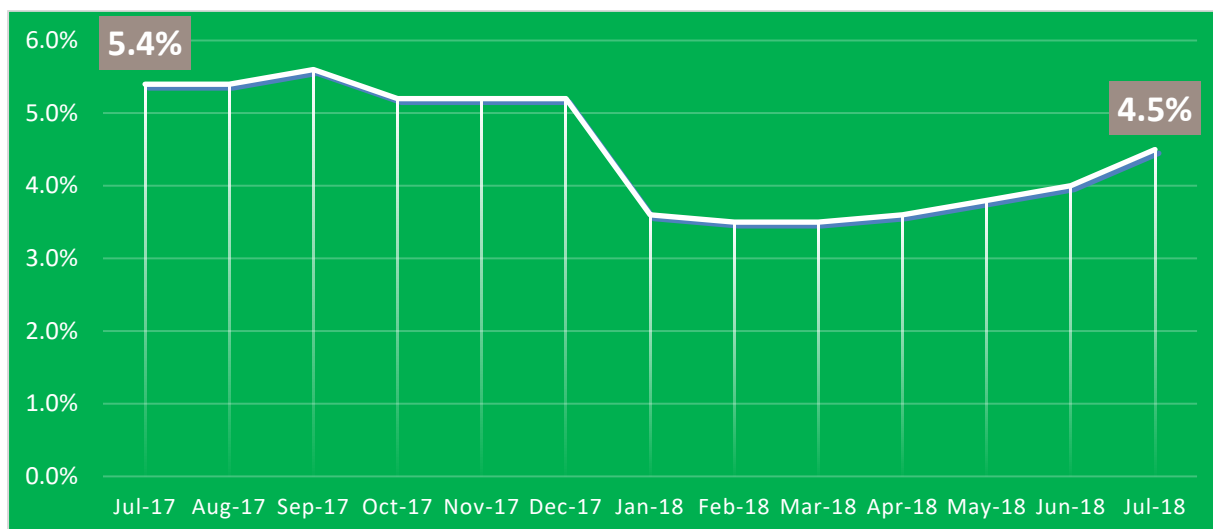
Chart 4: Lesotho Annual Inflation Rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate increased by 4.5 percent in July 2018 compared to 4.0 percent in the previous month. A year earlier inflation rate was 5.4 percent during the corresponding month as reflected in **Chart 5**. The deceleration in the annual inflation rate between July 2018 and July 2017 was mainly reflected in prices of *housing & utilities* (3.7 percent down from 9.1 percent in July 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* categories recorded increase in prices of 2.9 percent and 8.9 percent, respectively in July 2018. On average, prices increased by 0.2 percent between July 2018 and June 2018.

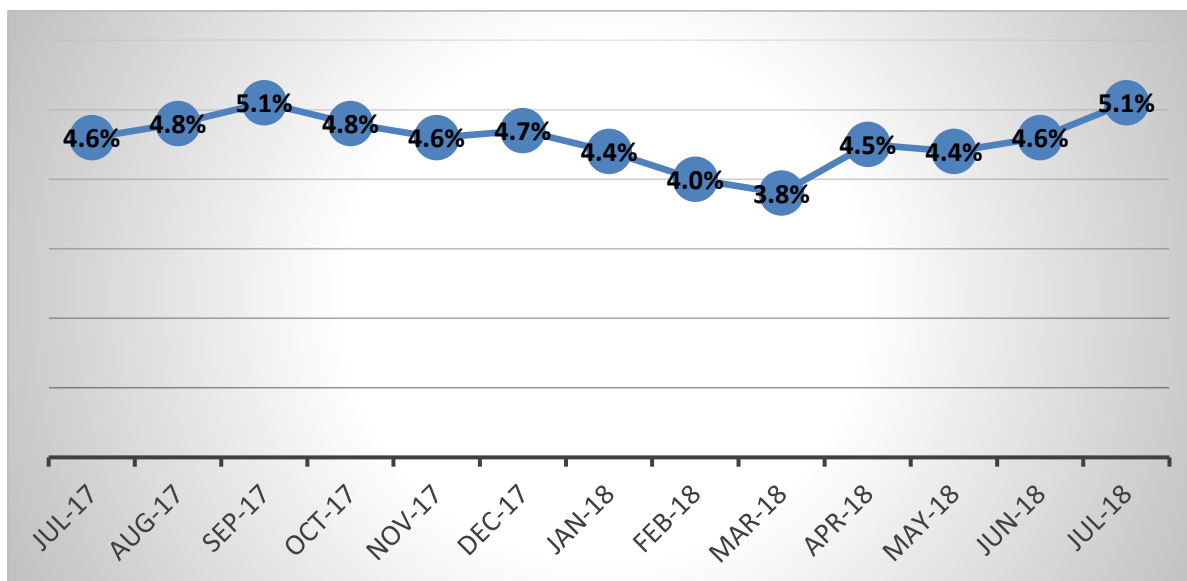
Chart 5: Namibia Annual Inflation Rates



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate increased by 5.1 percent in July 2018 compared to 4.6 percent recorded in the previous month as depicted in **Chart 6**. The annual rate in July 2018 was higher than the 4.6 percent recorded during the similar month in 2017. The main contributors to the annual inflation rate in July 2018 were *transport (1.4 percentage points)* followed by *housing & utilities (1.3 percentage points)* and *miscellaneous goods & services (0.9 percentage points)*. On average, prices increased by 0.8 percent between July 2018 and June 2018. The annual inflation rate in July 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

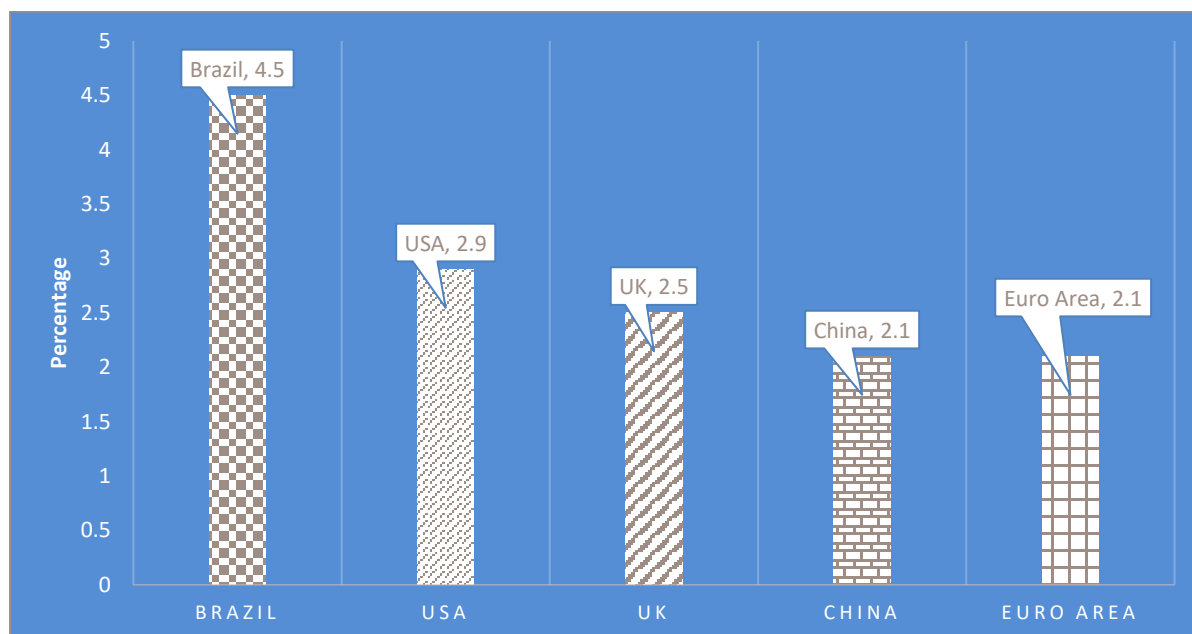


Source: Statistics South Africa

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in selected economies for the month of July 2018. In **Brazil**, inflation rate rose by 4.5 percent in July 2018 compared to 4.4 percent in the previous month and the rate was 2.7 percent in July 2017. In the **USA**, inflation rate rose by 2.9 percent in July 2018 unchanged from the preceding month, and 1.7 percent in July 2017. While in the **UK** consumer prices rose by 2.5 percent in July 2018 compared to 2.4 percent in June 2018, while the rate was 2.6 percent in July 2017. In **China** consumer prices rose by 2.1 percent compared to 1.9 percent in the preceding month while the rate was 1.4 percent. In the **Euro area** annual inflation was 2.1 percent in July 2018 compared with 2.0 percent in June 2018, while the rate was 1.3 percent during a similar month in 2017.

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

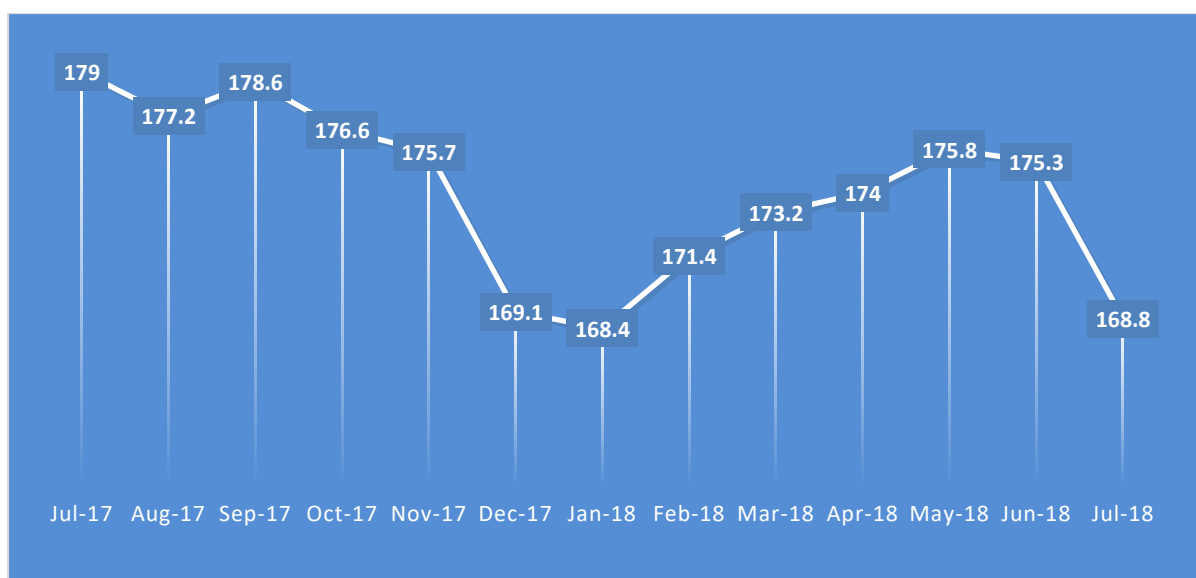


Source: inflation.eu

FAO Food Price Index

Chart 8 shows that the FAO **Food Price Index**² (FFPI) averaged 168.8 points in July 2018, down by 3.7 percent from June 2018. The July fall marked the first significant month-on-month decline in the value of the FFPI since December 2017, reflecting notable drops in the values of all sub-indices. The **FAO Cereal Price Index** averaged 160.9 points in July 2018, down by 3.6 percent from June 2018. The decline in July was driven by weaker export quotations for wheat, maize and rice. The **FAO Vegetable Oil Price Index** averaged 141.9 points in July 2018, down by 2.9 percent from June 2018, marking a sixth consecutive fall and a two-and-a-half year low. The latest slide mostly reflects weakening values of palm oil and soy oil. The **FAO Meat Price Index** averaged 170.7 points in July 2018, down by 1.9 percent from June 2018. Overall, price quotations for bovine meat fell, while those of pig and poultry meat also weakened. However, ovine meat prices increased marginally on strong import demand, especially from China and the United States. The **FAO Dairy Price Index** averaged 199.1 points in July 2018, down by 6.6 percent from June 2018 this was reflected in all dairy commodities. The **FAO Sugar Price Index** averaged 166.7 points in July 2018, down by 6 percent from June 2018. The sharp decline in July was largely driven by improved production prospects in the main sugar producing countries, notably India and Thailand.

Chart 8: FAO Food Price Index



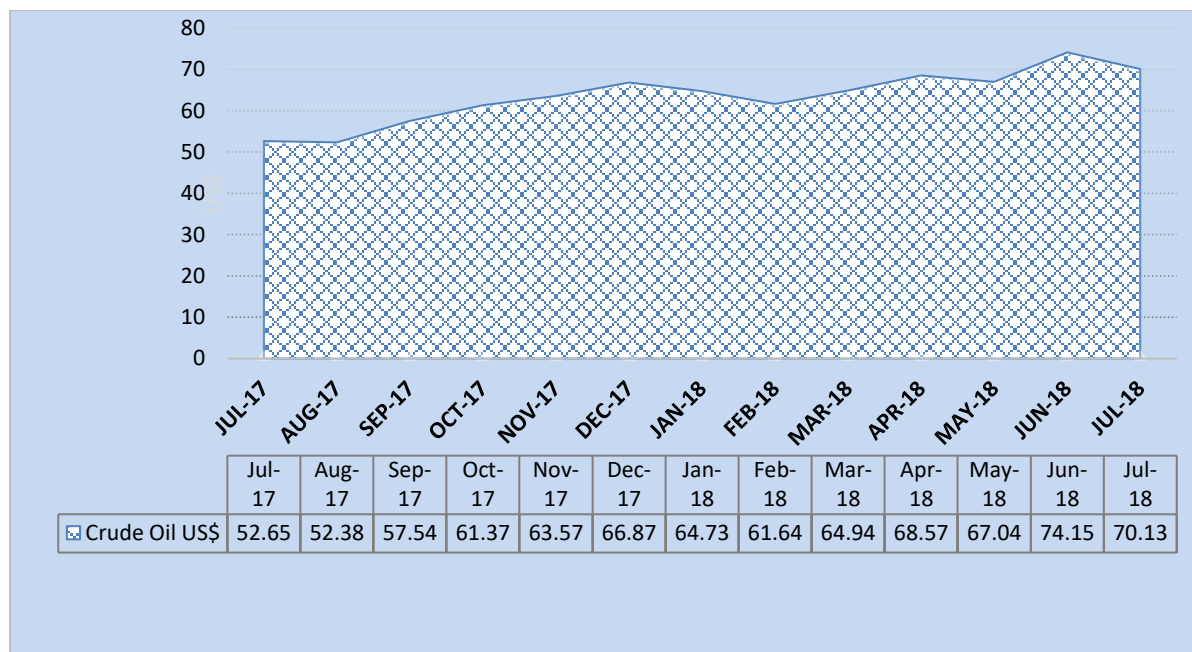
Source: Food and Agriculture Organization of the United Nations

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 USD70.13 per barrel at the end of July 2018, which was 5.4 percent lower than at the end of June 2018. Year-on-year, the price level was higher than the USD52.65 per barrel recorded at the end of July 2017 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual Inflation Rates by Main Categories (July 2018)

Main Categories	Botswana	Eswatini	Lesotho	Namibia	South Africa
Food & non-alcoholic beverages	-1.1	-1.1	4.4	2.9	3.4
Alcoholic beverages & tobacco	0.8	2.8	5.9	6.8	6.0
Clothing & footwear	2.0	-1.6	1.7	-5.0	1.8
Housing, water, electricity, gas & other fuels	3.5	13.9	8.3	3.7	5.2
Furnishings, household equipment &...	2.0	2.1	3.4	0.6	2.8
Health	0.8	1.1	0.8	5.1	4.4
Transport	7.7	4.3	5.5	8.9	10.0
Communications	-8.2	-1.1	-0.8	0.3	1.1
Recreation & Culture	2.0	3.9	4.1	3.1	0.4
Education	5.4	7.8	2.1	9.9	6.7
Hotels, cafés & restaurants	3.6	4.8	2.3	6.1	4.2
Miscellaneous goods & services	7.6	0.2	2.5	4.0	5.7
All Items	3.1	4.9	4.1	4.5	5.1

Source: SACU Member States Statistics Offices

Consumer Price Index Basket Weights

Main Categories	Botswana	Eswatini	Lesotho	Namibia	South Africa
Food & non-alcoholic beverages	16.51	29.22	36.1	16.45	17.24
Alcoholic beverages & tobacco	7.83	0.39	3.3	12.59	5.82
Clothing & footwear	6.27	3.42	13.1	3.05	3.83
Housing, water, electricity, gas & other fuels	14.90	29.15	12.4	28.36	24.62
Furnishings, household equipment &...	6.39	4.75	8.5	5.47	4.35
Health	3.62	3.39	1.5	2.01	1.40
Transport	20.65	10.50	4.8	14.28	14.28
Communications	4.27	2.74	2.1	3.81	2.63
Recreation & Culture	2.92	1.07	5.7	3.55	5.16
Education	3.34	9.11	4.2	3.65	2.53
Hotels, cafés & restaurants	2.76	1.79	1.0	1.39	3.09
Miscellaneous goods & services	10.55	4.47	7.3	5.39	15.05
All Items	100.00	100.00	100.00	100.00	100.00

Source: SACU Member States Statistics Offices