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SACU INFLATION REPORT

October 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.

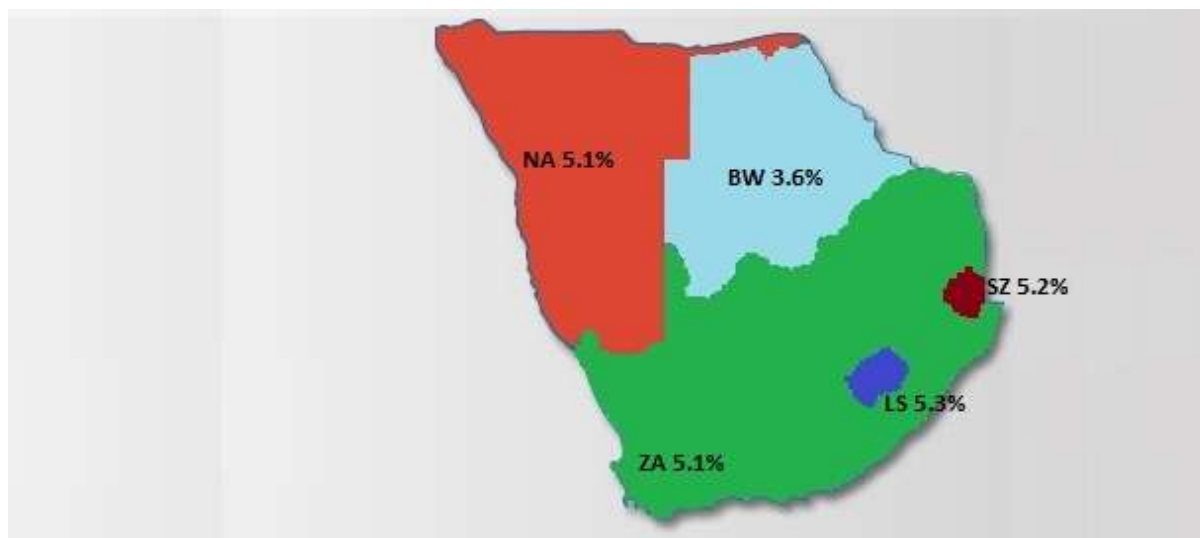
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the corresponding month in the previous year (year-on-year 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 October 2018 compared to the preceding month, it was observed that prices accelerated in all Member States. Lesotho recorded the highest change in consumer prices in October 2018 recording a rate of 5.3 percent followed by Eswatini at 5.2 percent, South Africa (5.1 percent), Namibia (5.1 percent), and Botswana (3.6 percent). All Member States continued to record a single digit annual inflation rate during the month of October 2018.

Inflation Rate in SACU Member States

Consumer prices advanced at a higher rate in October 2018 compared to the preceding month in all Member States. **Map I** shows that Lesotho recorded the highest change in consumer prices in October 2018 recording a rate of 5.3 percent followed by Eswatini at 5.2 percent, South Africa (5.1 percent), Namibia (5.1 percent), and Botswana (3.6 percent). All Member States continued to record a single digit annual inflation rate during the month of October 2018.

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

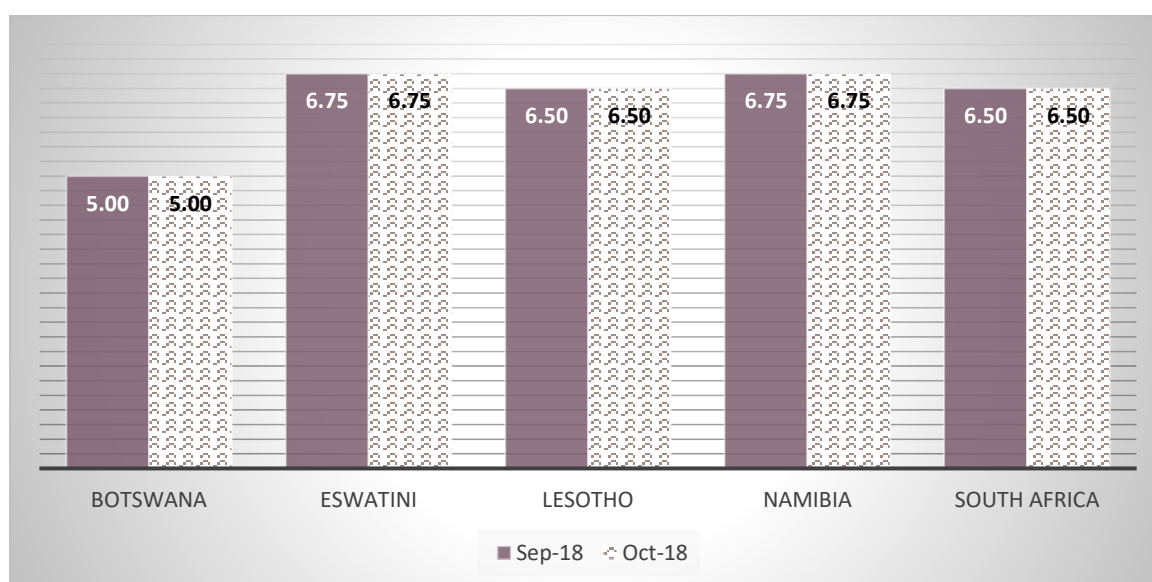


Source: Member States Statistics Offices; (BW-Botswana; LS –Lesotho; NA-Namibia; ZA-South Africa; SZ- Eswatini)

By the end of October 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 October 2018 and September 2018 in all Member States. During the month of October 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

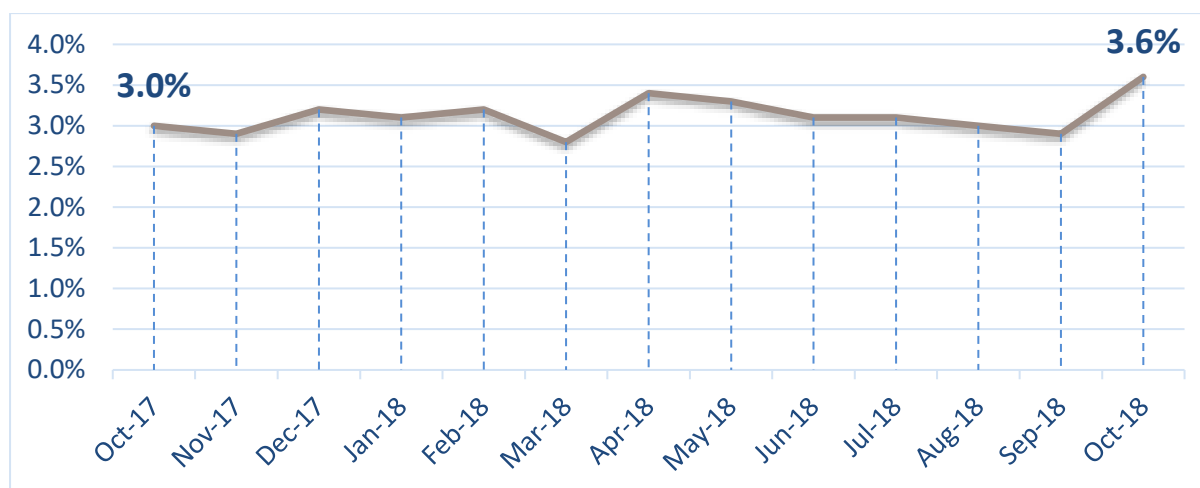
Chart 1: Member States' Repo/Bank rates



Source: Member States' Central Banks

In **Botswana**, the annual inflation rate accelerated to 3.6 percent in October 2018 compared to 2.9 percent in the preceding month, this was the first increase after 6 month of downward trajectory, as reflected in **Chart 2**. The annual rate in October 2018 was higher than the 3.0 percent recorded during a similar month in 2017. The acceleration in the annual inflation rate in October 2018 when compared to October 2017 was mainly driven by the rise of prices in *miscellaneous goods & services (6.8 percent compared to 2.4 percent in October 2017)*. The main categories based on the basket weights performed as follows: *food & non-alcoholic beverages (-1.1 percent compared to 2.4 percent in October 2017)*; *housing & utilities (3.5 percent compared to 5.7 percent in October 2017)* and *transport (11.0 percent compared to 1.7 percent in October 2017)*. On average, consumer prices increased by 0.7 percent between October 2018 and September 2018. The annual inflation rate recorded in October 2018 was within the inflation target range of 3 – 6 percent set out by the Bank of Botswana.

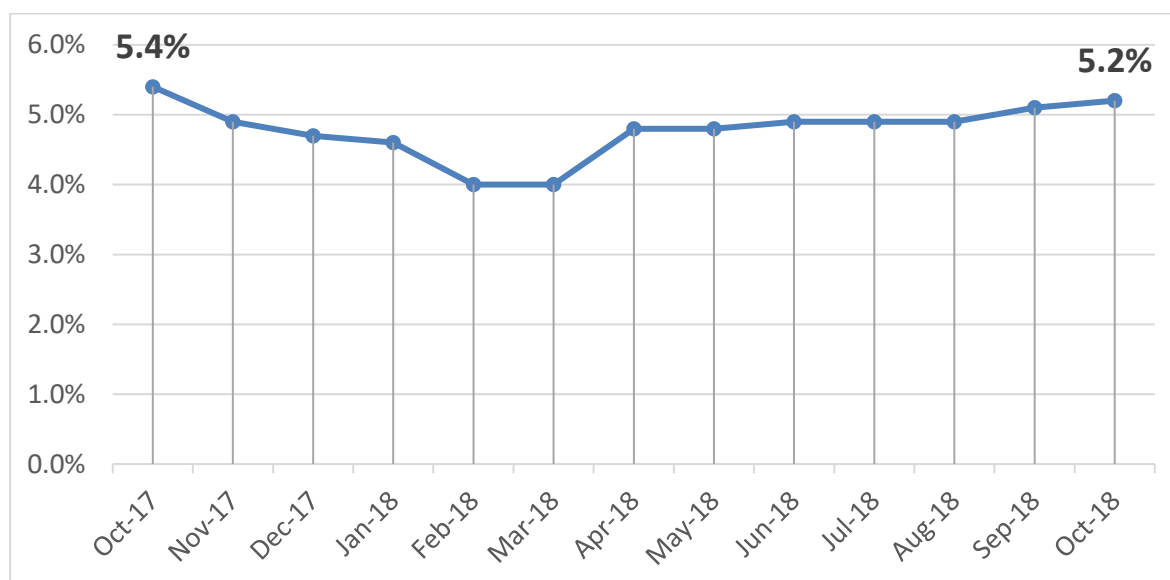
Chart 2: Botswana Annual Inflation Rates



Source: Statistics Botswana

In **Eswatini**, the annual inflation rate increased by 5.2 percent in October 2018 compared to 5.1 percent in the preceding month as indicated in **Chart 3**. Annual inflation rate in October 2018 was lower than the 5.4 percent recorded during a similar month in 2017. The main contributor to the deceleration in prices between October 2018 and October 2017 was mainly due to the decline in prices of *food & non-alcoholic beverages* (0.1 percent down from 4.7 percent in October 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 13.8 percent and 4.0 percent, respectively, in October 2018. On average, prices increased by 0.3 percent between October 2018 and September 2018.

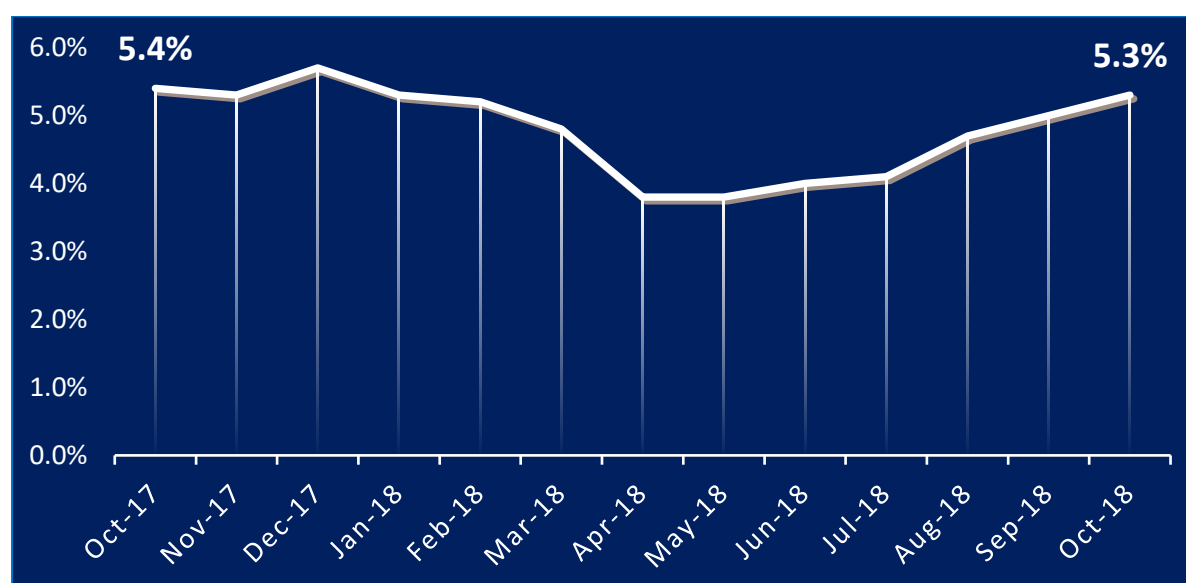
Chart 3: Eswatini Annual Inflation Rates



Source: Central Statistics Office

In **Lesotho**, the annual inflation rate increased by 5.3 percent in October 2018 compared to 5.0 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 October 2018 and October 2017 was mainly reflected in the decline in cost of *food & non-alcoholic* category (4.7 percent down from 7.2 percent in October 2017) that accounts for 36.1 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 2.5 percent and 13.3 percent, respectively in October 2018. On average, prices increased by 0.5 percent between October 2018 and September 2018.

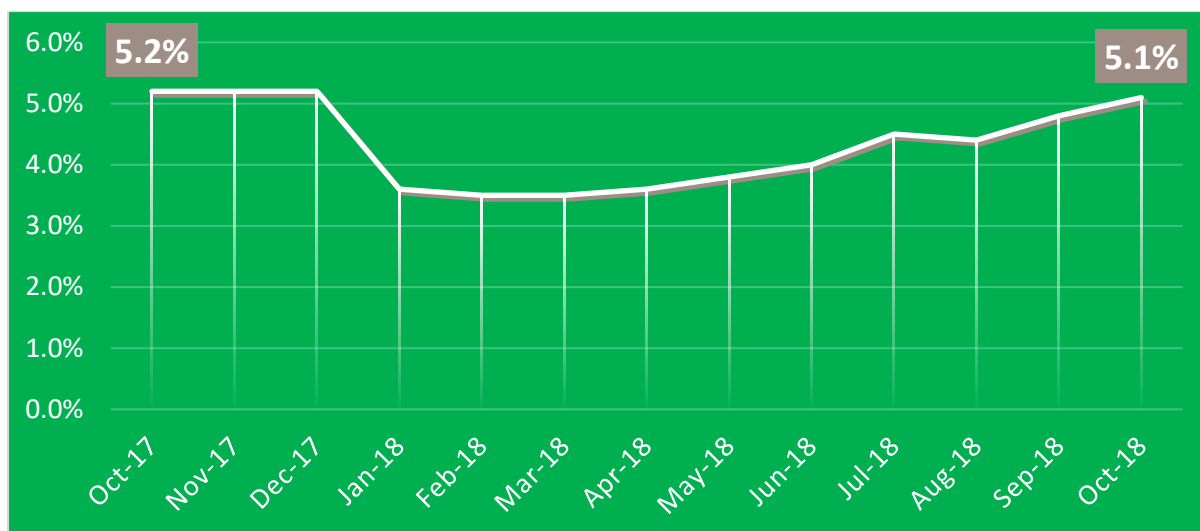
Chart 4: Lesotho Annual Inflation Rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate increased by 5.1 percent in October 2018 compared to 4.8 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 October 2018 and October 2017 was mainly reflected in prices of *housing & utilities* (3.8 percent down from 8.6 percent in October 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 3.0 percent and 13.6 percent, respectively in October 2018. On average, prices increased by 0.4 percent between October 2018 and September 2018.

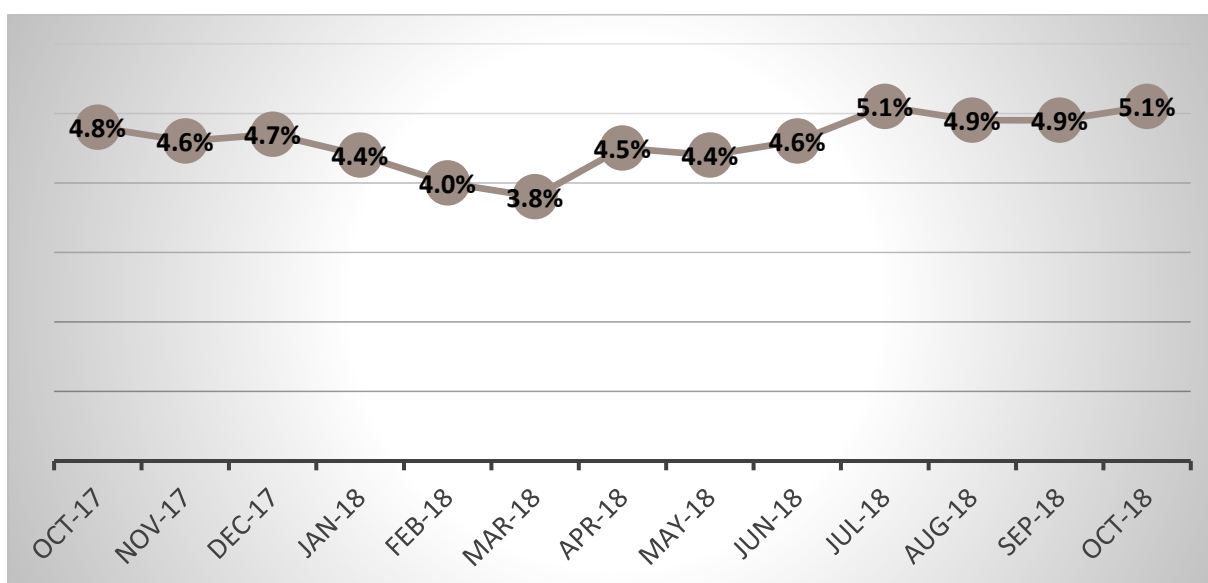
Chart 5: Namibia Annual Inflation Rates



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate increased by 5.1 percent in October 2018 compared with 4.9 percent in the previous month as depicted in **Chart 6**. The annual rate in October 2018 was higher than the 4.8 percent recorded during the similar month in 2017. The main contributors to the annual inflation rate in October 2018 were *transport (1.5 percentage points)* followed by *housing & utilities (1.3 percentage points)* and *miscellaneous goods & services (0.8 percentage points)*. On average, prices increased by 0.5 percent between October 2018 and September 2018. The annual inflation rate in October 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

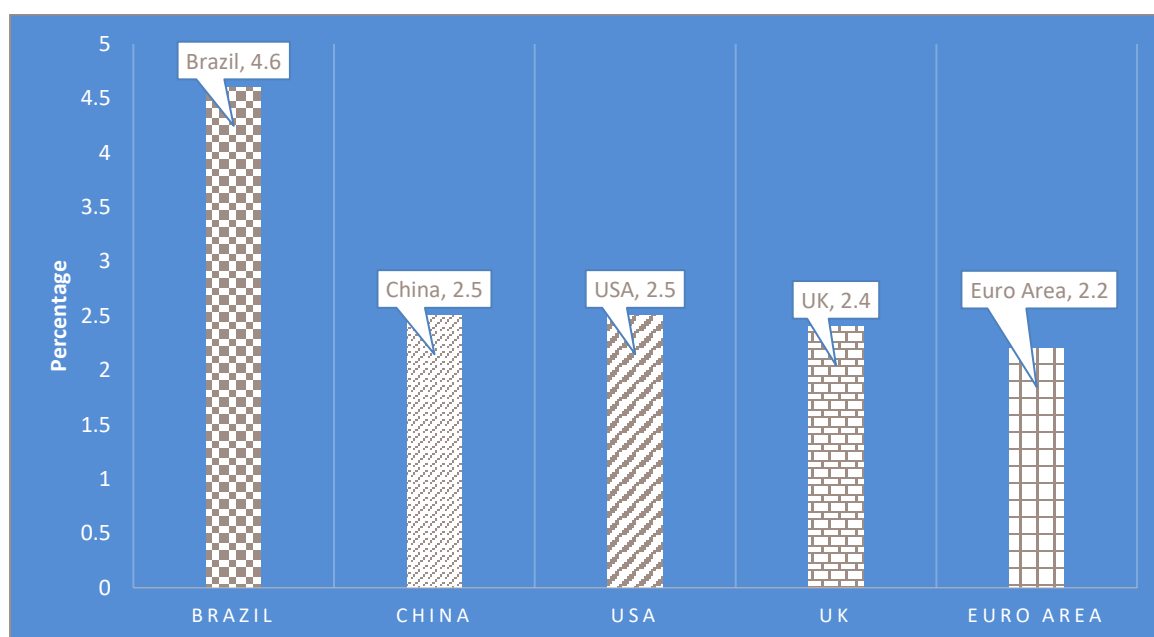


Source: Statistics South Africa

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in selected economies for the month of October 2018. In **Brazil**, inflation rate rose by 4.6 percent in October 2018 compared to 4.5 percent in the previous month and the rate was 2.7 percent in October 2017. In **China** consumer prices rose by 2.5 percent unchanged from the preceding month while the rate was 1.9 percent during a similar month in 2017. While in the **USA**, inflation rate rose by 2.5 percent in October 2018 compared to 2.3 percent in the preceding month, and 2.0 percent in October 2017. In the **UK**, inflation rate rose by 2.4 percent in October 2018 unchanged from the preceding month, and 3.0 percent in October 2017. In the **Euro area** annual inflation was 2.2 percent in October 2018 compared with 2.1 percent in September 2018, while the rate was 1.4 percent during a similar month in 2017.

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



Source: *inflation.eu*

FAO Food Price Index

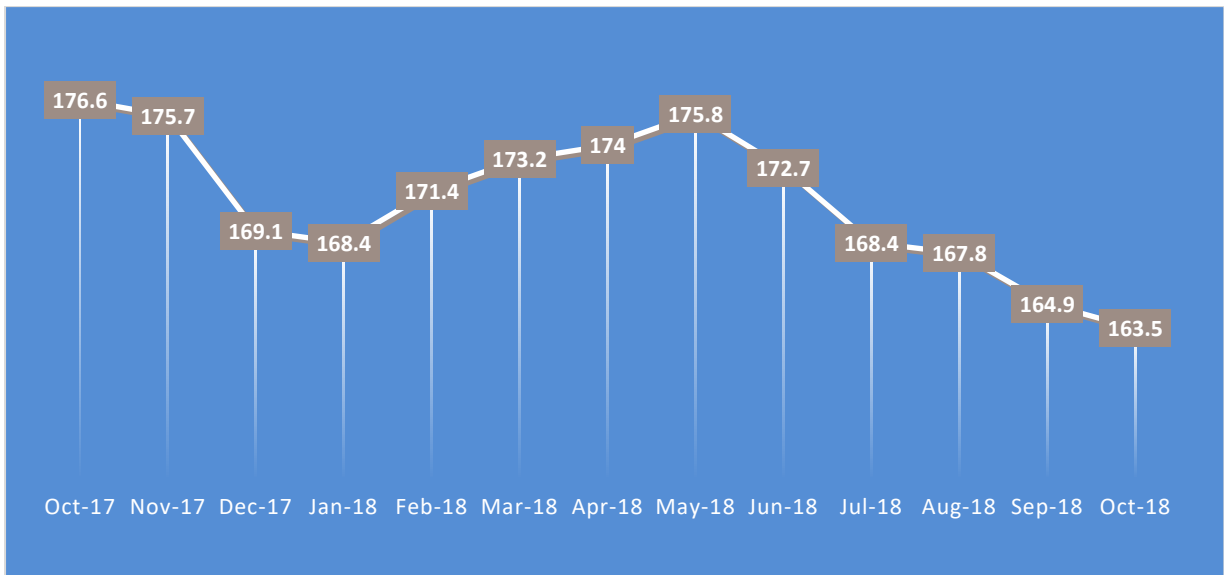
Chart 8 shows that the **FAO Food Price Index**² (FFPI) averaged at 163.5 points in October 2018, down by 0.9 percent from September 2018. The decline in the FFPI was mainly due to the falling dairy, meat and oils prices, which more than offset a surge in sugar prices and a more moderate increase in the prices of cereals.

The **FAO Cereal Price Index** averaged at 166.3 points in October 2018, up by 1.3 percent from September 2018. The increase was mainly reflected in the maize export quotations and wheat prices. The **FAO Vegetable Oil Price Index** averaged at 132.9 points in October 2018, down by 1.5 percent from September 2018. Falling for the ninth month in succession, the index dropped to its lowest level since April 2009. The decline was mostly driven by lower price quotations of palm oil, reflecting persistent pressure from large inventories held by major exporting countries amid sluggish global import demand. The **FAO Dairy Price Index** averaged at 181.8 points in October 2018, down by 4.8 percent from the previous month, continuing the downward trajectory for the fifth consecutive month. Price quotations of all the dairy products represented in the index fell in October 2018.

The **FAO Meat Price Index** averaged at 161.6 points in October 2018, down by 2.0 percent from September 2018. The prices for all main meat categories represented in the index eased, with ovine meat falling the most, followed by pig meat, bovine and poultry meat. The **FAO Sugar Price Index** averaged at 175.4 points in October 2018, up by 8.7 percent from September 2018. The increase in sugar price quotations is mainly attributed to negative production prospects in the major sugar producing regions, notably in India and Indonesia, mostly as a result of climate-related events.

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

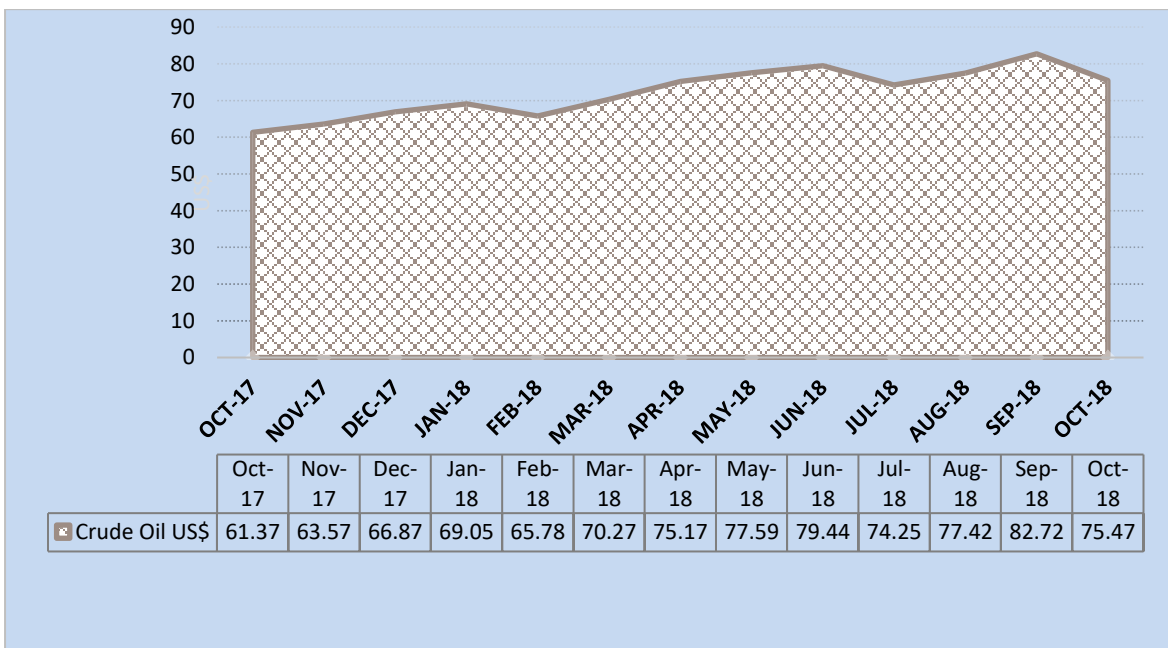


Source: Food and Agriculture Organization of the United Nations

Brent Crude Oil Prices

Brent crude oil price closed at USD75.47 per barrel at the end of October 2018, which was 8.8 percent lower than at the end of September 2018. Year-on-year, the price level was higher than the USD61.37 per barrel recorded at the end of October 2017 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual Inflation Rates by Main Categories (October 2018)

Main Categories	Botswana	Eswatini	Lesotho	Namibia	South Africa
Food & non-alcoholic beverages	-1.1	0.1	4.7	3.0	3.4
Alcoholic beverages & tobacco	1.1	2.6	5.6	4.9	4.2
Clothing & footwear	1.4	0.1	2.5	0.3	2.0
Housing, water, electricity, gas & other fuels	3.5	13.8	13.3	3.8	5.2
Furnishings, household equipment &...	2.0	2.2	3.4	0.9	3.0
Health	1.0	1.0	1.0	4.8	5.0
Transport	11.0	4.0	11.3	13.6	10.5
Communications	-9.1	0.0	0.0	1.1	1.2
Recreation & Culture	1.5	3.8	4.6	4.8	0.7
Education	5.4	6.9	1.5	9.9	6.7
Hotels, cafés & restaurants	3.2	1.6	2.3	3.5	4.2
Miscellaneous goods & services	6.8	1.0	2.9	4.4	5.4
All Items	3.6	5.2	5.3	5.1	5.1

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	36.1	16.45	17.24
<i>Alcoholic beverages & tobacco</i>	7.83	0.39	3.3	12.59	5.82
<i>Clothing & footwear</i>	6.27	3.42	13.1	3.05	3.83
<i>Housing, water, electricity, gas & other fuels</i>	14.90	29.15	12.4	28.36	24.62
<i>Furnishings, household equipment &...</i>	6.39	4.75	8.5	5.47	4.35
<i>Health</i>	3.62	3.39	1.5	2.01	1.40
<i>Transport</i>	20.65	10.50	4.8	14.28	14.28
<i>Communications</i>	4.27	2.74	2.1	3.81	2.63
<i>Recreation & Culture</i>	2.92	1.07	5.7	3.55	5.16
<i>Education</i>	3.34	9.11	4.2	3.65	2.53
<i>Hotels, cafés & restaurants</i>	2.76	1.79	1.0	1.39	3.09
<i>Miscellaneous goods & services</i>	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