



SACU INFLATION REPORT

December 2011

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Selected Global Inflation Rates

Overview

Inflationary dynamics remained relatively contained in developed economies, while inflation in emerging economies that have lately experienced some declines, came under pressure.

The FAO Food Price Index¹ averaged 211 points in December 2011, down by 5.0 points from November and remaining higher than its December 2010 level. Sharp falls in international prices of cereals, sugar and oils were behind the December decline.

Brent crude oil price closed at USD106.64 per barrel at the end of December 2011, which was 2.5 percent lower than at the end of November 2011, but higher than the USD 94.19 per barrel recorded at the end of December 2010. The natural gas prices closed at USD 2.99 at the end of December 2011, which was 17.2 percent lower than at the end of November 2011. RBOB gasoline prices closed at USD 2.64 per barrel at the end of December 2011, which was 0.3 percent lower than at the end of November 2011.

Developed Economies

Euro Area

The annual inflation was 2.7 percent in December 2011, down from 3.0 percent in November 2011. A year earlier, the rate was 2.2 percent. The main components with the highest annual increases were *transport, housing, and alcohol & tobacco* while the lowest annual increases were observed on *communications, education and recreation & culture*. The annual rate recorded for December 2011 was above the European Central Bank inflation target of below but close to 2.0 percent.

Japan

Japan recorded a deflation of 0.2 percent in December 2011 as compared to a deflation of 0.5 percent in the previous month. By far the largest downward pressure to the annual inflation came from *furniture and household utensils* which registered a deflation of 6.7 percent. While, the largest offsetting upward pressure to the annual inflation came from the *fuel, light and water charges* category that registered a rate of 5.2 percent.

United Kingdom

The annual inflation was 4.2 percent in December 2011, down from 4.8 percent in the preceding month. A year earlier, the rate was 3.7 percent. By far the main

¹ 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

significant upward contribution to the annual inflation came from *housing & household services* which contributed 1.0 percentage point. Meanwhile, the main downward pressure to the change in annual inflation came from *recreation & culture*. The annual inflation rate continued to remain above the Bank of England's inflation target of 2.0 percent.

USA

The annual inflation rate in the World's largest economy rose by 3.0 percent during December 2011, down from 3.4 percent in the preceding month. The change in the index for all items less food and energy rose to 2.2 percent in December 2011 from 2.1 percent in the preceding month. Similarly, the energy index rose by 6.6 percent, while the food index remained unchanged at 4.7 percent as in November 2011. The inflation rate registered during December 2011 was above the Federal Reserve Bank's long term inflation estimate of 2.0 percent.

Developing Economies

Brazil

The annual inflation slowed to 6.5 percent in December 2011, down from 6.9 percent during the preceding month. This was underpinned by slower growth in food prices. The annual rate recorded for December 2011 was above the Brazilian Central Bank inflation target of 4.5 percent with a floating range of 2 percentage points.

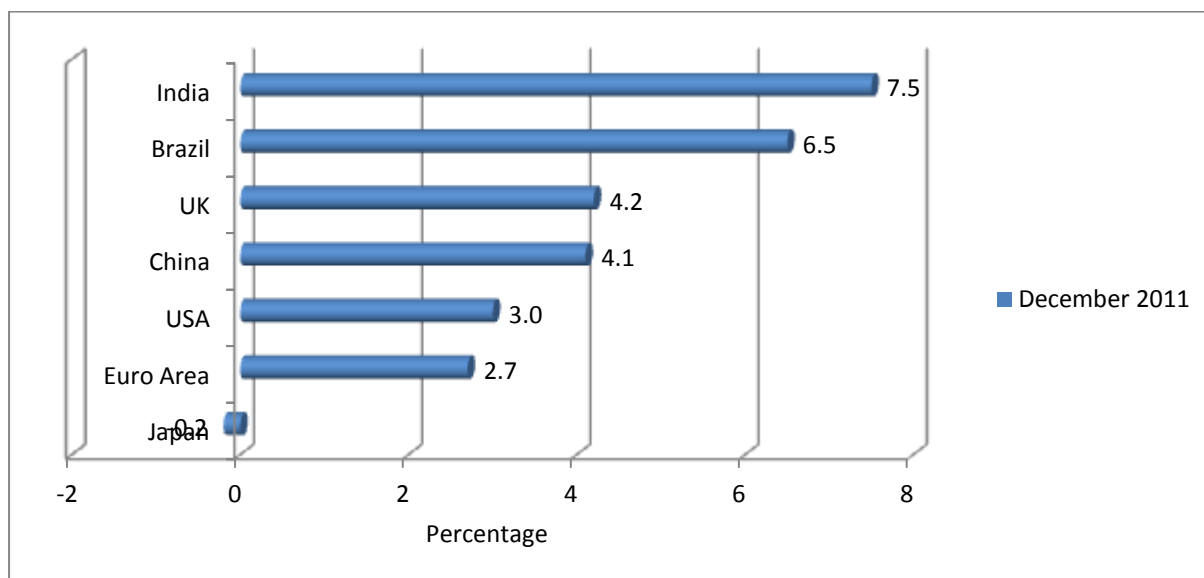
China

The annual inflation rate slowed to 4.1 percent in December 2011 from 5.5 percent during the preceding month. The food prices went up by 9.1 percent compared to 11.9 percent in the preceding month, while the non-food prices increased by 1.9 percent. The annual inflation rate for December 2011 remained above the Government's inflation target of 3.0 percent.

India

Headline annual inflation measured using the Wholesale Price Index stood at 7.5 percent in December 2011 as compared to 9.1 percent in the preceding month. The high inflation rate was mainly driven by price increase in food and manufactured products. The inflation rate registered during December 2011 remained above the Reserve Bank target range of 4.0 – 4.5 percent.

Chart 1: Annual Inflation Rates for selected economies



Source: tradingeconomics.com, eaindustry.nic.in

Inflation Rates in SACU Member States

Compared with November 2011, annual inflation rose in Lesotho, Namibia and Swaziland in December 2011, while it remained the same in Botswana and South Africa. Botswana continued to register the highest annual inflation among the Member States, registering an inflation of 9.2 percent in December 2011 followed by Swaziland at 7.8 percent. The lowest annual inflation was observed in South Africa, recording an inflation rate of 6.1 percent.

All Member States recorded a single digit annual inflation rate during December 2011 as shown in Table 1. Month-on-month inflation rates varied between 0.2 percent and 1.1 percent in Member States between November and December 2011, as shown in Table 2.

Compared with the year 2010, annual inflation rose in all Member States mainly due to the general rise in food prices. The annual average rate for 2011 varied between 5.0 percent and 8.5 percent, as shown in Chart 3.

Table 1: Annual Inflation Rates in SACU Member States

	Botswana	Lesotho	Namibia	South Africa	Swaziland
November 2011	9.2	6.8	6.0	6.1	6.5
December 2011	9.2	7.7	7.2	6.1	7.8
Avg. for 2011	8.5	5.0	5.0	5.0	6.1

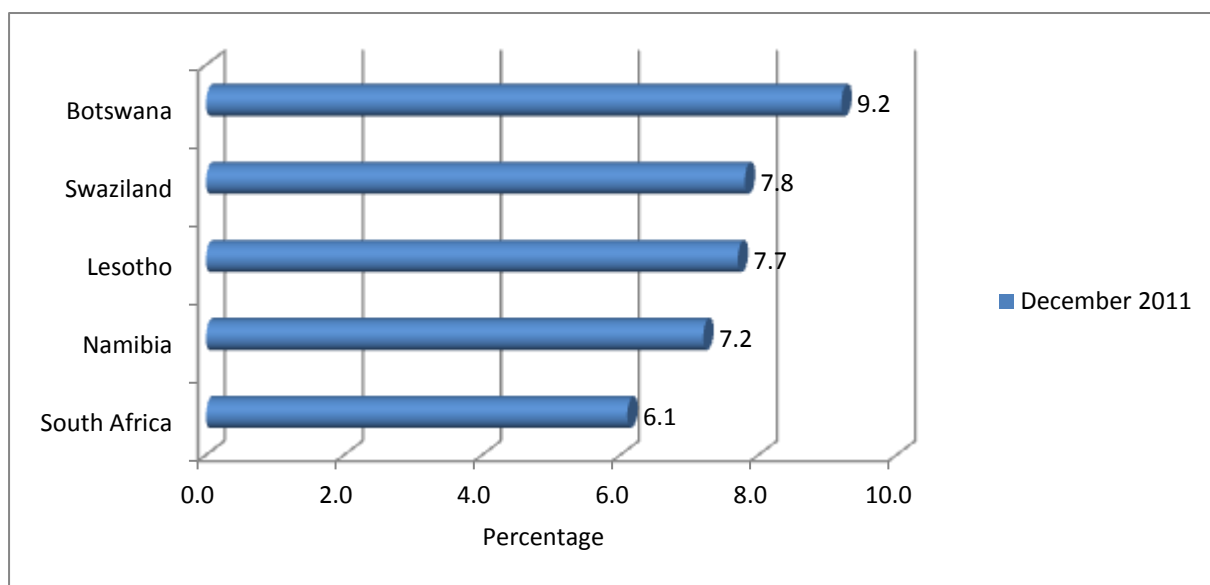
Source: Member States Statistics Offices

Table 2: Monthly Inflation Rates in SACU Member States

	Botswana	Lesotho	Namibia	South Africa	Swaziland
November 2011	0.6	0.7	0.2	0.3	0.3
December 2011	0.4	1.1	0.8	0.2	1.0

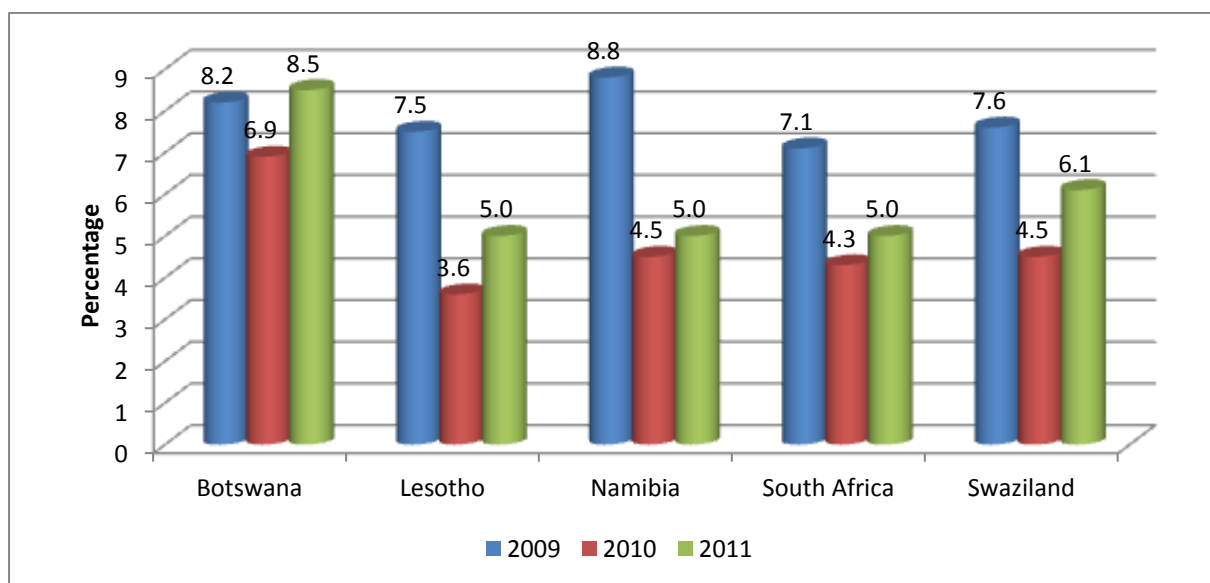
Source: Member States Statistics Offices

Chart 2: Annual Inflation Rates in SACU Member States



Source: Member States Statistics Offices

Chart 3: Average Annual Inflation Rates in SACU Member States



Source: Member States Statistics Offices

Botswana

The annual inflation was 9.2 percent in December 2011, same rate as in November 2011, but higher than the 7.2 percent recorded during the same month in 2010. On average, prices increased by 0.4 percent between November and December 2011, mainly due to the general rise in *food prices*.

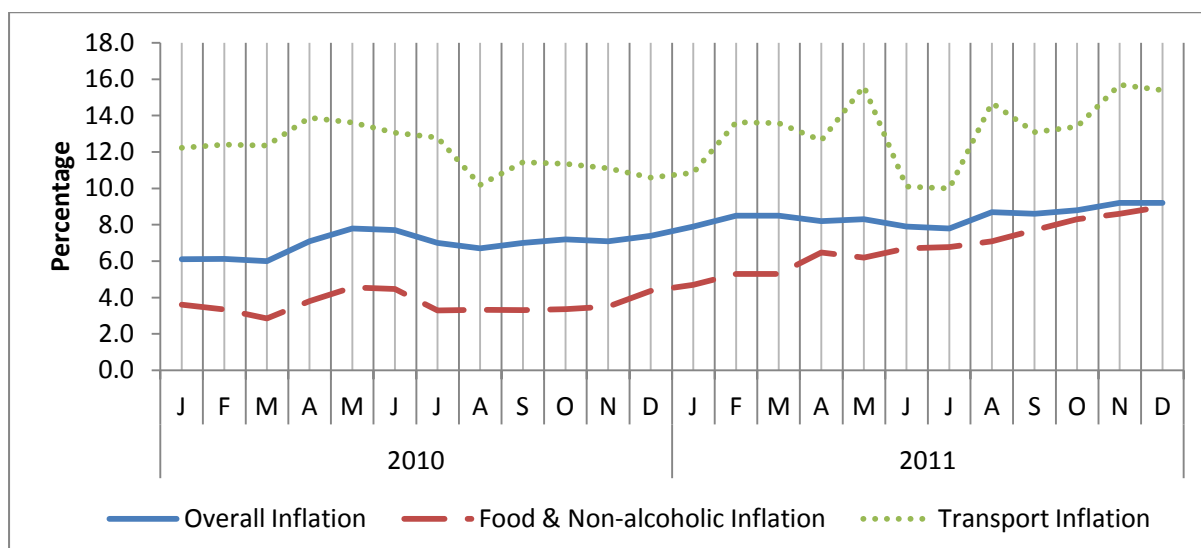
The largest upward pressure to inflation came from *food and non-alcoholic beverages* which rose by 9.0 percent, compared to 4.4 percent in December 2010. Similarly, upward pressure also came from the *transport* category which increased by 15.4 percent, compared to 10.6 percent in December 2010.

The largest downward pressure to inflation came from the slow growth (5.9 percent) in the *alcoholic beverages, tobacco & narcotics* index, which registered 9.7 percent in December 2010. Similarly, downward pressure to inflation also came from *miscellaneous goods and services*.

On average, the annual inflation rate for the year 2011 stood at 8.5 percent compared to 6.9 percent in 2010, mainly due to the price increases in *food and non-alcoholic beverages*.

The annual inflation rate for December 2011 continued to be above the inflation target range of 3-6 percent set out by the Bank of Botswana. The interest rate policy remained accommodative for growth with the bank rate² at 9.5 percent and the prime rate at 11.0 percent.

Chart 4: Annual Inflation Rate



Source: Statistics Botswana

² Bank rate is the rate at which the Central Bank lends to Commercial Banks

Lesotho

The annual inflation in December 2011 rose to 7.7 percent from 6.8 percent in November 2011. Annual inflation in December 2011 was higher than the 3.1 percent recorded during the corresponding month in 2010. On average, prices increased by 1.1 percent between November and December 2011, mainly due to *food prices* that increased by 1.2 percent.

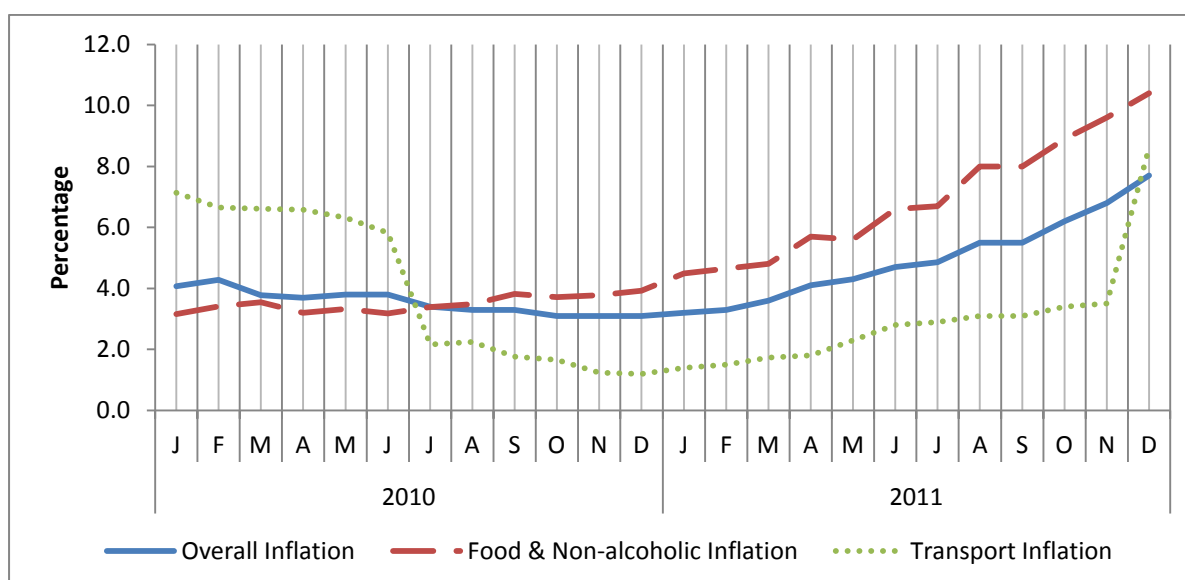
The largest upward pressure to inflation came from the *food and non-alcoholic beverages* category which rose to 10.4 percent, compared to 3.9 percent in December 2010. Similarly, the index for *housing, water, electricity, gas and other fuels* increased by 19.5 percent, compared to 5.0 percent in December 2010.

Meanwhile, the largest downward pressure to inflation came from the *clothing & footwear* category which registered a slow growth of 1.7 percent compared to 2.2 percent in December 2010 and *alcohol & tobacco* which registered a slow growth of 7.3 percent in December 2011 compared to 8.4 percent in the same month of 2010.

On average, the annual inflation rate for the year 2011 stood at 5.0 percent compared to 3.6 percent in 2010, mainly due to the price increases in *food and non-alcoholic beverages*.

Lesotho's monetary policy targets the maintenance of adequate net international reserves (NIR). The NIR target for the quarter ending December 2011 was USD825 million, which translate to M6.68 billion. During the month of December 2011 the Lombard facility and the prime lending rate remained at 9.28 percent and 10.50 percent, respectively.

Chart 5: Annual Inflation Rate



Source: Bureau of Statistics of Lesotho

Namibia

The annual inflation in December 2011 rose to 7.2 percent, up from 6.0 percent recorded in the preceding month. Annual inflation in December 2011 was higher than the 3.1 percent recorded during the same month in 2010. On average, prices increased by 0.8 percent between November and December 2011, an increase of 0.6 percentage points when compared to the monthly rate for November 2011. This was mainly due to increases recorded in all groups with an exception of the *housing & utilities; clothing & footwear; and miscellaneous goods and services* categories.

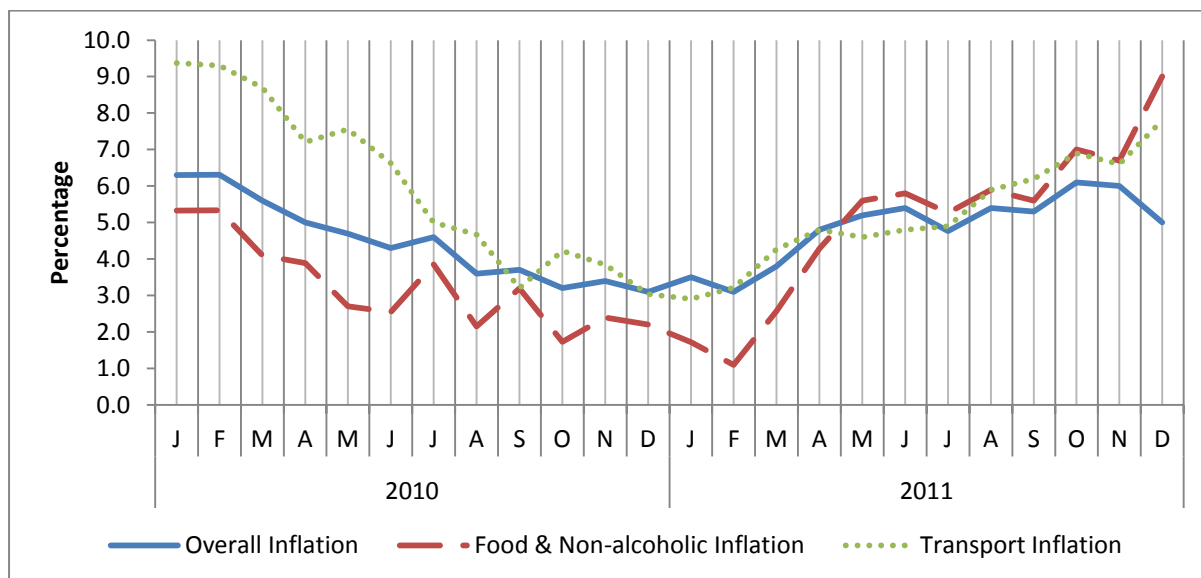
The largest upward pressure to inflation came from *food and non-alcoholic beverages* which increased by 9.0 percent compared with 2.2 percent in December 2010.

Meanwhile, the largest downward pressure to inflation came from *alcoholic beverages and tobacco* registering a slow growth of 6.5 percent compared with 7.3 percent in December 2010.

On average, the annual inflation rate for the year 2011 stood at 5.0 percent compared to 4.5 percent in 2010, mainly due to the price increases in *food and non-alcoholic beverages*.

The international reserve level stood at N\$14.41 billion in December 2011 compared to N\$14.95 billion recorded in the previous month; sufficient to support the Rand parity. The repo rate remained at 6.0 percent and the prime rate at 9.75 percent during December 2011.

Chart 6: Annual Inflation Rate



Source: Namibia's Central Bureau of Statistics

South Africa

The annual inflation rate was 6.1 percent in December 2011, same as in the previous month, but higher than the 3.5 percent recorded during the same period in 2010. On average, prices increased by 0.2 percent between November and December 2011.

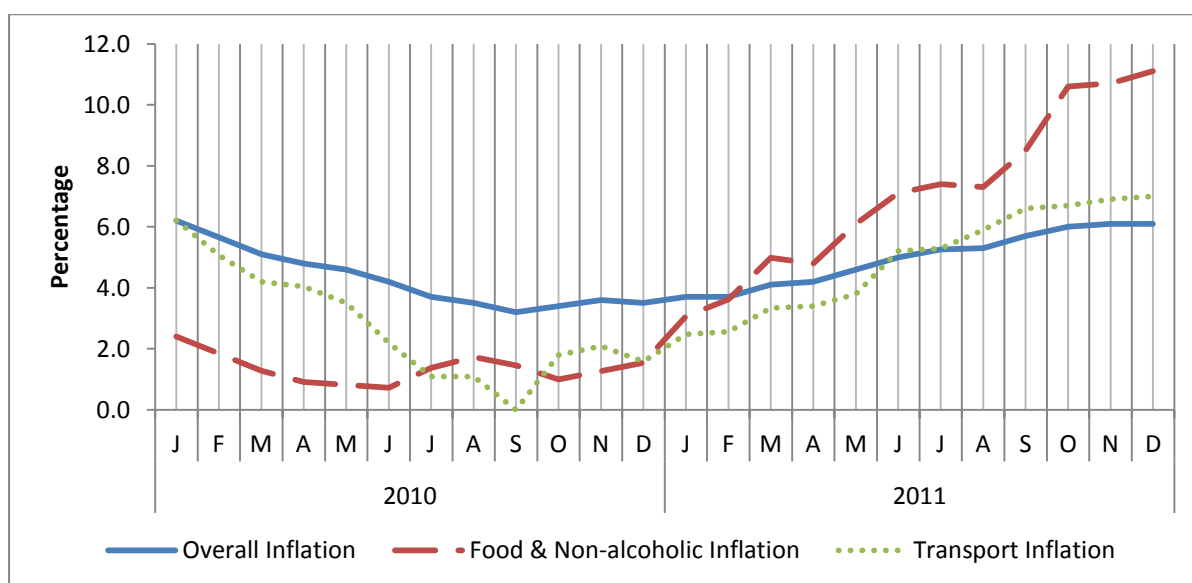
The largest upward pressure to inflation came from *food and non-alcoholic beverages* which increased by 6.7 percent and *housing, water, electricity, gas and other fuels* that increased by 6.5 percent.

Meanwhile, the largest downward pressure to inflation came from *alcoholic beverages and tobacco* which registered a slow rate of 6.3 percent compared to 7.1 percent in the same period in 2010.

On average, the annual inflation rate for the year 2011 stood at 5.0 percent compared to 4.3 percent in 2010, mainly due to the price increases in *food and non-alcoholic beverages*.

The annual inflation remained above the target range of 3-6 percent during December 2011. Interest rate policy remained accommodative for growth with the repo rate at 5.5 percent, and the prime rate at 9.0 percent.

Chart 7: Annual Inflation Rate



Source: Stats SA

Swaziland

The annual inflation rate rose to 7.8 percent in December 2011, up from 6.5 percent in the previous month. The annual inflation rate for December 2011 was higher than the 4.5 percent recorded during the same period in the previous year. On average, prices increased by 1.0 percent between November and December 2011, mainly driven by *food & non alcoholic beverages* that increased by 2.0 percent.

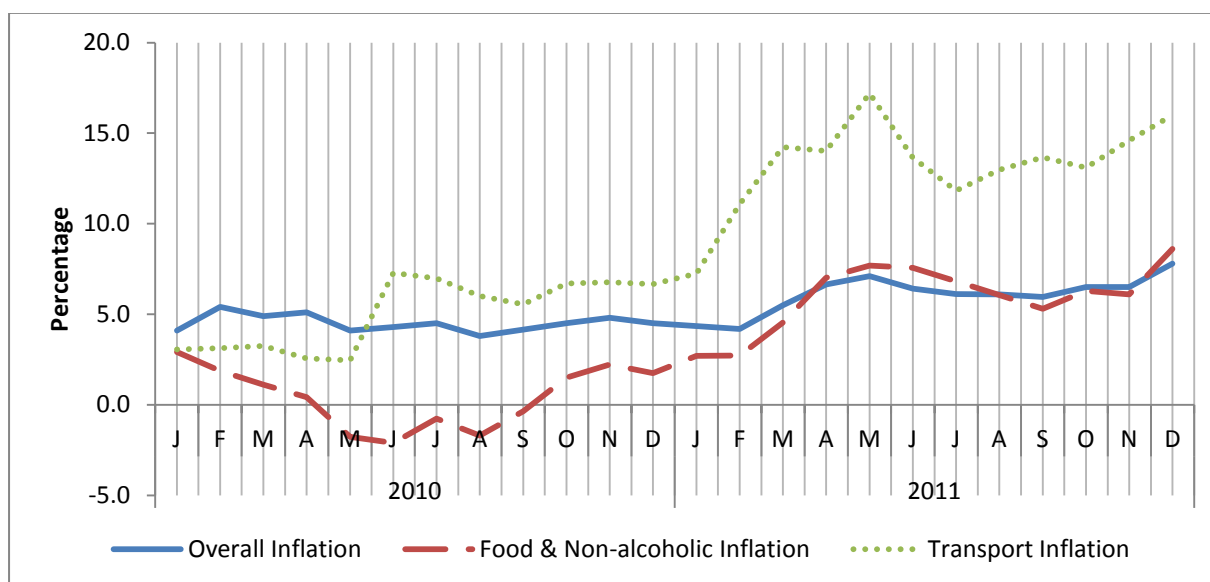
The largest upward pressure to inflation came from *food and non-alcoholic beverages* which increased by 8.6 percent compared to an increase of 1.8 percent in December 2010. This was mainly attributed to a rise in the cost of *bread and cereals*; and *fat and oil*.

Meanwhile, the largest downward pressure to inflation came from *recreation and culture* which recorded a deflation of 0.8 percent in December 2011.

On average, the annual inflation rate for the year 2011 stood at 6.1 percent compared to 4.5 percent in 2010, mainly due to the price increases in *food and non-alcoholic beverages*.

The NIR level for December 2011 was E4.2 billion compared to E4.4 billion in November 2011; enough to cover 2.3 months of imports of goods and services. The discount rate remained at 5.5 percent, while the prime rate remained at 9.0 percent during December 2011.

Chart 8: Annual Inflation Rate



Source: Central Statistics Office of Swaziland

Appendix

Annual inflation rates by main categories (December 2011)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	9.0	10.4	9.0	11.1	8.3
Alcoholic beverages & tobacco	5.9	7.3	6.5	6.3	5.0
Clothing & footwear	9.1	1.7	4.4	3.8	4.2
Housing, water, electricity, gas & other fuels	10.1	19.5	9.2	6.5	8.4
Furnishings, household equipment &...	9.5	3.2	4.4	1.9	4.0
Health	6.1	0.7	5.0	5.2	6.4
Transport	15.4	8.6	7.8	7.0	16.0
Communications	-5.4	0.0	1.0	-1.6	0.0
Recreation & Culture	7.3	1.8	7.1	-1.0	-0.8
Education	10.6	0.8	5.1	8.6	12.1
Hotels, cafés & restaurants	8.2	2.0	3.6	5.6	3.3
Miscellaneous goods & services	4.5	2.6	3.5	4.9	4.3
All Item	9.2	7.7	7.2	6.1	7.8

Source: SACU Member States Statistics Offices

Consumer Price Index Basket Weights

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	21.84	38.14	29.63	15.68	37.73
Alcoholic beverages & tobacco	9.29	1.22	3.26	5.58	0.96
Clothing & footwear	7.52	17.43	5.13	4.11	6.16
Housing, water, electricity, gas & other fuels	11.46	10.60	20.59	22.56	14.33
Furnishings, household equipment &...	6.76	9.42	5.61	5.86	11.88
Health	2.71	1.88	1.51	1.47	3.58
Transport	18.98	8.47	14.79	18.8	8.6
Communications	3.01	1.24	0.9	3.22	1.43
Recreation & Culture	2.22	2.39	2.5	4.19	4.62
Education	3.37	2.75	7.36	2.19	5.38
Hotels, cafés & restaurants	3.27	0.66	1.62	2.78	0.72
Miscellaneous goods & services	9.57	5.81	7.11	13.56	4.67
All Item	100.00	100.00	100.00	100.00	100.00

Source: SACU Member States Statistics Offices