



## **SACU Inflation Report**

**July 2011**

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## Selected Global Inflation Rates

### Overview

Annual inflation rate stabilised in developed economies, while inflationary pressures continued to be more pronounced in emerging markets. This reflects rising capacity constraints in a number of emerging economies as well as the higher weight of commodity prices in these countries consumption baskets.

Brent crude oil price closed at USD 116.40 per barrel by end of July 2011, which is 4.1 percent higher than at the end of June 2011. While, the natural gas prices closed at USD 4.16 by end of July 2011, which is 6.2 percent lower than at the end of June 2011. RBOB gasoline prices closed at USD 2.919 per barrel by end of July 2011, which is 4.9 percent higher than at the end of June 2011.

### Developed Economies

#### **Euro Area**

The annual inflation rate stood at 2.5 percent during July 2011 compared to 2.7 percent during the preceding month. The biggest downward pressures to the change in inflation came from garments and footwear, while, the upward pressure to the change in inflation came from package holidays and accommodation services. The annual rate recorded for July 2011 was above the European Central Bank inflation target of below but close to 2.0 percent.

#### **Japan**

The annual inflation rate was at 0.2 percent during July 2011, same as in the preceding month. Although unchanged overall, there were significant upward and downward pressures at the more detailed level. By far the largest downward pressures to the change in inflation came from clothes and footwear. While, the largest offsetting upward pressure to the change in inflation came from culture and recreation where prices, rose by 0.5 percent in July 2011.

#### **United Kingdom**

The annual inflation rate was at 4.4 percent during July 2011, up from 4.2 percent in the preceding month. By far the main downward pressures to the change in inflation came from food & non-alcoholic beverages. While, the main upward pressures to the change in inflation came from financial services; clothing & footwear; furniture, household equipment & maintenance; and housing rent. The annual inflation rate remained above the Bank of England's inflation target of 2.0 percent.

## **USA**

The annual inflation rate in the World's largest economy remained unchanged for the third consecutive month at 3.6 percent during July 2011. The change in the index for all items less food and energy continued its upward trend, rising to 1.8 percent in July, with shelter and apparel indexes contributing notably to the acceleration. The inflation rate registered during July 2011 was above the Federal Reserve Bank's long term inflation estimate of 2.0 percent.

## **Developing Economies**

### **Brazil**

The annual inflation rate stood at 6.9 percent during July 2011 compared to 6.7 percent during the preceding month. This was underpinned by increase in gasoline and administered prices, despite a drop in food prices. The annual rate recorded for July 2011 was above the Brazilian Central Bank inflation target of 4.5 percent with a floating range of 2 percentage points.

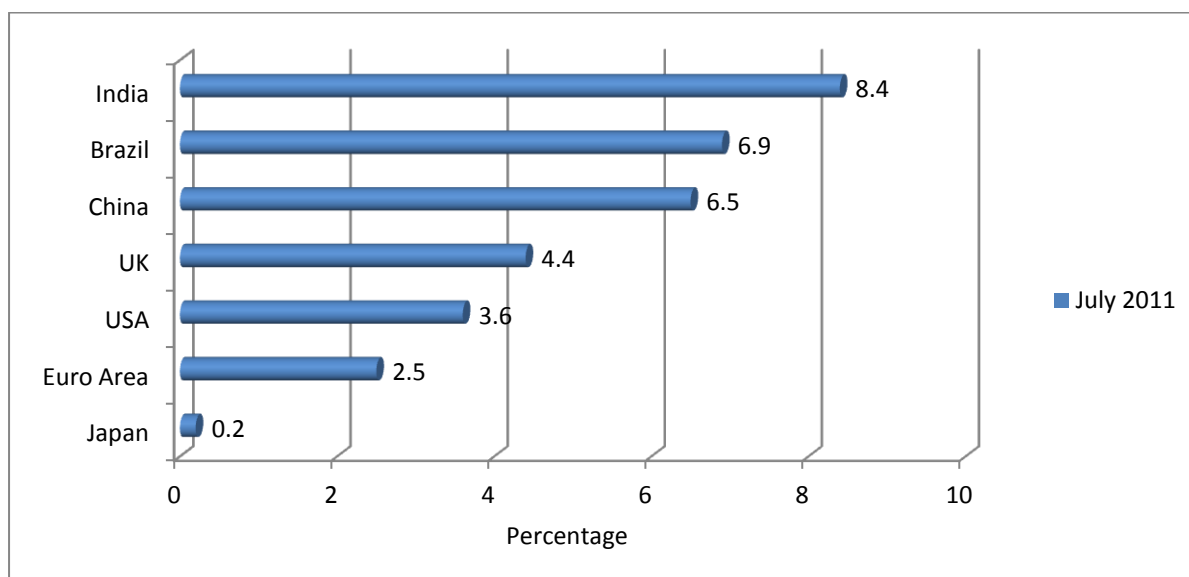
### **China**

The annual inflation rate rose to 6.5 percent during July 2011 from 6.4 percent during the preceding month. The upward pressure to the change in inflation mainly came from food prices which accounts for nearly one third of the basket of goods in the nation's CPI calculations. Food prices went up by 14.8 percent, contributing nearly 4.38 percentage points to the overall growth. The annual inflation rate for July 2011 was above the Government's inflation target of 3.0 percent.

### **India**

The annual inflation rate eased to 8.4 percent during July 2011 compared to 8.6 percent during the preceding month, despite persistent price pressure in the manufacturing goods. The inflation rate registered during July 2011 was above the Reserve Bank target range of 4.0 – 4.5 percent.

**Chart 1: Annual Inflation Rates for selected economies**



Source: tradingeconomics.com

### Inflation Rates in SACU Member States

Inflation rates eased in Botswana, Namibia and Swaziland during July, while Lesotho and South Africa’s inflation rates rose during the same period. This depicts a similar mixed scenario as in the selected Global inflation rates discussed earlier.

Botswana continued to register the highest annual inflation rate among the Member States, registering an inflation rate of 7.8 percent in July 2011 followed by Swaziland at 6.1 percent. The lowest annual inflation rate was observed in Namibia, recording an inflation rate of 4.8 percent.

Inflation was driven by *food and non-alcoholic beverages* category in Botswana, Lesotho and Swaziland, in line with FAO food price index that remains high and above last year’s levels. While, in Namibia and South Africa the largest upward pressure was observed in the *housing, water, electricity, gas and other fuels* category.

All Member States recorded a single digit annual inflation rates during July 2011 as shown in Table 1. Month-on-month inflation rates varied between 0.2 percent and 0.9 percent in Member States between June and July 2011, with South Africa recording the highest rate as shown in Table 2.

**Table 1: Annual Inflation Rates in SACU Member States**

	<b>Botswana</b>	<b>Lesotho</b>	<b>Namibia</b>	<b>South Africa</b>	<b>Swaziland</b>
June 2011	7.9	4.7	5.4	5.0	6.4
July 2011	7.8	4.9	4.8	5.3	6.1

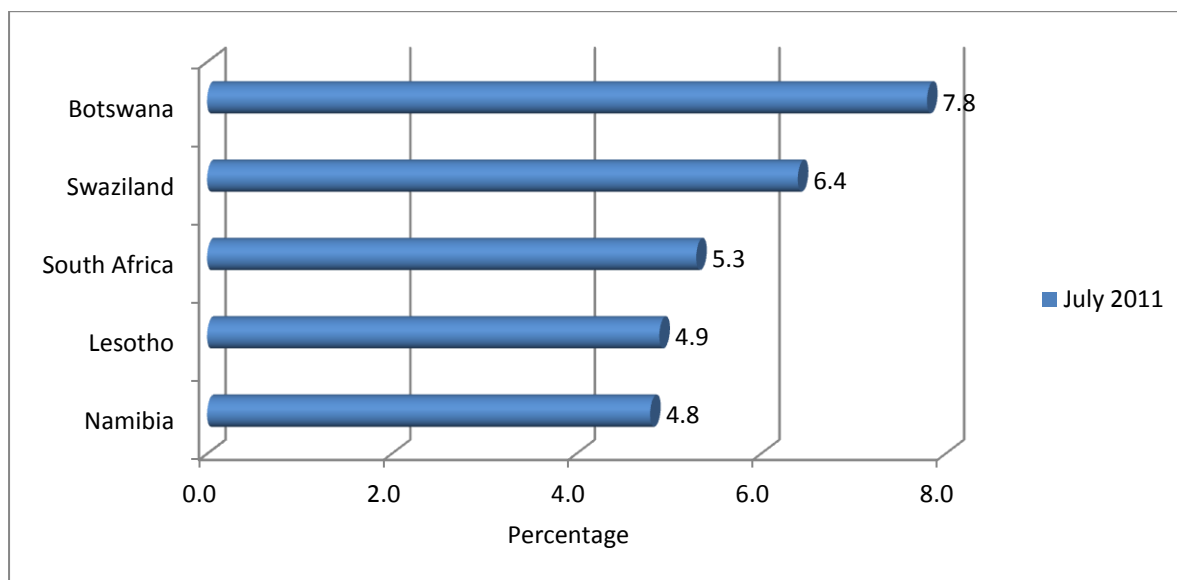
Source: Member States Statistics Offices

**Table 2: Monthly Inflation Rates in SACU Member States**

	<b>Botswana</b>	<b>Lesotho</b>	<b>Namibia</b>	<b>South Africa</b>	<b>Swaziland</b>
June 2011	0.9	0.6	0.2	0.4	0.3
July 2011	0.3	0.3	0.3	0.9	0.2

Source: Member States Statistics Offices

**Chart 2: Annual Inflation Rates in SACU Member States**



Source: Member States Statistics Offices

### **Botswana**

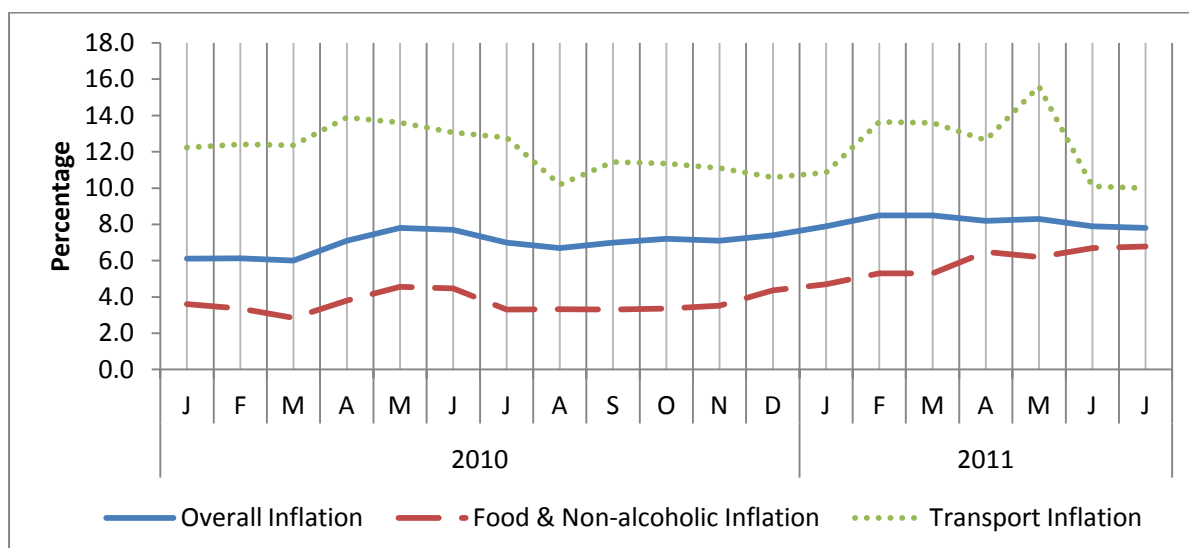
The annual inflation rate for July 2011 eased to 7.8 percent compared to 7.9 percent recorded a month earlier. The annual inflation rate for July 2011 was higher than the 7.0 percent recorded during the same month in 2010. On average, prices increased by 0.3 percent between June and July 2011.

The largest upward pressure to the change in inflation came from *food and non-alcoholic beverages* which increased by 6.8 percent, this was attributed to the rise in prices for milk, cheese and cheese products, which increased by 12.8 percent.

The largest downward pressure to the change in inflation came from the slow growth of 10.0 percent in *Transport* as compared to 12.8 percent registered in July 2010. Similarly, downward pressure to the change in inflation also came from *communication* and *miscellaneous goods and services*.

The annual inflation rate for July 2011 was above the inflation target range of 3-6 percent set out by the Bank of Botswana. This was still in line with the Bank of Botswana short term projection for the inflation to remain above the medium term objective range due to the impact of transient factors. Interest rate policy remains accommodative for growth with bank rate registered at 9.5 percent, while prime rate was registered at 11.0 percent.

**Chart 3: Annual Inflation Rate**



Source: Central Statistics Office of Botswana

## Lesotho

The annual inflation rate during July 2011 rose to 4.9 percent from 4.7 percent in June 2011. The annual inflation rate for July 2011 was higher than the 3.4 percent recorded during the corresponding month in 2010. On average, prices increased by 0.3 percent between June and July 2011.

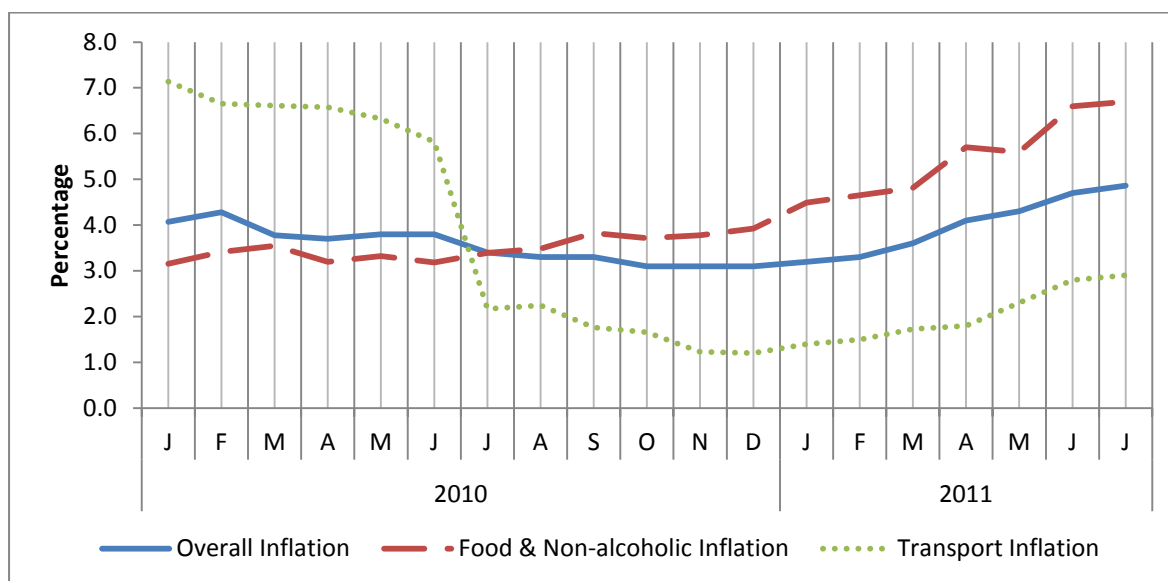
The largest upward pressure to the change in inflation came from *food and non-alcoholic beverages* which increased by 6.7 percent. Similarly, upward pressure to the change in inflation also came from *transport, furnishings, household equipment and routine maintenance, and housing, water, electricity, gas and other fuels*.

Meanwhile, the largest downward pressure to the change in inflation came from *clothing and footwear* category which registered a slow growth of 1.6 percent compared to 3.0 percent in July 2010.

Lesotho’s monetary policy operation is achieved through maintaining adequate net international reserves (NIR). The NIR target was at USD727 million, which translate to <sup>1</sup>M4.95 billion, which was considered to be sufficient to support the Rand parity. The prime lending rate was registered at 10.50 percent during the month of July 2011.

<sup>1</sup> Used 3 month moving average monthly exchange rate

**Chart 4: Annual Inflation Rate**



Source: Bureau of Statistics of Lesotho

## Namibia

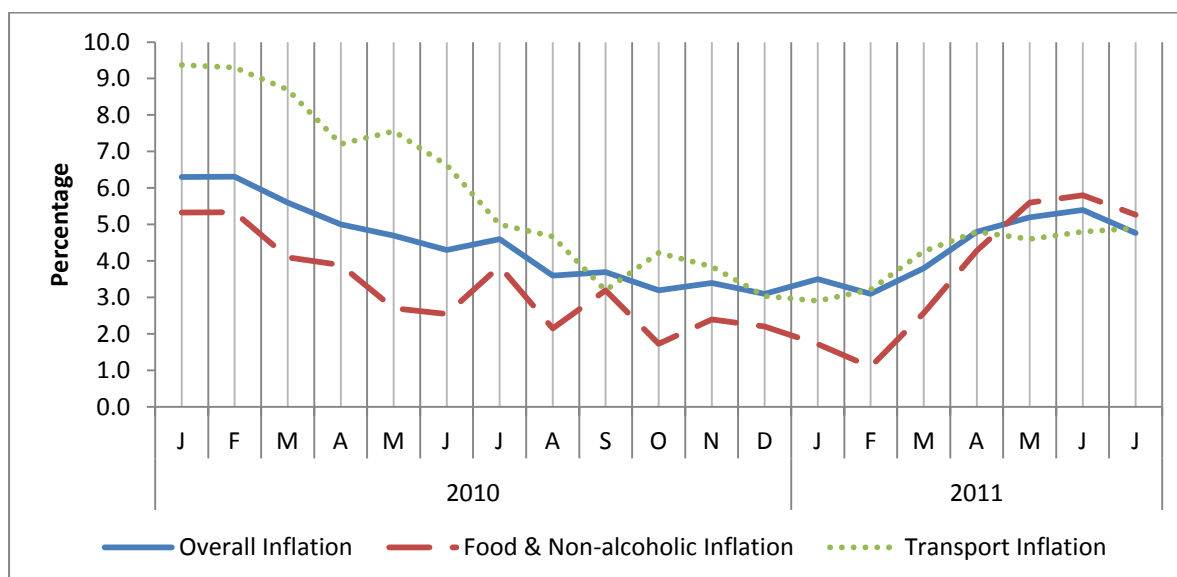
The annual inflation rate for July 2011 rose by 4.8 percent compared to 5.4 percent recorded in the preceding month. The annual inflation rate for July 2011 was slightly higher than the 4.6 percent recorded during the same month in 2010. On average, prices increased by 0.6 percent between June and July 2011.

The largest upward pressure to the change in inflation came from *housing, water, electricity, gas and other fuels* which increased by 8.1 percent, this was mainly attributed to *water supply, sewerage services and refuse collection* prices that increased by 10.8 percent.

Meanwhile, the largest downward pressure to the change in inflation came from *clothing and footwear* which declined by 0.9 percent, this was mainly attributed to *ready-made clothing* prices that declined by 2.1 percent.

Namibia like Lesotho targets the level of NIR in order to maintain the Rand parity. The NIR level was at N\$11.8 billion, which was considered to be sufficient to support the Rand parity. The repo rate remained at 6.0 percent and prime rate at 9.75 percent during July 2011.

**Chart 5: Annual Inflation Rate**



Source: Namibia's Central Bureau of Statistics

### South Africa

The annual inflation rate increased to 5.3 percent during July 2011 compared to 5.0 percent in the previous month. The annual inflation rate for July 2011 was higher than the 3.7 percent recorded during the same period in 2010. On average, prices increased by 0.9 percent between June and July 2011.

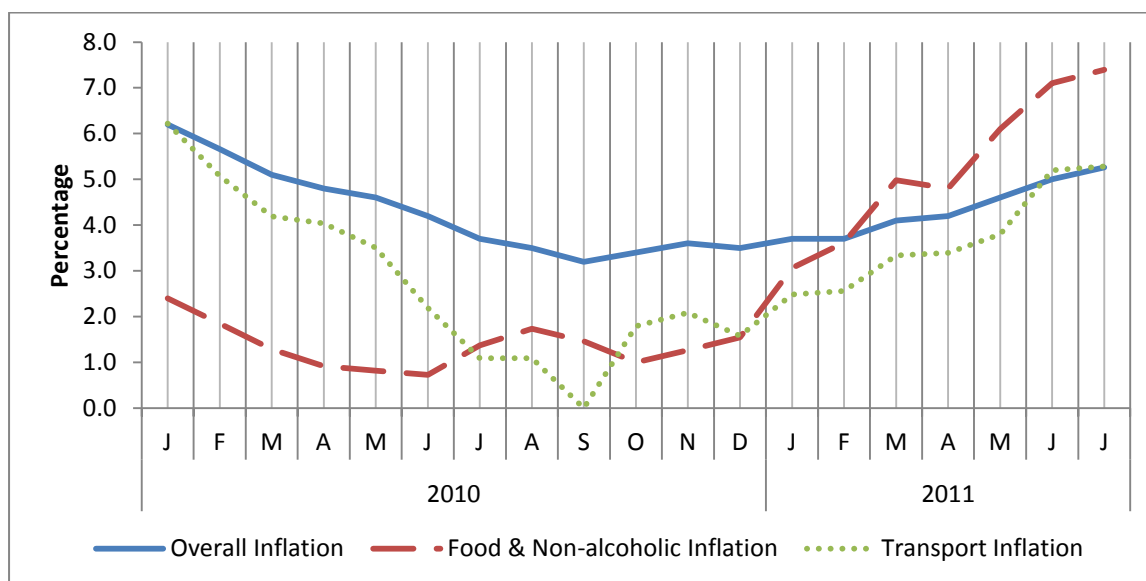
The largest upward pressure to the change in inflation came from *housing, water, electricity, gas and other fuels* which increased by 6.9 percent, this was mainly attributed to *owner's equivalent rent* that increased by 4.6 percent. This was followed by *food and non-alcoholic beverages* category.

Meanwhile, the largest downward pressure to the change in inflation came from *communication* that declined by 1.1 percent, this was mainly attributed to the *telecommunication equipments* which declined by 27.4 percent.

The annual inflation rate continues to remain within the inflation target range of 3-6 percent. Inflation is projected to remain in the target range until the end of 2012. Interest rate policy remains accommodative for growth with repo rate remained at 5.5 percent, while prime rate was registered at 9.0 percent.



**Chart 6: Annual Inflation Rate**



Source: Stats SA

## Swaziland

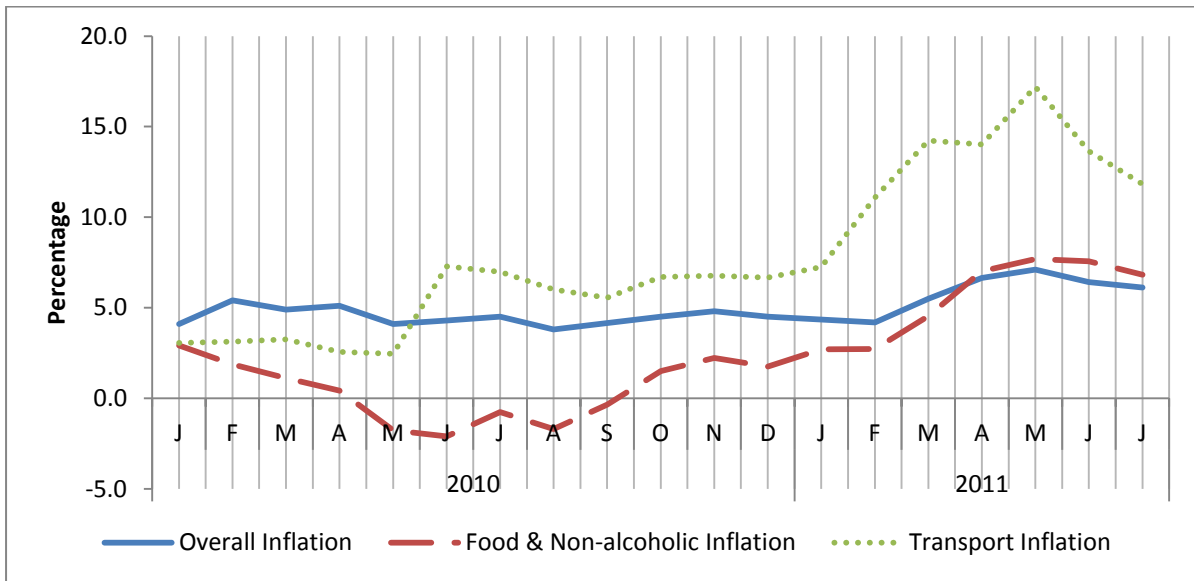
The annual inflation rate rose to 6.1 percent during July 2011 compared to 6.4 percent recorded a month earlier. The annual inflation rate for July 2011 was higher than the 4.5 percent recorded during the same period in the previous year. On average, prices increased by 0.2 percent between June and July 2011.

The largest upward pressure to the change in inflation came from *food and non-alcoholic beverages* which increased by 6.8 percent, this was mainly attributed to a 9.8 percent increase in *bread and cereals*.

Meanwhile, the largest downward pressure to the change in inflation came from *housing, water, electricity, gas and other fuels* that slowed to 6.5 percent from 10.5 percent registered in July 2010, this was mainly attributed to the *actual rentals for housing* category.

In terms of its monetary policy implementation framework, the Central Bank of Swaziland targets the level of NIR in order to maintain the Rand parity. The NIR level was at E4.5 billion, which was considered to be sufficient to support the Rand parity. The discount rate remained at 5.5 percent during July 2011.

**Chart 7: Annual Inflation Rate**



Source: Central Statistics Office of Swaziland

## Appendix

### Annual inflation rates by main categories (July 2011)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	6.8	6.7	5.3	7.4	6.8
Alcoholic beverages & tobacco	8.4	6.0	5.7	6.0	4.6
Clothing & footwear	9.3	1.6	-0.9	2.2	0.5
Housing, water, electricity, gas & other fuels	8.5	10.2	8.1	6.9	6.5
Furnishings, household equipment &...	8.4	3.7	2.1	1.7	2.9
Health	4.3	1.5	5.5	5.2	1.4
Transport	10.0	2.9	4.9	5.3	11.8
Communications	-5.4	0.6	1.4	-1.1	0.7
Recreation & Culture	7.7	1.0	2.2	0.5	0.1
Education	10.6	0.8	5.1	8.6	12.3
Hotels, cafés & restaurants	10.1	2.2	4.3	5.4	3.6
Miscellaneous goods & services	4.7	2.7	5.3	4.4	3.8
<b>All Item</b>	<b>7.8</b>	<b>4.2</b>	<b>4.8</b>	<b>5.3</b>	<b>6.1</b>

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
<b>All Item</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: SACU Member States Statistics Offices