



SACU Inflation Report

September 2011

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Selected Global Inflation Rates

Overview

Overall annual inflation has stabilised in developed economies, while inflationary pressures continue to be more pronounced in emerging economies.

The FAO Food Price Index¹ averaged at 225 points in September 2011, down by 4.5 points from August, although it is still higher than its September 2010 value of 195 points. The decline is reflected in decreases in international prices of most commodities included in the index, with the prices for sugar, grains and oils falling the most.

Brent crude oil price closed at USD 100.20 per barrel at the end of September 2011, which is 11.6 percent lower than at the end of August 2011, but higher than the USD 86.71 per barrel recorded at the end of September 2010. Similarly, the natural gas prices closed at USD 3.95 at the end of September 2011, which is 10.2 percent lower than at the end of August 2011. RBOB gasoline prices closed at USD 2.54 per barrel at the end of September 2011, which is 9.8 percent lower than at the end of August 2011. The decrease in prices came against the background of the intensification of the turbulence in financial markets and the associated concerns about the global economic outlook.

Developed Economies

Euro Area

The annual inflation rate rose by 3.0 percent during September 2011, up from 2.5 percent in August 2011. A year earlier the rate was 2.3 percent. The biggest upward pressures to the change in inflation came from *transport and housing*, while, *communication and recreation & culture* recorded the largest downward pressure. The annual rate recorded for September 2011 was above the European Central Bank inflation target of below but close to 2.0 percent.

Japan

The annual inflation rate during September 2011 remained at 0.0 percent, 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 annual inflation came from *furniture and household utensils* that registered a deflation of 6.0 percent. While, the largest offsetting upward pressure to the annual inflation came from miscellaneous category that registered a rate of 5.3 percent.

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

United Kingdom

The annual inflation rate rose by 5.2 percent during September 2011, up from 4.5 percent in the preceding month. A year earlier the rate was 3.7 percent. By far the main upward pressures to the annual inflation came from the rise in *gas and electricity* charges. Meanwhile, the main downward pressure to the change in annual inflation came from clothing. 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 3.9 percent during September 2011, up from 3.8 percent in the preceding month. The change in the index for all items less food and energy remained at 2.0 percent in September 2011. While the energy index rose by 19.3 percent over the last year, and food index increased by 4.7 percent. The inflation rate registered during September 2011 was above the Federal Reserve Bank's long term inflation estimate of 2.0 percent.

Developing Economies

Brazil

The annual inflation rate rose by 7.3 percent during September 2011, up from 7.2 percent during the preceding month. This was underpinned by an increase in food prices. The annual rate recorded for September 2011 was above the Brazilian Central Bank inflation target of 4.5 percent with a floating range of 2 percentage points.

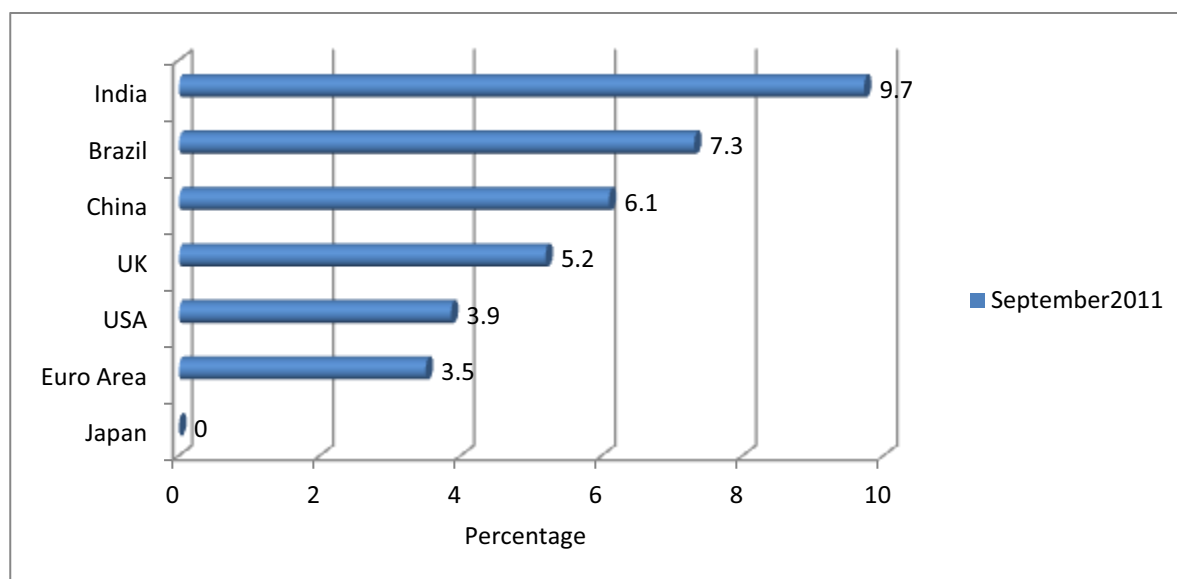
China

The annual inflation rate slowed to 6.1 percent during September 2011 from 6.2 percent during the preceding month. The food prices went up by 13.4 percent, while the non-food prices increased by 2.9 percent. The annual inflation rate for September 2011 remained above the Government's inflation target of 3.0 percent.

India

Headline annual inflation rate measured using the Wholesale Price Index rose by 9.7 percent during September 2011, down from 9.8 percent during the preceding month. The high inflation rate is mainly driven by price increase in food and manufactured products. The inflation rate registered during September 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

The inflation rate increased in South Africa during September and slightly declined in Botswana, Namibia and Swaziland while in Lesotho, the inflation rate remained the same as in the preceding month.

Botswana continued to register the highest annual inflation rate among the Member States, registering an inflation rate of 8.6 percent in September 2011 followed by Swaziland at 6.0 percent. The lowest annual inflation rate was observed in Namibia, recording an inflation rate of 5.3 percent.

Inflation was driven by the *food and non-alcoholic beverages* category in Botswana, Lesotho, Namibia and Swaziland, in line with the FAO food price index which remained high and above last year's levels. In 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 rate during September 2011 as shown in Table 1. Month-on-month inflation rates varied between -0.04 percent and 0.4 percent in Member States between August and September 2011, as shown in Table 2.

Table 1: Annual Inflation Rates in SACU Member States

	Botswana	Lesotho	Namibia	South Africa	Swaziland
August 2011	8.7	5.5	5.4	5.3	6.1
September 2011	8.6	5.5	5.3	5.7	6.0

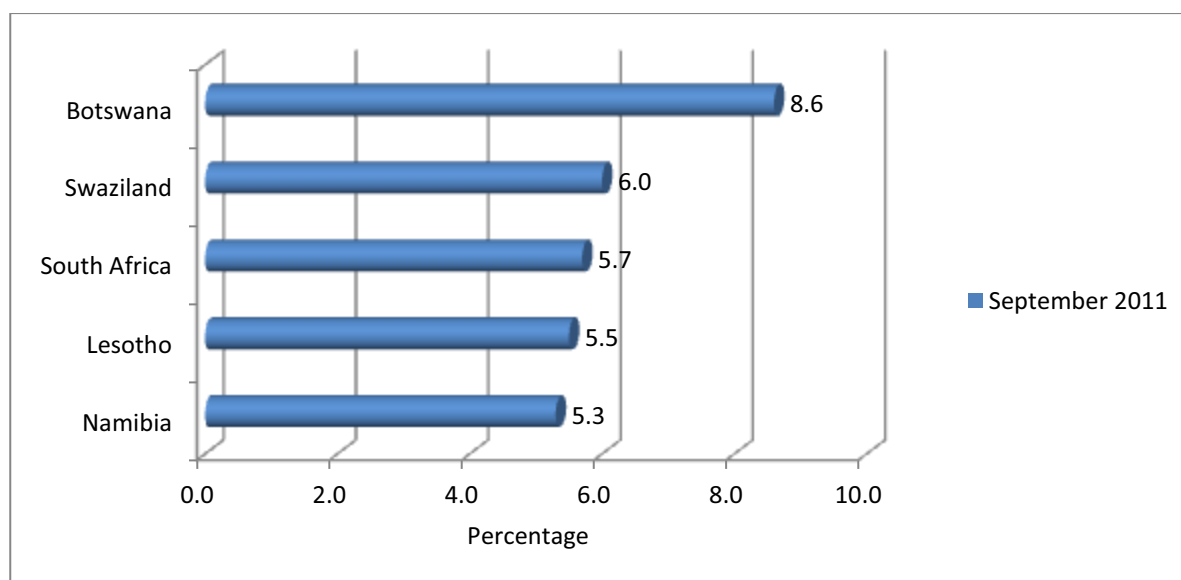
Source: Member States Statistics Offices

Table 2: Monthly Inflation Rates in SACU Member States

	Botswana	Lesotho	Namibia	South Africa	Swaziland
August 2011	1.0	0.5	0.4	0.2	1.0
September 2011	0.4	0.4	-0.04	0.4	0.2

Source: Member States Statistics Offices

Chart 2: Annual Inflation Rates in SACU Member States



Source: Member States Statistics Offices

Botswana

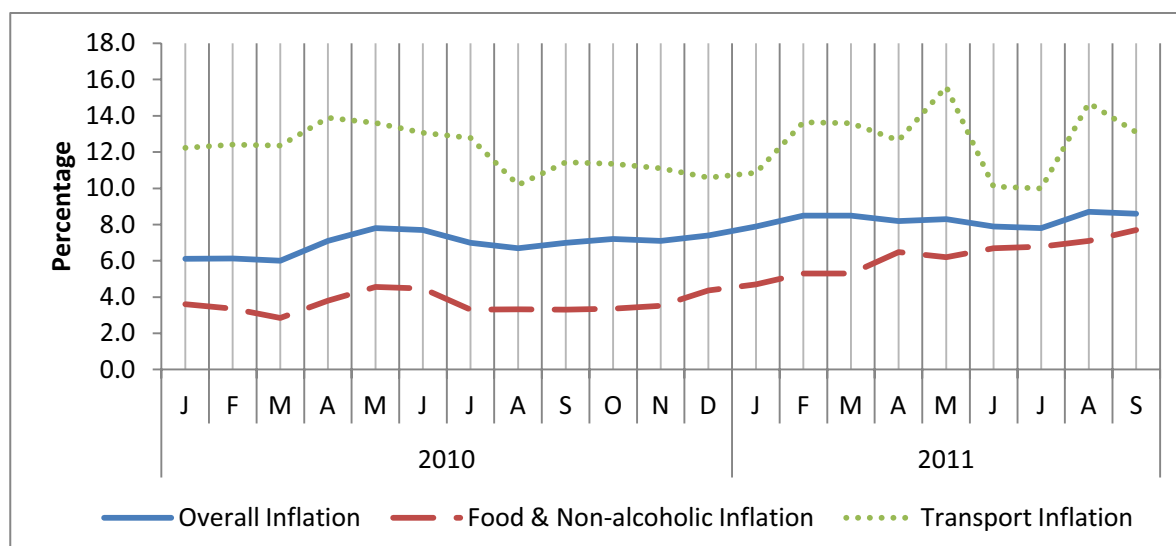
The annual inflation rate for September 2011 rose by 8.6 percent, down from 8.7 percent recorded a month earlier, and higher than the 7.0 percent recorded during the same month in 2010. On average, prices increased by 0.4 percent between August and September 2011, mainly due to an increase in *furnishing, household equipment and routine maintenance*.

The largest upward pressure to the change in annual inflation was mainly driven by *food and non-alcoholic beverages* which rose by 7.7 percent, compared to 3.3 percent in September 2010. This was attributed to *milk, cheese & cheese products and oils & fats* whose prices increased by 12.1 percent and 17.5 percent, respectively.

The largest downward pressure to the change in inflation came from the slow growth (7.4 percent) in the *alcoholic beverages, tobacco & narcotics* index, which registered 8.8 percent in September 2010. Similarly, downward pressure to the change in inflation also came from *miscellaneous goods and services*.

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

Chart 3: Annual Inflation Rate



Source: Central Statistics Office of Botswana

Lesotho

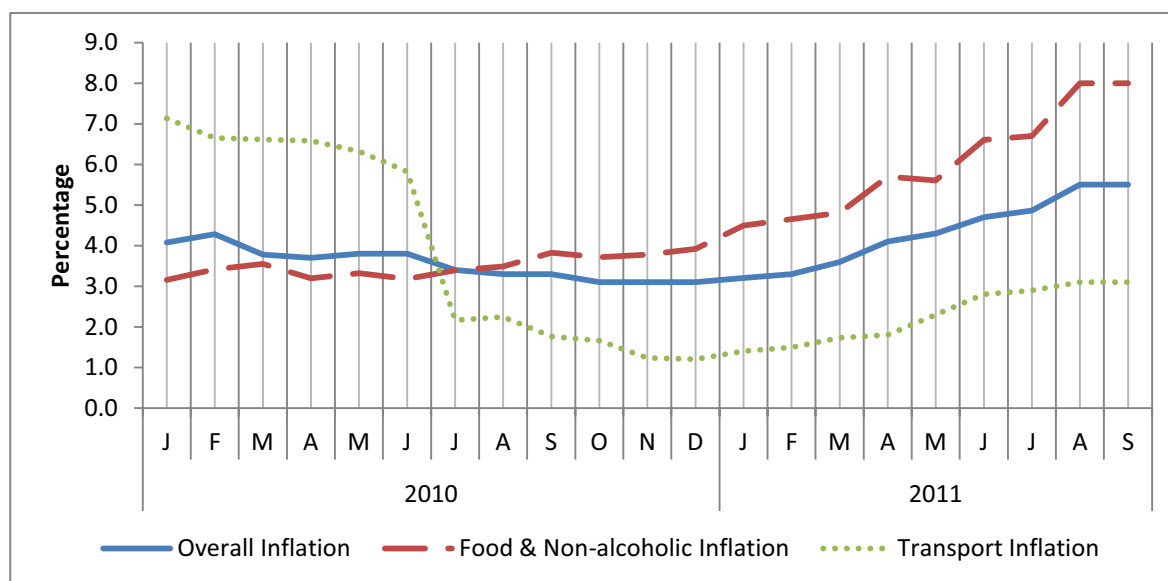
The annual inflation rate during September 2011 remained at 5.5 percent, same as in August 2011. The annual inflation rate for September 2011 was higher than the 3.3 percent recorded during the corresponding month in 2010. On average, prices increased by 0.4 percent between August and September 2011, mainly due to *food* prices that increased by 0.6 percent.

The largest upward pressure to the change in annual inflation came from the *food and non-alcoholic beverages* category which rose by 8.0 percent, compared to 3.8 percent in September 2010. Similarly, upward pressure to the change in annual inflation also came from the *housing, water, electricity, gas and other fuels* category which increased by 12.3 percent, compared to 5.2 percent in September 2010.

Meanwhile, the largest downward pressure to the change in inflation came from the *clothing & footwear* category which registered a slow growth of 1.7 percent compared to 2.5 percent in September 2010.

Lesotho’s monetary policy operation is achieved through maintaining adequate net international reserves (NIR). The NIR target for the quarter ending September 2011 was USD865 million, which translate to M6.18 billion; sufficient to support the Rand parity. The prime lending rate remained at 10.50 percent during the month of September 2011.

Chart 4: Annual Inflation Rate



Source: Bureau of Statistics of Lesotho

Namibia

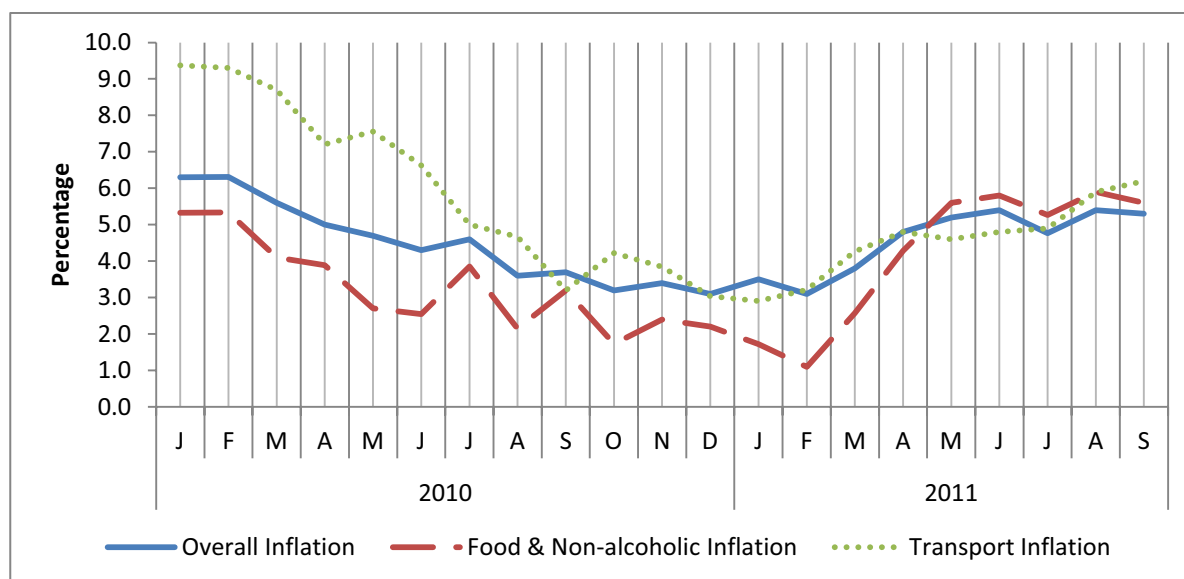
The annual inflation rate for September 2011 rose by 5.3 percent, down from 5.4 percent recorded in the preceding month. The annual inflation rate for September 2011 was higher than the 3.7 percent recorded during the same month in 2010. On average, prices declined by 0.04 percent between August and September 2011, a decline of 0.36 percentage points when compared to the monthly rate of August 2011. This was mainly due to decreases recorded in the groups of *transport and miscellaneous goods and services*.

The largest upward pressure to the change in annual inflation came from *food and non-alcoholic beverages* which increased by 5.6 percent compared with 3.2 percent in September 2010. This was mainly attributed to *bread & cereals, and meat* prices that increased by 4.6 percent and 10.2 percent, respectively.

Meanwhile, the largest downward pressure to the change in annual inflation came from *miscellaneous goods and services* registering a slow growth of 3.5 percent compared with 4.3 percent in September 2010.

Namibia also targets the level of NIR in order to maintain the Rand parity. The NIR level was down at N\$10.7 billion from N\$11.2 billion recorded in the previous month, which was still sufficient to support the Rand parity. The repo rate remained at 6.0 percent and prime rate at 9.75 percent during September 2011.

Chart 5: Annual Inflation Rate



Source: Namibia's Central Bureau of Statistics

South Africa

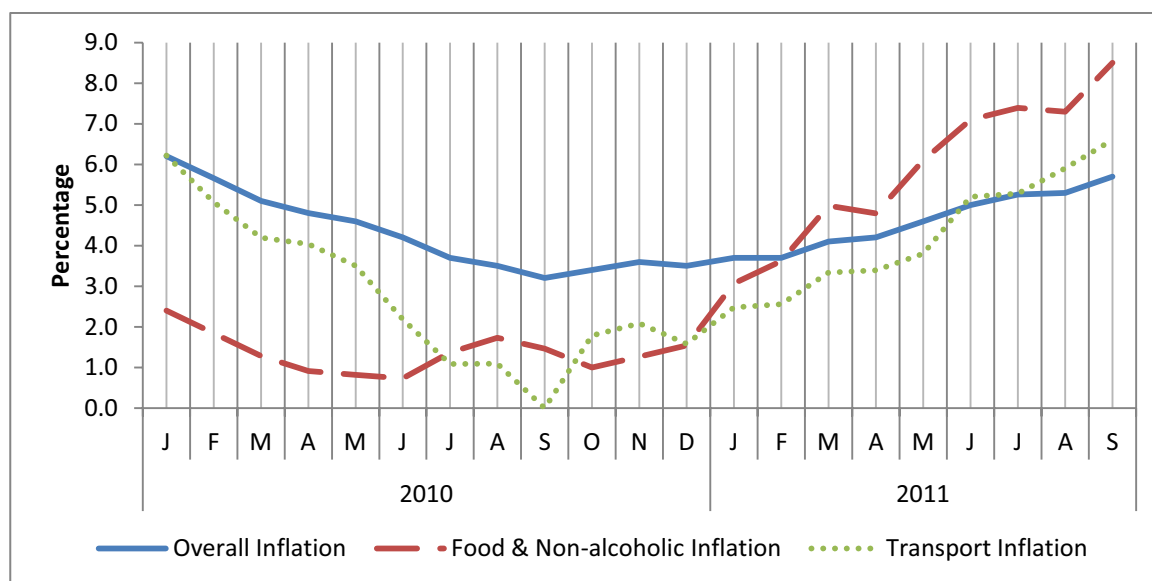
The annual inflation rate rose by 5.7 percent during September 2011, up from 5.3 percent in the previous month. The annual inflation rate for September 2011 was higher than the 3.2 percent recorded during the same period in 2010. On average, prices increased by 0.4 percent between August and September 2011.

The largest upward pressure to the change in annual inflation came from *housing, water, electricity, gas and other fuels* which increased by 6.7 percent. This was mainly attributed to *owner's equivalent rent* that increased by 4.4 percent. The second largest increase was recorded by the *food and non-alcoholic beverages* category.

Meanwhile, the largest downward pressure to the change in inflation came from *communications* which declined by 1.8 percent. This was mainly attributed to the *telecommunication equipments* which declined by 24.7 percent.

The annual inflation rate continues to remain within the inflation target range of 3-6 percent, although it is only 0.3 percentage points close to the upper end of the target range. Interest rate policy remains accommodative for growth with the repo rate at 5.5 percent, and the prime rate at 9.0 percent.

Chart 6: Annual Inflation Rate



Source: Stats SA

Swaziland

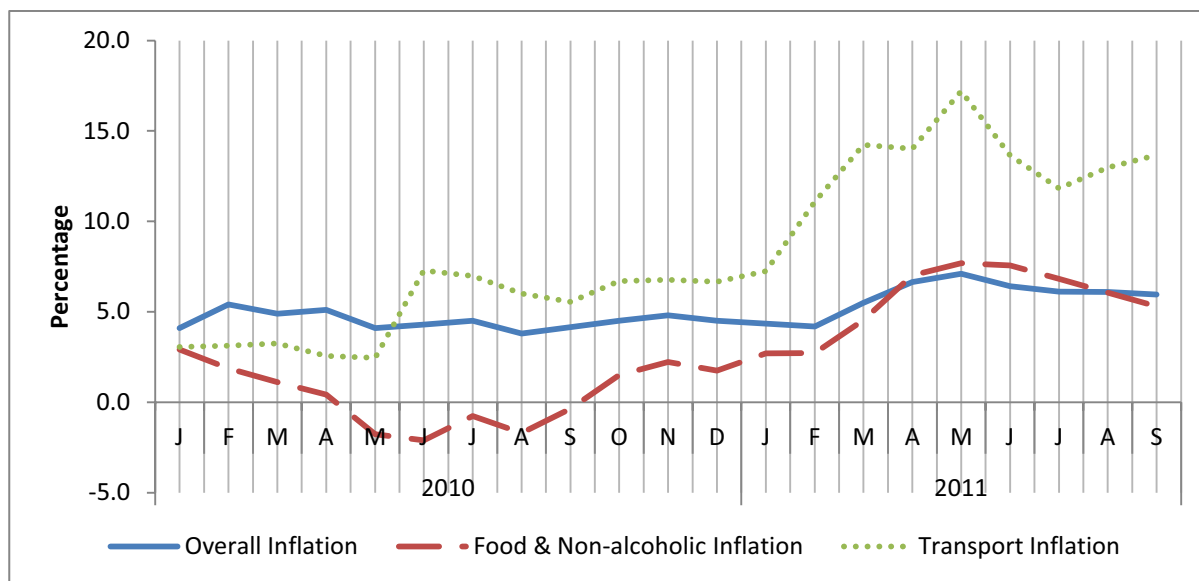
The annual inflation rate rose by 6.0 percent during September 2011, down from 6.1 percent in the previous month. The annual inflation rate for September 2011 was higher than the 4.2 percent recorded during the same period in the previous year. On average, prices increased by 0.2 percent between August and September 2011, mainly driven by *food & non alcoholic beverages* that increased by 0.3 percent.

The largest upward pressure to the change in annual inflation came from *food and non-alcoholic beverages* which increased by 5.3 percent compared with a deflation of 0.4 percent in September 2010. This was mainly attributed to *bread and cereals*; and *fat and oil* price increases.

Meanwhile, the largest downward pressure to the change in annual inflation came from *clothing & footwear* which slowed to 1.7 percent from 5.0 percent registered in September 2010. This was mainly attributed to the deflation of 0.2 percent in *footwear*.

In terms of the monetary policy framework, the Central Bank of Swaziland targets the level of NIR in order to maintain the Rand parity. The NIR level for September was E4.0 billion, a slight drop from E4.1 billion in August 2011, enough to cover 2.2 months of imports of goods and services which is below the internationally recommended level of 3 months. The discount rate remained at 5.5 percent during September 2011.

Chart 7: Annual Inflation Rate



Source: Central Statistics Office of Swaziland

Appendix

Annual inflation rates by main categories (September 2011)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	7.7	8.0	5.6	8.5	5.3
Alcoholic beverages & tobacco	7.4	6.4	6.2	5.9	3.8
Clothing & footwear	8.6	1.7	2.3	3.2	1.7
Housing, water, electricity, gas & other fuels	9.7	12.3	9.0	6.7	8.1
Furnishings, household equipment &...	9.8	2.8	2.0	2.0	3.2
Health	4.4	1.1	5.1	5.1	6.2
Transport	13.1	3.1	6.2	6.6	13.7
Communications	-5.4	0.0	1.4	-1.8	0.0
Recreation & Culture	7.4	1.9	4.6	0.2	-0.9
Education	10.6	0.8	5.1	8.6	12.1
Hotels, cafés & restaurants	9.3	3.7	3.4	5.4	2.1
Miscellaneous goods & services	4.5	2.2	3.5	4.5	5.3
All Item	8.6	5.5	5.3	5.7	6.0

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