



# SACU INFLATION REPORT

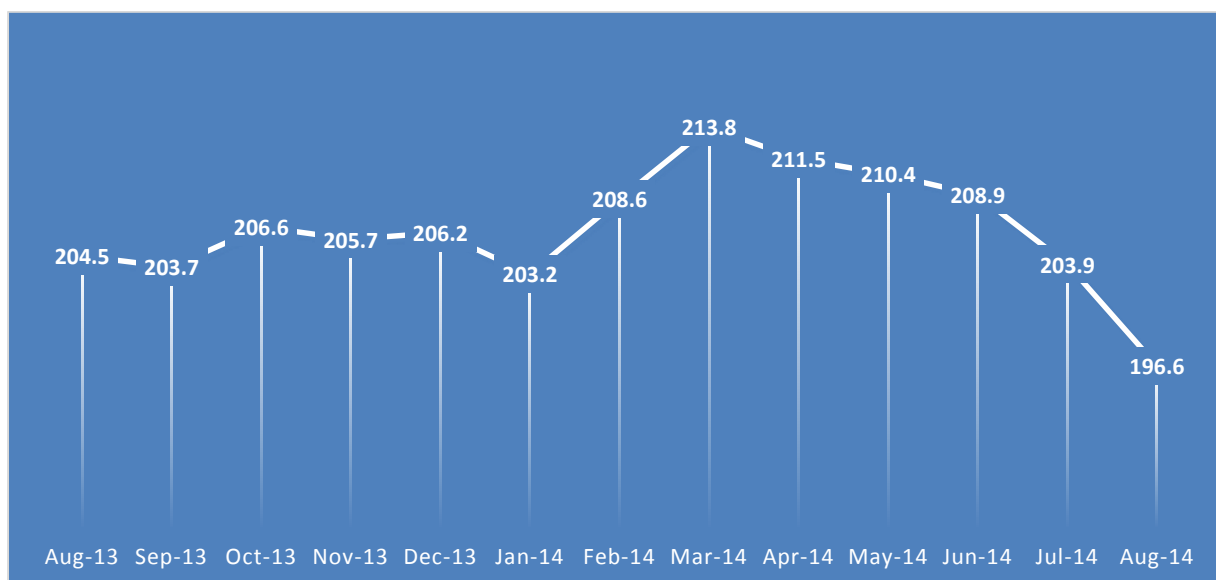
August 2014

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## FAO Food Price Index

The Food and Agricultural Organisation (FAO) Food Price Index<sup>1</sup> averaged 196.6 points in August 2014, down by 7.3 points from its level in July 2014. All the other food sub-indices declined, with the exception of the meat, the highest fall was recorded in dairy prices followed by oils and sugar.

**Chart I: FAO Food Price Index**



**Source: Food and Agriculture Organization of the United Nations**

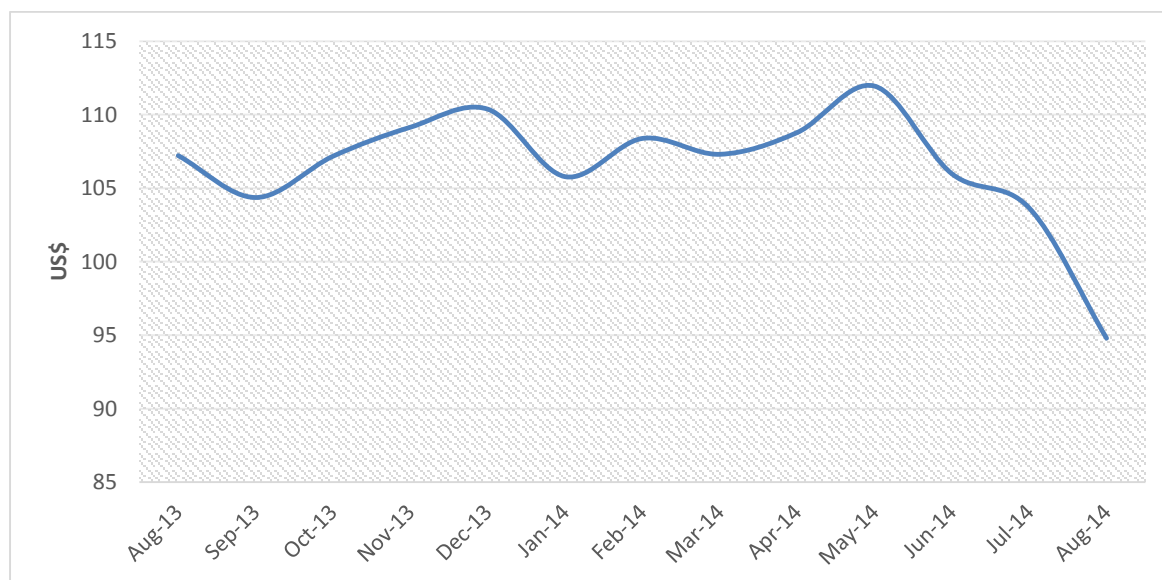
The FAO Cereal Price Index averaged 182.5 points in August 2014, down by 2.8 points from July 2014, the index has been falling continuously since May, mainly due to a fall in the prices of wheat and maize. Similarly, the FAO Vegetable Oil Price Index averaged 166.6 points in August 2014, down by 14.5 points from July 2014, the drop in the index was driven by a fall in the price of palm oil due to a subdued global import demand. The FAO Dairy Price Index averaged 200.8 points in August 2014, down by 25.3 points from July 2014. The FAO Meat Price Index averaged 207.3 points in August 2014, up by 2.5 points from July 2014. The increase reflected a strong rise of bovine meat prices and continued strong import demand in China. While, the FAO Sugar Price Index averaged 207.3 points in August 2014, down by 14.8 points from July 2014. The significant drop in prices was triggered by improved production prospects in India, the world's second largest sugar producer.

<sup>1</sup> 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

## Selected Commodity Prices

Brent crude oil price closed at USD94.80 per barrel at the end of August 2014, which was 8.5 per cent lower than at the end of July 2014, and lower than the USD107.22 per barrel recorded at the end of August 2013. Brent crude oil prices has been on a downward trend since May 2014.

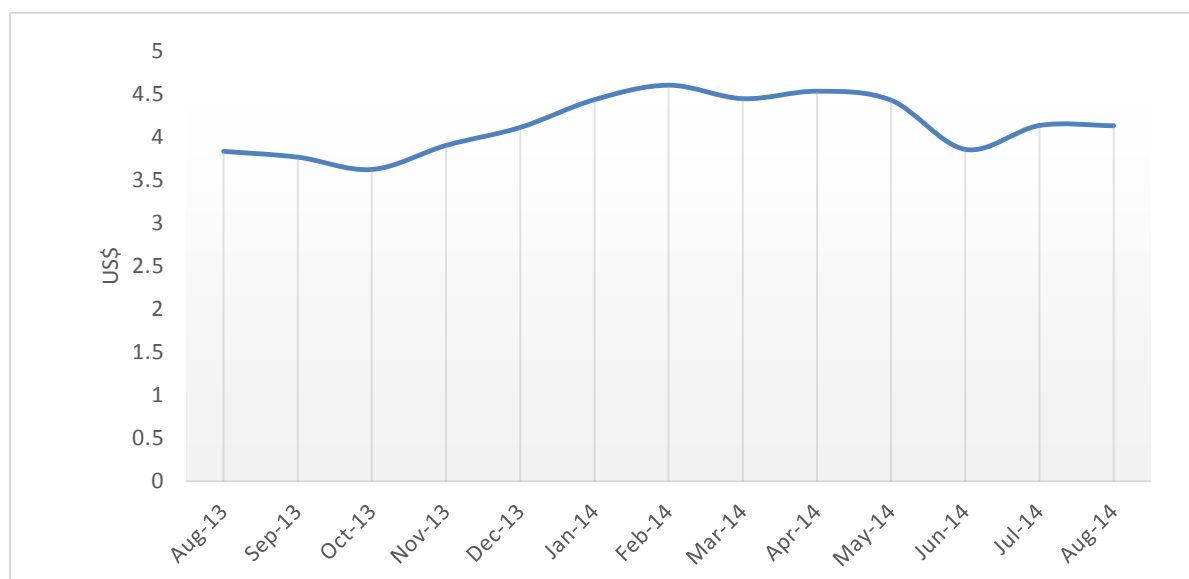
**Chart 2: Crude Oil**



Source: [www.cnn.com](http://www.cnn.com)

The Natural gas price closed at USD4.13 at the end of August 2014, unchanged from end of July 2014.

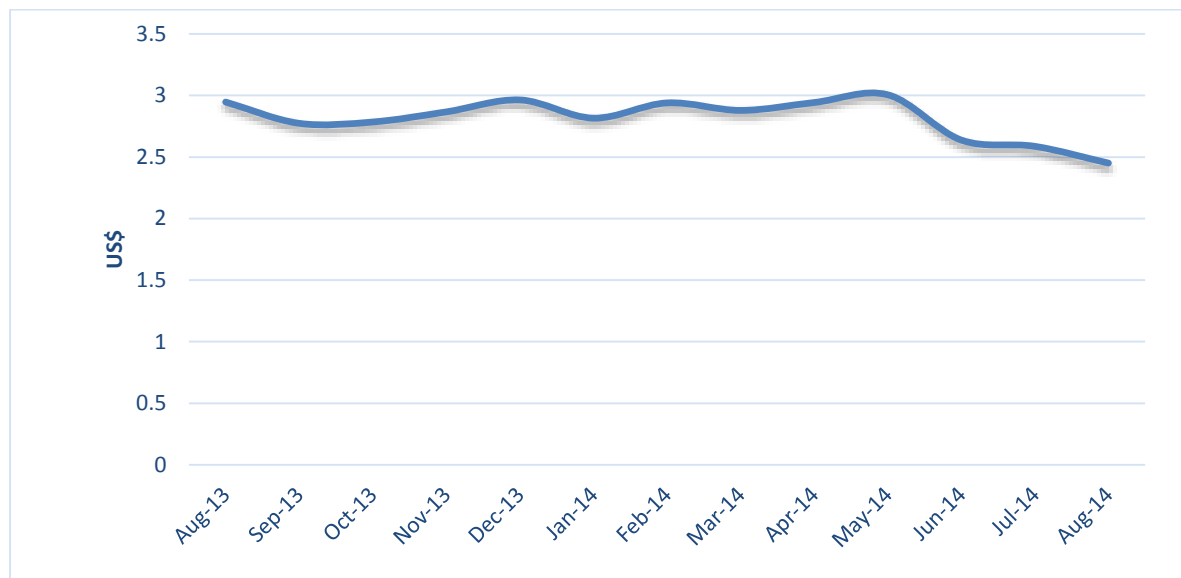
**Chart 3: Natural Gas**



Source: www.cnbc.com

RBOB gasoline price closed at USD2.45 per barrel at the end of August 2014, which was 5.3 per cent lower than at the end of July 2014.

**Chart 4: RBOB Gas**



Source: www.cnbc.com

## Inflation Rate for a Selected Developed Economies

### Euro Area

The annual inflation rate remained unchanged at 0.4 per cent in August 2014 from July 2014, the lowest inflation rate since October 2009. A year earlier the rate was 1.3 per cent. The main components with the highest annual rates in August 2014 were *alcohol beverages & tobacco* (2.1 per cent), and *hotel & restaurants* (1.6 per cent), while *communications* (-2.9 per cent), and *food* (-0.09 per cent) recorded the lowest annual rates. The annual rate recorded for August 2014 remained below the European Central Bank inflation target of below but close to 2.0 per cent.

### Japan

The annual inflation rate for August 2014 stood at 3.3 per cent, down from 3.4 per cent in the previous month. A year earlier the rate was 0.9 per cent. The main components with the

highest annual rates were *fuel, light and water charges* (6.4 per cent), and *food* (4.9 per cent), while the lowest annual rate was observed for *housing* (0.1 per cent).

## **United Kingdom**

The annual inflation rate rose to 1.5 per cent in August 2014, down from 1.6 per cent in July 2014. The rate was 2.7 per cent during the similar period a year earlier. The main components with the highest annual rates were *education* (10.3 per cent), *alcohol beverages & tobacco* (4.6 per cent), and *housing & utilities* (3.2 per cent), while the lowest annual rates were observed for *food & non-alcoholic beverages* (-1.1 per cent) and *miscellaneous goods* (-0.4 per cent). The annual inflation rate for August 2014 was below the Bank of England's inflation target of 2.0 per cent.

## **USA**

The annual inflation rate in the world's largest economy rose to 1.7 per cent in August 2014 down from 2.0 per cent in the preceding month. The rate was 1.5 per cent during the similar period a year earlier. The index for all items less food and energy rose by 1.7 per cent in August 2014, down from 1.9 per cent in the preceding month. The food index rose by 2.7 per cent in August 2014 compared to 2.5 per cent in the preceding month. The energy index registered an increase of 0.4 per cent in August 2014 compared to 2.6 per cent in the preceding month. The inflation rate for August 2014 was below the Federal Reserve Bank's long term inflation estimate of 2.0 per cent.

## **Inflation Rate for Selected Developing Economies**

### **Brazil**

The annual inflation rate was 6.5 per cent in August 2014, unchanged from the preceding month. The rate was 6.1 per cent during the similar period a year earlier. The annual rate recorded for August 2014 continued to be within the Brazilian Central Bank inflation target of 4.5 per cent with a floating range of 2 percentage points.

### **China**

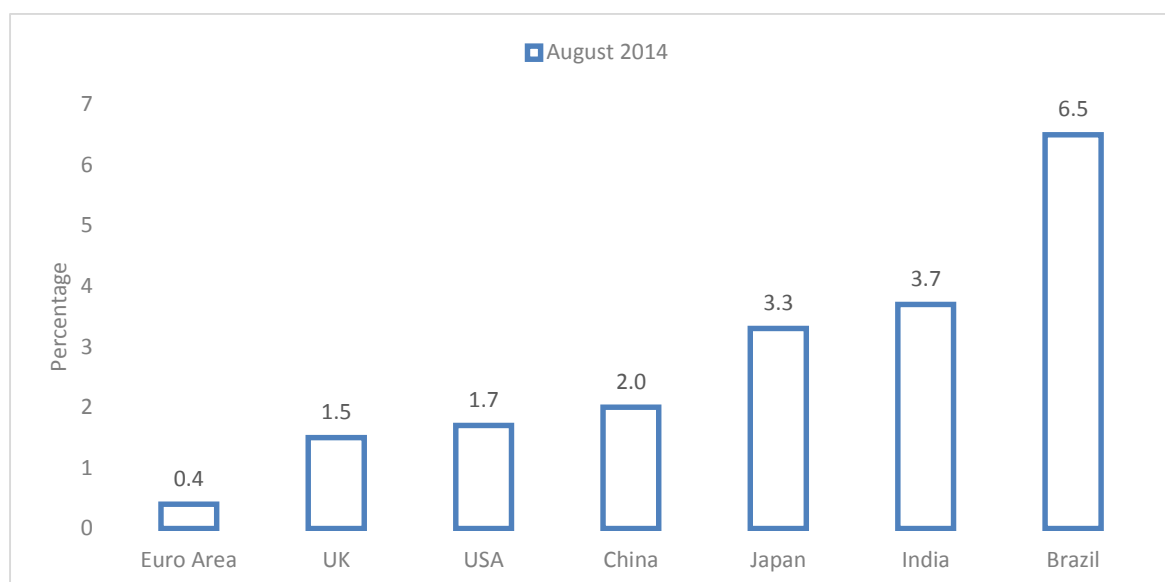
The annual inflation rate rose by 2.0 per cent in August 2014, down from 2.3 per cent in the preceding month. The rate was 2.6 per cent during the similar period a year earlier. The main components with the highest annual rates were *food* (3.4 per cent), *clothing*, and *residence* (2.4 per cent each), while the lowest annual rates were observed on *tobacco, liquor & articles* (-0.6

per cent). The annual inflation rate for August 2014 continued to be below the Government's inflation target of 3.0 per cent.

## India

The annual inflation rate stood at 3.7 per cent in August 2014 as compared to 5.2 per cent in the preceding month and 7.0 per cent during the corresponding month in the previous year. The main components with the highest annual rates were observed on *primary articles (2.0 per cent)* and *manufactured products (0.3 per cent)*, while the lowest annual rates were observed on *fuel & power (-0.3 per cent)*. The inflation rate registered during August 2014 was below the Reserve Bank target range of 4.0 – 4.5 per cent.

**Chart 5: Annual Inflation Rates for Selected Economies**



Source: inflation.eu

## Inflation Rate in SACU Member States

In August 2014, annual inflation increased in Botswana (4.6%, up from 4.5% in July) and South Africa (6.4%, up from 6.3% in July). On the other hand annual inflation declined in Lesotho (5.9%, down from 6.5% in July), Namibia (5.4% down from 5.6%), and in Swaziland (6.0%, down from 6.2% in July). For the month of August 2014, South Africa registered the highest annual inflation rate among the Member States, registering inflation rate of 6.4 per cent followed by Swaziland at 6.0 per cent, Lesotho at 5.9 per cent, Namibia at 5.4 per cent, and Botswana at

4.6 per cent. All Member States continued to record a single digit annual inflation rate during August 2014 as shown in Table 1.

Month-on-month inflation rates varied between 0.2 and 0.4 per cent in Member States between July 2014 and August 2014, as shown in Table 2, with Lesotho recording the lowest month-on-month inflation of 0.2 per cent.

**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>
July 2014	4.5	6.5	5.6	6.3	6.2
August 2014	4.6	5.9	5.4	6.4	6.0

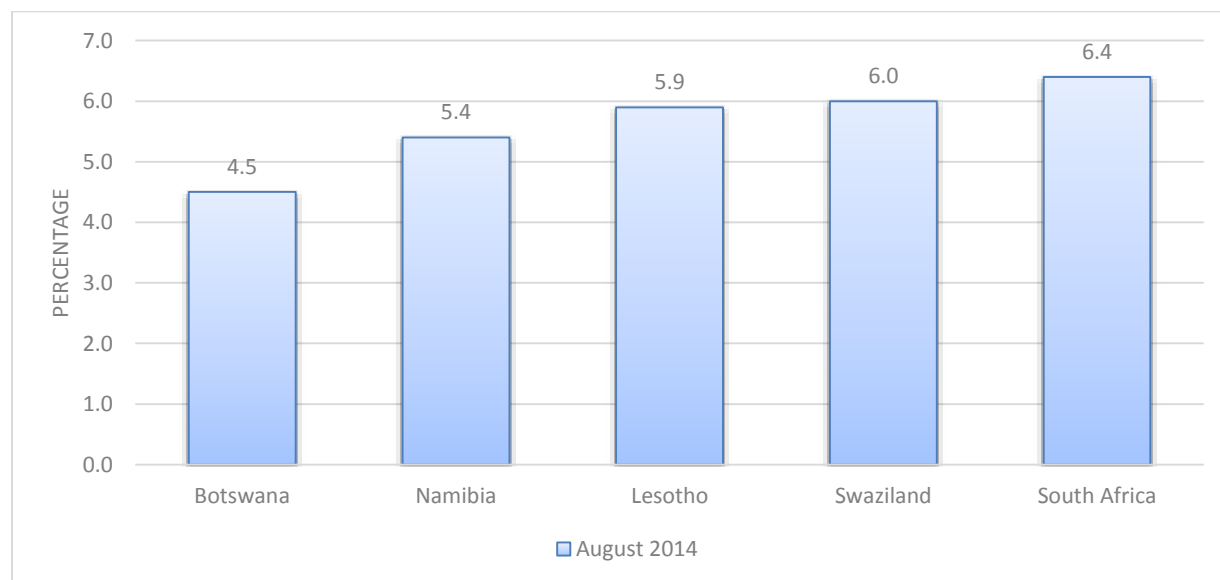
Source: Member States Statistics Offices

**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>
July 2014	0.1	0.3	0.2	0.8	1.3
August 2014	0.3	0.2	0.3	0.4	0.3

Source: Member States Statistics Offices

**Chart 6: Annual Inflation Rates (%) in SACU Member States**



Source: Member States Statistics Offices

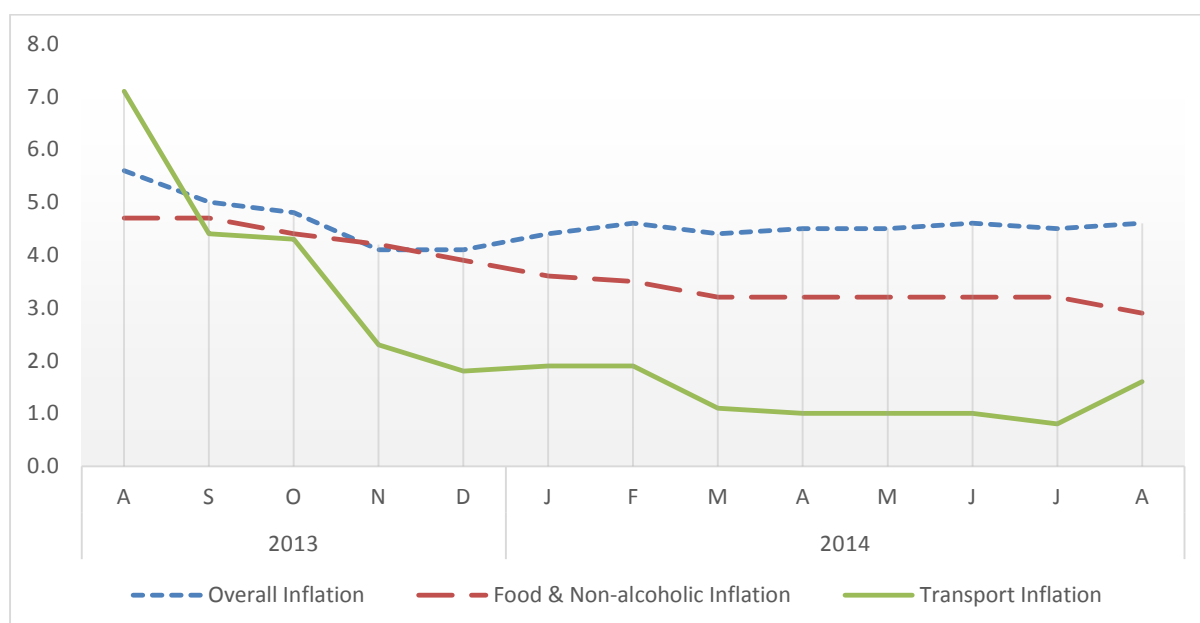
## Botswana

The annual inflation rate slightly increased to 4.6 per cent in August 2014 from 4.5 per cent in the preceding month. The annual rate in August 2014 was lower than the 5.6 per cent recorded during the similar month in 2013. The decline in the annual inflation rate between August 2014 and August 2013 was mainly due to the decline in prices for *transport*, and *food & non-alcoholic beverages* categories which dropped by 5.5 and 1.8 percentage points, respectively. On average, prices increased by 0.3 per cent between July and August 2014.

The main components with the highest annual rates for August 2014 were *health* (9.3 per cent), followed by *alcoholic beverages & tobacco* (9.1 per cent). While the lowest annual rate was observed in *communication* (0.4 per cent).

The annual inflation rate for August 2014 remained within the inflation target range of 3 – 6 per cent set out by the Bank of Botswana since August 2013. During the month of August 2014 the bank rate<sup>2</sup> remained at 7.5 per cent, while the prime rate remained at 8.5 per cent.

**Chart 7: Annual Inflation Rate**



Source: Statistics Botswana

<sup>2</sup> Bank rate is the rate at which the Central Bank lends to Commercial Banks



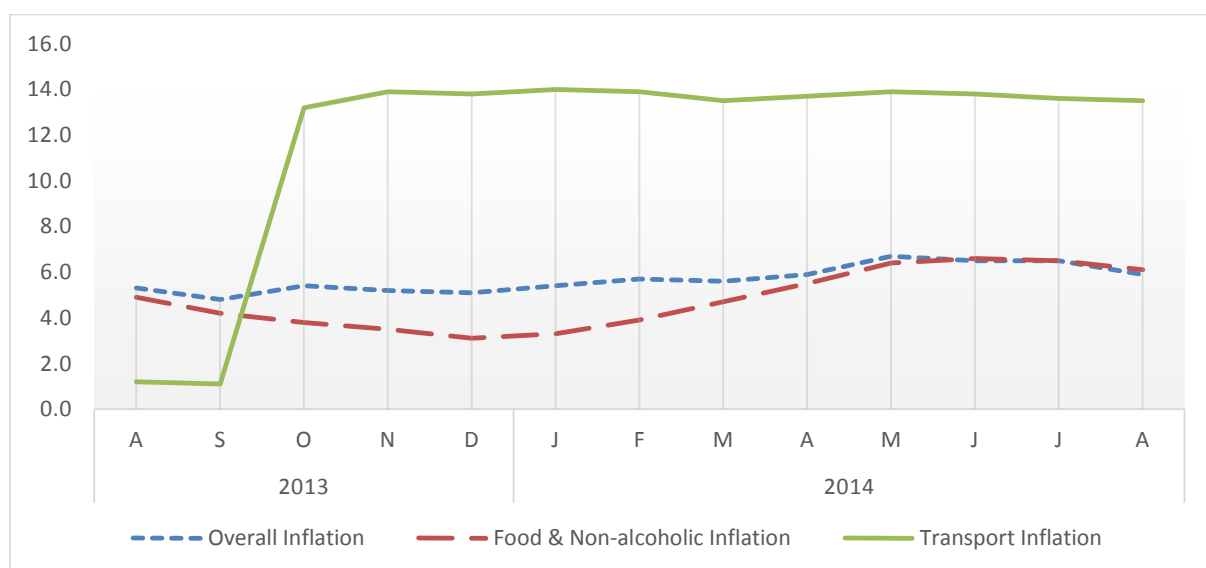
## Lesotho

The annual inflation rate rose by 5.9 per cent in August 2014 compared to 6.5 per cent in the preceding month. A year earlier inflation rate was 5.3 per cent during the corresponding month. The increase of annual inflation rate between August 2014 and August 2013 was mainly due to the increase in prices for *food & non-alcoholic beverages* (6.1 per cent from 4.9 per cent in August 2013), *clothing & footwear* (3.8 per cent from 1.5 per cent in August 2013) and *transport* (13.5 per cent from 1.2 per cent in August 2013). On average, prices increased by 0.3 per cent between July 2014 and August 2014.

The main components with the highest annual rates in August 2014 were *transport* (13.5 per cent) followed by *education* (7.1 per cent), while the lowest annual rate was observed in *communications* (stagnant).

Lesotho monetary policy targets the maintenance of adequate net international reserves (NIR). The NIR target for the quarter ending in September 2014 was at USD0.610 billion, which translates to M6.52 billion, a target that is consistent with the maintenance of the exchange rate peg between the Loti and the Rand. During the month of August 2014 the Lombard facility stood at 9.91 per cent, while the prime lending rate was recorded at 10.50 per cent.

**Chart 8: Annual Inflation Rate**



Source: Bureau of Statistics of Lesotho

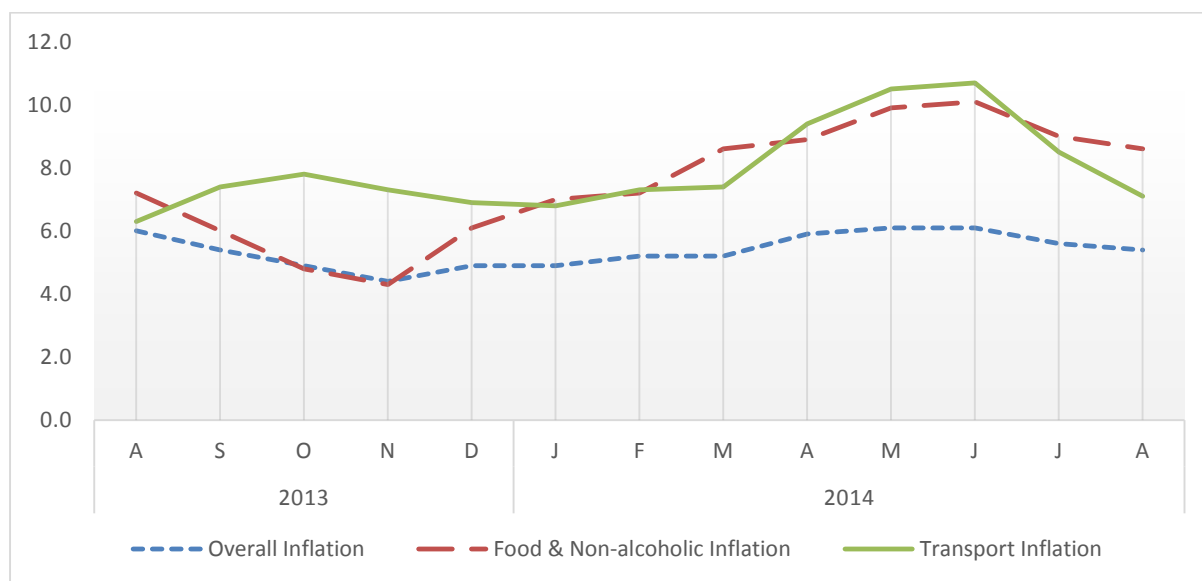
## Namibia

The annual inflation rate rose by 5.4 per cent in August 2014 compared to 5.6 per cent in the preceding month. A year earlier inflation rate was 6.0 per cent during the corresponding month. The decline in annual inflation rate between August 2014 and August 2013 was mainly reflected in *housing & utilities* (3.3 per cent from 4.3 per cent in August 2013), and *alcohol & tobacco* (6.6 per cent from 9.2 per cent in August 2013). On average, prices increased by 0.3 per cent between July 2014 and August 2014.

The main components with the highest annual rates in August 2014 were *food & non-alcoholic beverages* (8.6 per cent) followed by *education* (8.1 per cent). The lowest annual rate was observed in *communications* (-0.5 per cent).

The NIR level declined to N\$13.7 billion in August 2014 from N\$14.8 billion recorded in the previous month, and it was sufficient to support the Rand parity. During the month of August 2014, the repo rate increased to 6.0 per cent, while the prime rate increased to 9.75 per cent.

**Chart 9: Annual Inflation Rate**



Source: Namibia Statistics Agency

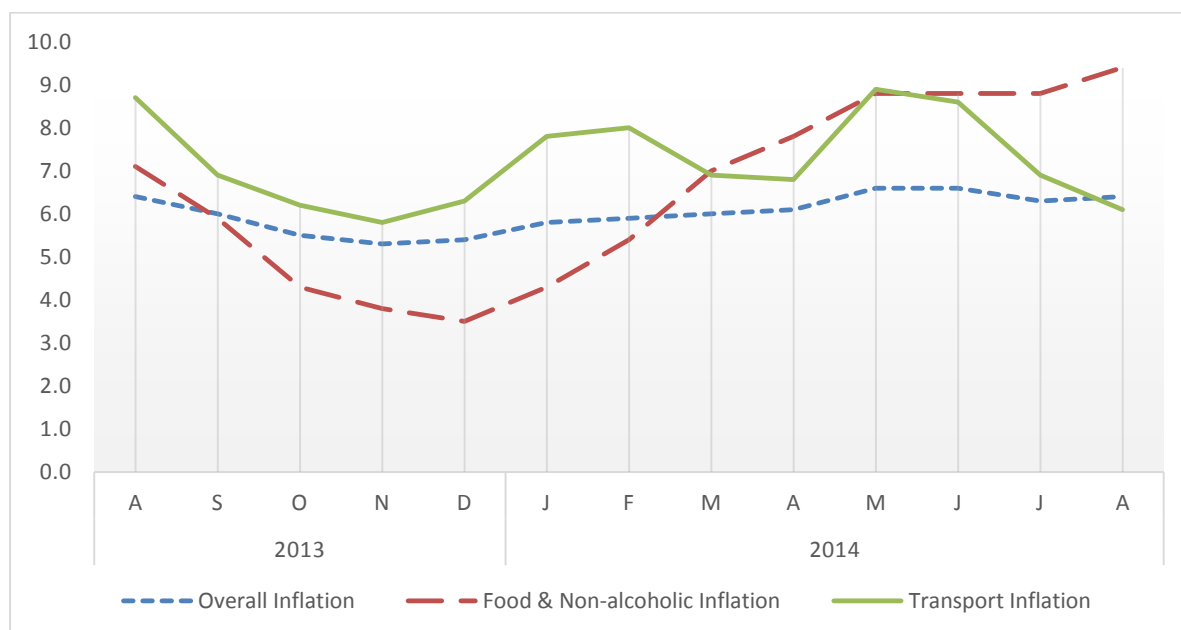
## South Africa

The annual inflation rate slightly increased to 6.4 per cent in August 2014 from 6.3 per cent in the previous month. Annual inflation rate in August 2014 was unchanged from the corresponding month in 2013. The main contributors to the annual inflation rate in August 2014 were *housing & utilities* (1.4 percentage points) and *food & non-alcoholic beverages* (1.4 percentage points). On average, prices increased by 0.4 per cent between July 2014 and August 2014.

The main components with the highest annual rates were *food & non-alcoholic beverages* (9.4 per cent) followed by *education* (8.7 per cent). While the lowest annual rate was observed in *communication* (-1.5 per cent).

The annual inflation rate continued to remain above the target range of 3-6 per cent set out by the South African Reserve Bank. Interest rate policy remained accommodative for growth with the repo rate at 5.75 per cent in August 2014 and the prime rate at 9.25 per cent.

**Chart 10: Annual Inflation Rate**



Source: Stats SA

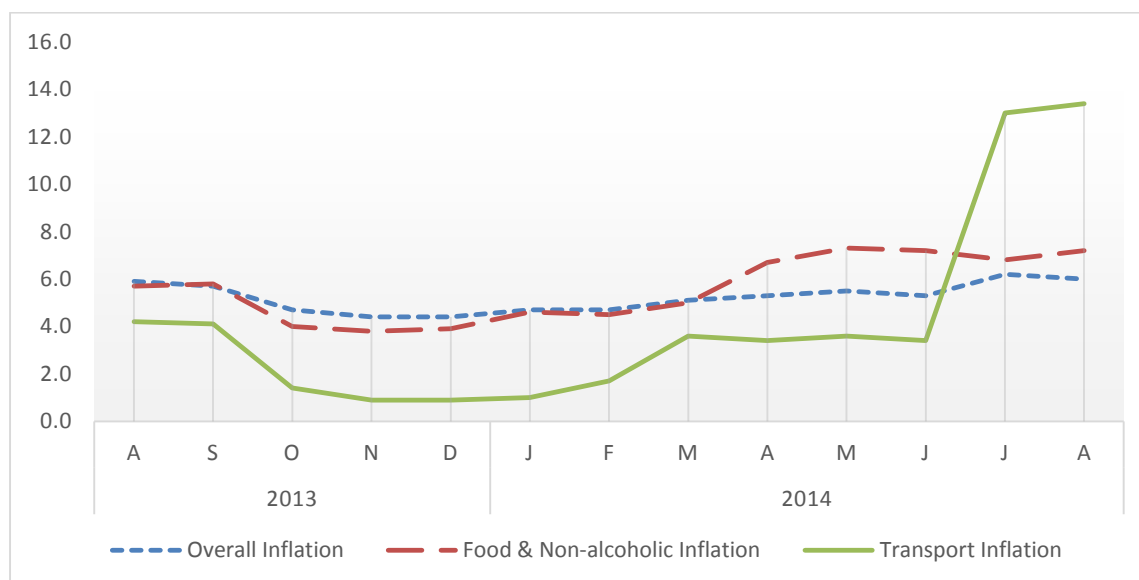
## Swaziland

The annual inflation rate eased to 6.0 per cent in August 2014 from 6.2 per cent in the previous month. Annual inflation rate in August 2014 was slightly higher than the 5.9 per cent recorded during the similar month in 2013. The increase of the annual inflation rate between August 2014 and August 2013 was mainly due to the increase in prices for *food & non-alcoholic beverages* (7.2 per cent from 5.7 per cent in August 2013) and *transport* (13.4 per cent from 4.2 per cent in August 2013) which accounts for 29.2 and 10.5 per cent of the overall inflation basket, respectively. On average, prices increased by 0.3 per cent between July 2014 and August 2014.

The main components with the highest annual rates in August 2014 were *transport* (13.4 per cent), followed by *education* (10.0 per cent). While the lowest annual rate was observed in *communications* (stagnant).

Interest rate policy remained accommodative for growth in August 2014 with the discount rate recorded at 5.75 per cent, and the prime rate at 9.25 per cent.

**Chart I I: Annual Inflation Rate**



Source: Central Statistics Office of Swaziland

## Appendix

### Annual inflation rates by main categories (August 2014)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	2.9	6.1	8.6	9.4	7.2
Alcoholic beverages & tobacco	9.1	6.3	6.6	5.6	7.7
Clothing & footwear	5.9	3.8	3.4	5.3	7.0
Housing, water, electricity, gas & other fuels	3.7	6.2	3.3	5.9	2.3
Furnishings, household equipment &...	5.2	3.1	5.2	3.6	5.6
Health	9.3	1.2	1.5	5.5	2.8
Transport	1.6	13.5	7.1	6.1	13.4
Communications	0.4	0.0	-0.5	-1.5	0.0
Recreation & Culture	4.2	1.0	6.0	3.2	7.7
Education	7.4	7.1	8.1	8.7	10.0
Hotels, cafés & restaurants	7.3	2.1	5.3	8.5	4.0
Miscellaneous goods & services	6.5	4.5	4.5	7.1	4.1
All Item	4.6	5.9	5.4	6.4	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	16.45	15.41	29.22
Alcoholic beverages & tobacco	9.29	1.22	12.59	5.43	0.39
Clothing & footwear	7.52	17.43	3.05	4.07	3.42
Housing, water, electricity, gas & other fuels	11.46	10.60	28.36	24.52	29.15
Furnishings, household equipment &...	6.76	9.42	5.47	4.79	4.75
Health	2.71	1.88	2.01	1.46	3.39
Transport	18.98	8.47	14.28	16.43	10.50
Communications	3.01	1.24	3.81	2.63	2.74
Recreation & Culture	2.22	2.39	3.55	4.09	1.07
Education	3.37	2.75	3.65	2.95	9.11
Hotels, cafés & restaurants	3.27	0.66	1.39	3.50	1.79
Miscellaneous goods & services	9.57	5.81	5.39	14.72	4.47
All Item	100.00	100.00	100.00	100.00	100.00

Source: SACU Member States Statistics Offices