



# SACU INFLATION REPORT

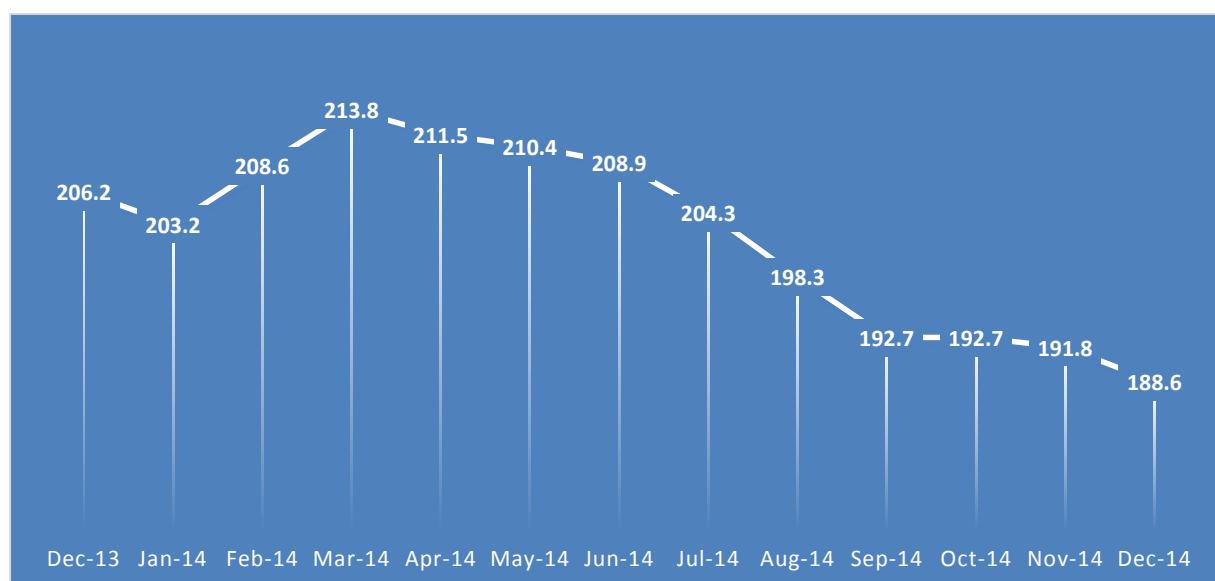
December 2014

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## FAO Food Price Index

The Food and Agricultural Organisation (FAO) Food Price Index<sup>1</sup> averaged 188.6 points in December 2014, down by 3.2 points from its level in November 2014, reaching the lowest level for the year 2014. Overall, the full year index averaged 202 points, down by 3.7 per cent from 2013. The biggest downward impact was observed in cereals (-12.5 per cent), followed by dairy products (-7.7 per cent), oils (-6.2 per cent) and sugar (-3.8 per cent). While the upward impact was observed in the FAO meat price index recording an increase of 8.1 per cent compared to 2013.

**Chart I: FAO Food Price Index**



Source: Food and Agriculture Organization of the United Nations

The FAO Cereal Price Index averaged 183.9 points in December 2014, slightly up by 0.4 points from November 2014, primarily driven by a rise in wheat prices. In 2014, the index averaged 192 points, down by 12.5 per cent from 2013 as international prices of all cereals subsided driven by record production and large stock. The FAO Vegetable Oil Price Index averaged 161.0 points in December 2014, down by 4.0 points from November 2014, the drop in the index reflects developments in the palm oil market as the slump in crude oil prices depressed demand for palm oil as a biodiesel feedstock. Over the full year, the index averaged 181.0 points, down by 6 per cent from 2013. The FAO Dairy Price Index averaged 174.0

<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

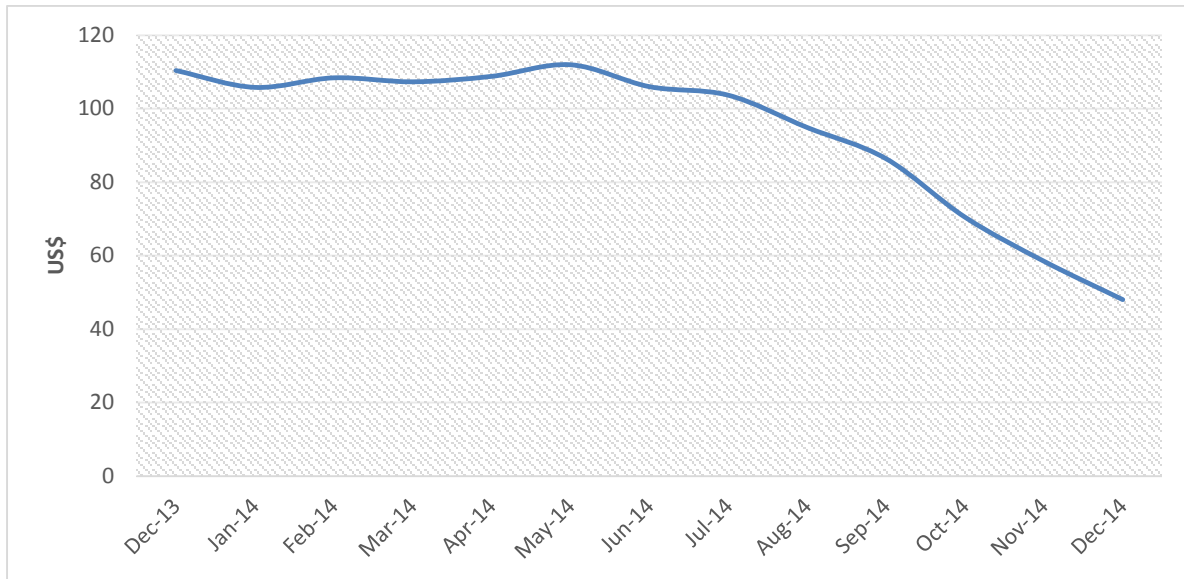
points in December 2014, down by 4.1 points from November 2014. The fall in dairy prices is as a result of increased export availability and a reduction in the pace of importation by some of the major markets especially China and Russia. Over 2014, the index averaged 224.2 points, down by 7.7 per cent from 2013, the fall in the index stems from the increased exports.

The FAO Meat Price Index averaged 204.0 points in December 2014, down by 4.0 points from its level in November 2014. The drop in prices was due to the stronger US Dollar and a growth in exports. Overall for 2014, the index registered an increase of 8.1 per cent from 2013. The FAO Sugar Price Index averaged 219.0 points in December 2014, down by 11.0 points from November 2014. The fall in the prices was mainly due to higher supplies in major sugar producing countries and falling crude oil prices which reduces the volume of sugar crops being converted into ethanol. Overall in 2014, sugar prices were mostly under downward pressure averaging 9.6 points lower than in 2013.

## Selected Commodity Prices

Brent crude oil price continued with the downward trend since June 2014 closing at the lowest level to date of USD47.99 per barrel at the end of December 2014, which was 17.9 per cent lower than at the end of November 2014, and lower than the USD110.38 per barrel recorded at the end of December 2013. The fall in prices for crude oil can be attributed to the following factors, firstly, the low demand because of weak economic activity (mainly in China and Europe), increased efficiency and a growing switch from oil to other fuels, and secondly, the USA has become the world's largest oil producer, thus it now imports much less creating a lot of spare supply.

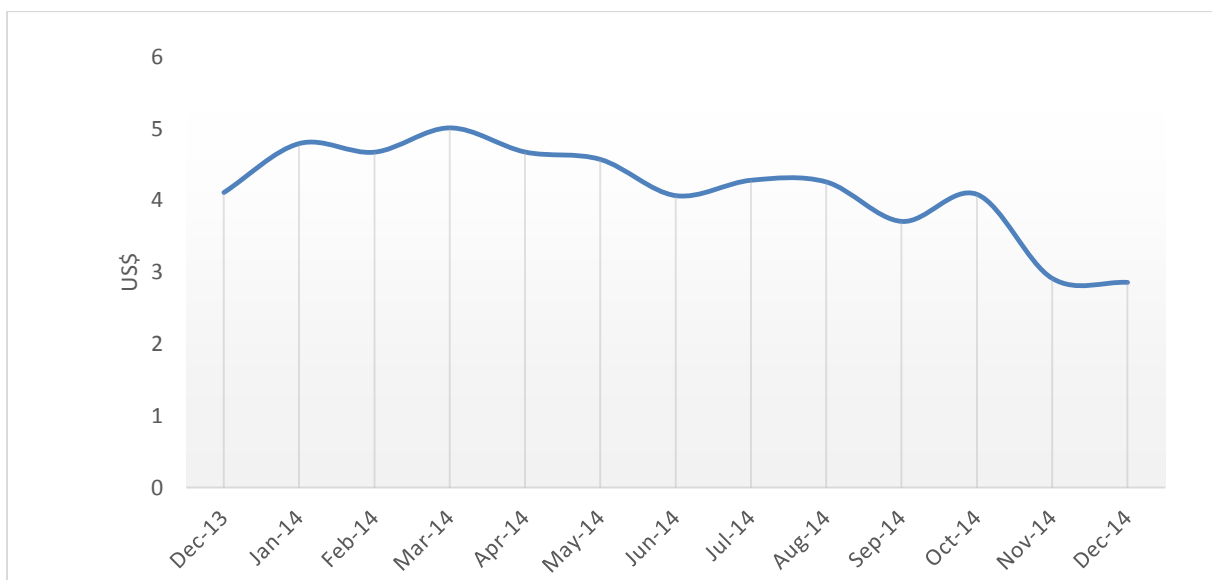
**Chart 2: Crude Oil**



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

The Natural gas price closed at USD2.86 at the end of December 2014, which was 1.9 per cent lower than at the end of November 2014.

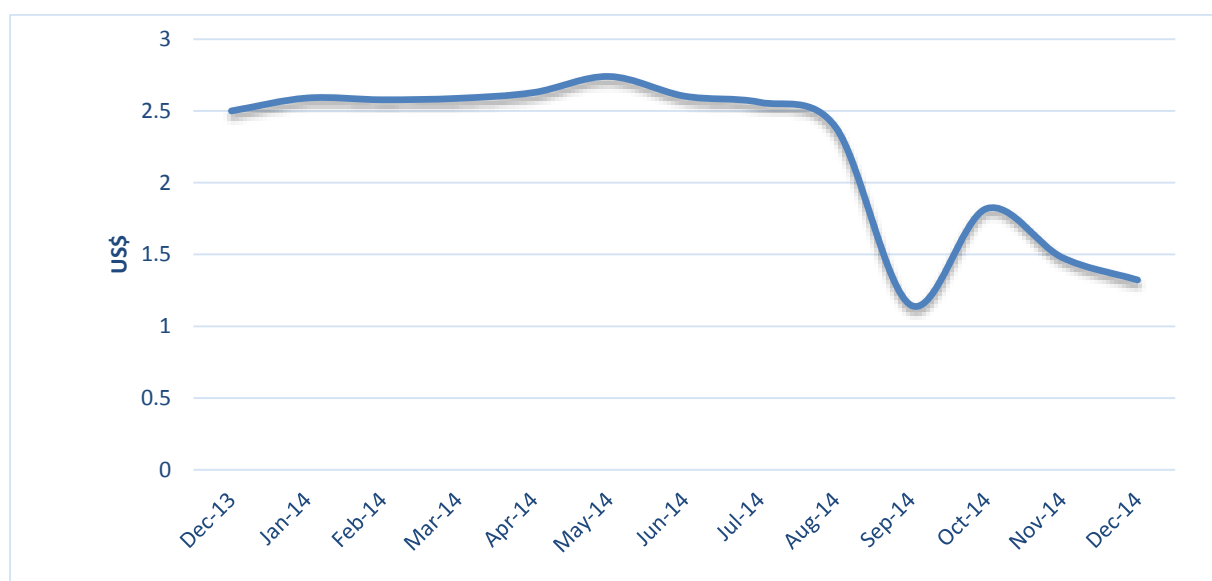
**Chart 3: Natural Gas**



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

RBOB gasoline price closed at USD1.32 per barrel at the end of December 2014, which was 10.6 per cent lower than at the end of November 2014.

**Chart 4: RBOB Gas**



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

## Inflation Rate for a Selected Economies

### Euro Area

Euro area recorded an annual deflation 0.2 per cent in December 2014, down from 0.3 per cent inflation rate recorded in November 2014. A year earlier the rate was 1.0 per cent. The biggest downward impact to annual rate came from fuels for transport (-0.53 percentage points), heating oil (-0.17 percentage points) and telecommunications (-0.08 percentage points), while restaurants & cafes and rents (0.11 percentage points each) and tobacco (0.07 percentage points) had the largest upward impacts. The annual rate recorded for December 2014 was below the European Central Bank inflation target of below but close to 2.0 per cent. Overall, average annual inflation rate eased to 0.4 per cent for the year 2014 compared to 1.4 per cent for the year 2013.

### United Kingdom

The annual inflation rate decelerated to 0.5 per cent in December 2014 from 1.0 per cent registered in November 2014. The rate was 2.0 per cent during a similar period a year earlier. The main components with the highest annual rates were *education (10.0 per cent)*, *alcohol beverages & tobacco (5.0 per cent)*, and *restaurants & hotel (2.3 per cent)*, while the lowest annual rates were observed in *food & non-alcoholic beverages (-1.7 per cent)*. The annual inflation rate

for December 2014 remained below the Bank of England's inflation target of 2.0 per cent. Overall in 2014, inflation rate was 1.5 per cent compared to 2.6 per cent in 2013.

## **USA**

The annual inflation rate in the world's largest economy eased to 0.8 per cent in December 2014 from 1.3 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 1.6 per cent in December 2014, down from 1.7 per cent in the preceding month. The food index rose by 3.4 per cent in December 2014 compared to 3.2 per cent in the preceding month. The energy index registered a decline of 10.6 per cent in December 2014 compared to a decline of 4.8 per cent in the preceding month. The inflation rate for December 2014 remained below the Federal Reserve Bank's long-term inflation estimate of 2.0 per cent. In 2014, annual inflation averaged at 1.6 per cent compared to 1.5 per cent in 2013.

## **Brazil**

The annual inflation rate was 6.4 per cent in December 2014, down from 6.6 per cent in the preceding month. The rate was 5.9 per cent during the similar period a year earlier. The annual rate recorded for December 2014 remained within the Brazilian Central Bank inflation target of 4.5 per cent with a floating range of 2 percentage points. Overall, average annual inflation rate was 6.3 per cent for the year 2014 compared to 6.2 per cent for the year 2013.

## **China**

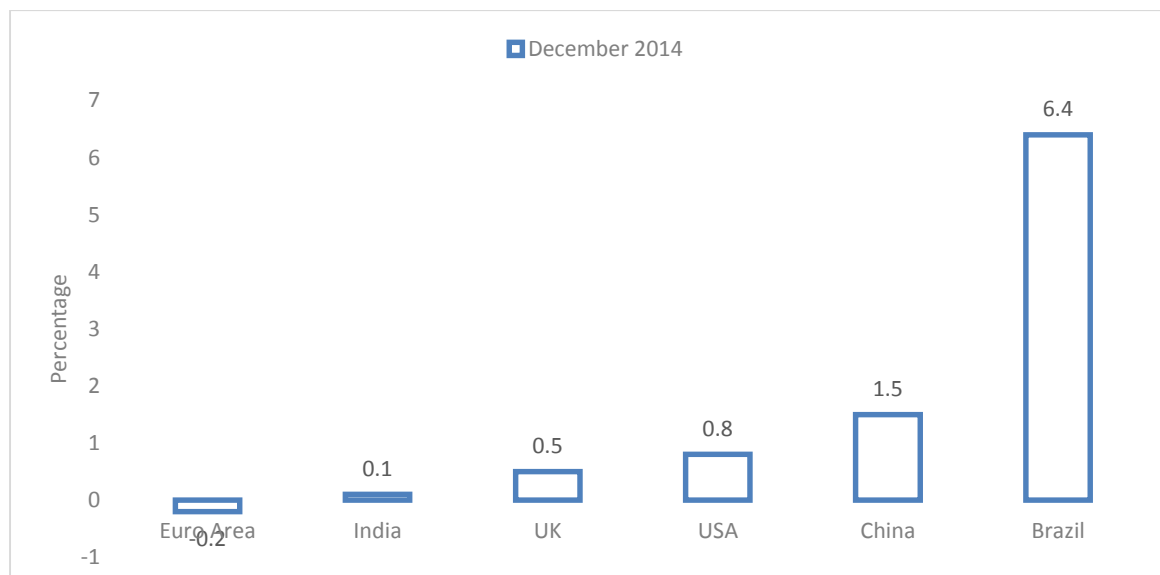
The annual inflation rate rose by 1.5 per cent in December 2014, up from 1.4 per cent in the preceding month. The rate was 2.5 per cent during the similar period a year earlier. The main components with the highest annual rates were *food (2.9 per cent)*, and *clothing (2.6 per cent)*, while the lowest annual rates were observed on *transport & communication (-1.4 per cent)*. The annual inflation rate for December 2014 continued to be below the Government's inflation target of 3.0 per cent. In 2014, the overall consumer prices were up by 2.0 per cent compared 2.6 per cent in the previous year.

## **India**

The annual inflation rate was 0.1 per cent in December 2014 compared to the preceding month and 6.4 per cent during the corresponding month of the previous year. All major commodity groups declined in December 2014, *fuel & power (-2.4 per cent)*, *primary articles (-1.3 per cent)* and *manufactured products (-0.3 per cent)*. The inflation rate registered during

December 2014 continued to be below the Reserve Bank target range of 4.0 – 4.5 per cent. Overall in 2014, inflation rate was 3.8 per cent compared to 6.1 per cent in 2013.

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

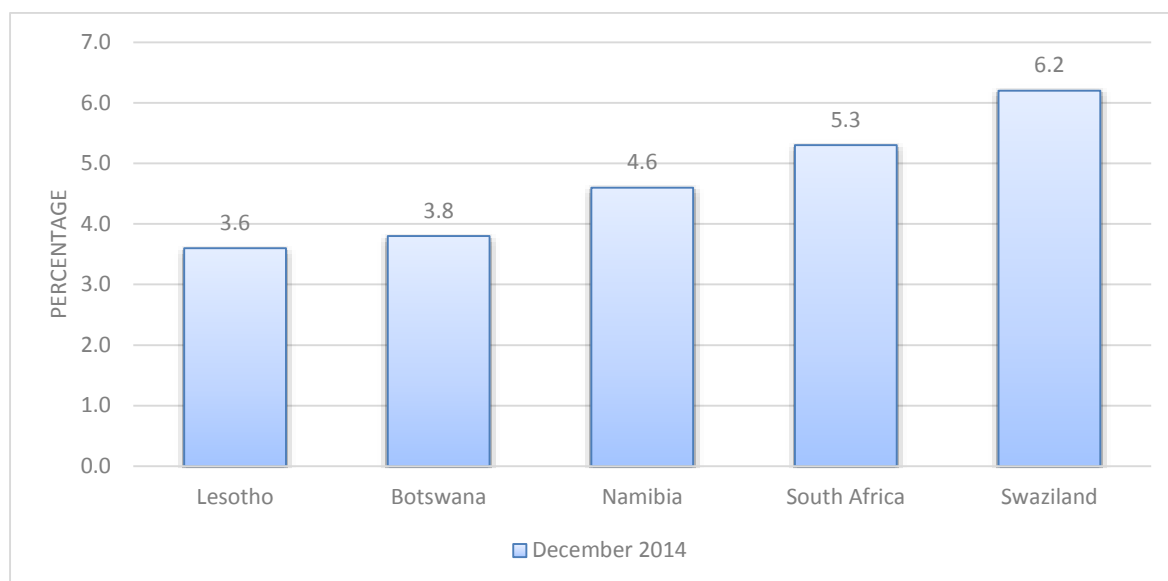


Source: inflation.eu

## Inflation Rate in SACU Member States

For the month of December 2014, consumer prices eased in all Member States reflecting the fall in crude oil prices. Swaziland registered the highest annual inflation rates among the Member States registering inflation rate of 6.2 per cent followed by South Africa at 5.3 per cent, Namibia at 4.6 per cent, and Botswana at 3.8 per cent. While, Lesotho recorded the lowest inflation rate of 3.6 per cent. All Member States continued to record a single digit annual inflation rate during December 2014 as shown Chart 6.

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



Source: Member States Statistics Offices

In **Botswana**, the annual inflation rate eased to 3.8 per cent in December 2014 down from 4.3 per cent the preceding month. The annual rate in December 2014 was lower than the 4.1 per cent recorded during the similar month in 2013. The fall in the annual inflation rate between December 2014 and December 2013 was mainly due to the fall in prices experienced in *transport* category (-0.8 per cent from 1.8 per cent in December 2013) which accounts for 18.98 per cent of the overall inflation basket. On average, prices decreased by 0.3 per cent between November and December 2014. The annual inflation rate continued to remain within the inflation target range of 3 – 6 per cent set out by the Bank of Botswana since December 2013. Overall in 2014, consumer prices rose by 4.4 per cent compared to 5.9 per cent in 2013. During the month of December 2014 the bank rate<sup>2</sup> remained at 7.5 per cent, while the prime rate remained at 8.5 per cent.

In **Lesotho**, the annual inflation rate eased to 3.6 per cent in December 2014 compared to 3.9 per cent in the preceding month. A year earlier inflation rate was 5.1 per cent during the corresponding month. The deceleration of annual inflation rate between December 2014 and December 2013 was mainly due to the drop in prices for *housing & utilities* (-1.4 per cent down from 11.9 per cent in December 2013) and *transport* (0.7 per cent down from 13.9 per cent in December 2013). On average, prices remained stagnant between November 2014 and

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



December 2014. Overall in 2014, consumer prices rose by 5.4 per cent compared to 5.0 per cent in 2013. Lesotho monetary policy targets the maintenance of adequate net international reserves (NIR). The NIR target is set to a minimum of USD0.660 billion, which translates to M7.88 billion, a target that is consistent with the maintenance of the exchange rate peg between the Loti and the Rand. During the month of December 2014 the Lombard facility stood at 10.11 per cent, while the prime lending rate was recorded at 10.25 per cent.

In **Namibia**, the annual inflation rate rose by 4.6 per cent in December 2014, down from 5.0 per cent in the preceding month. A year earlier inflation rate was 4.9 per cent during the corresponding month. The deceleration in annual inflation rate between December 2014 and December 2013 was mainly reflected in *transport (2.9 per cent down from 6.9 per cent in December 2013)*, and *alcohol & tobacco (7.1 per cent down from 8.4 per cent in December 2013)*. On average, prices decreased by 0.2 per cent between November 2014 and December 2014. Overall in 2014, consumer prices rose by 5.4 per cent compared to 5.6 per cent in 2013. During the month of December 2014, the repo rate remained at 6.0 per cent, and similarly the prime rate remained at 9.75 per cent.

In **South Africa**, the annual inflation rate eased to 5.3 per cent in December 2014, down from 5.8 per cent in the previous month. The annual rate in December 2014 was lower than the 5.4 per cent recorded during the similar month in 2013. The main contributors to the annual inflation rate in December 2014 were *housing & utilities (1.4 percentage points)* and *food & non-alcoholic beverages (1.1 percentage points)*. On average, prices decreased by 0.2 per cent between November 2014 and December 2014. The annual inflation rate continued to remain within the target range of 3-6 per cent set out by the South African Reserve Bank. Overall in 2014, consumer prices rose by 6.1 per cent compared to 5.7 per cent in 2013. Interest rate policy remained accommodative for growth with the repo rate at 5.75 per cent in December 2014 and the prime rate at 9.25 per cent.

In **Swaziland**, the annual inflation rate rose by 6.2 per cent in December 2014 down from 6.6 per cent in the previous month. Annual inflation rate in December 2014 was higher than the 4.4 per cent recorded during the similar month in 2013. The rise in annual inflation rate between December 2014 and December 2013 was mainly due to the increase in prices for *food & non-alcoholic beverages (6.1 per cent up from 3.9 per cent in December 2013)* and *transport (14.7 per cent up from 0.9 per cent in December 2013)* which accounts for 29.2 and 10.5 per cent of the overall inflation basket, respectively. On average, prices decreased by 0.2 per cent between November 2014 and December 2014. Overall in 2014, consumer prices rose by 5.7

per cent compared to 5.6 per cent in 2013. Interest rate policy remained accommodative for growth in December 2014 with the bank rate recorded at 5.25 per cent, and the prime rate at 8.75 per cent.

## Appendix

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

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	2.5	5.2	7.0	7.2	6.1
Alcoholic beverages & tobacco	7.6	6.7	7.1	7.6	6.8
Clothing & footwear	6.6	4.7	3.4	6.2	8.9
Housing, water, electricity, gas & other fuels	4.0	-1.4	3.6	5.7	2.6
Furnishings, household equipment &...	4.9	2.7	4.2	2.2	3.6
Health	8.5	1.2	1.1	5.6	3.1
Transport	-0.8	0.7	2.9	1.7	14.7
Communications	0.0	0.0	0.2	-1.7	-0.9
Recreation & Culture	3.6	2.9	5.1	3.0	6.5
Education	7.4	7.1	8.1	8.7	11.4
Hotels, cafés & restaurants	5.4	4.6	3.8	8.6	6.9
Miscellaneous goods & services	6.0	3.1	4.7	7.1	6.6
<b>All Item</b>	<b>3.8</b>	<b>3.6</b>	<b>4.6</b>	<b>5.3</b>	<b>6.2</b>

Source: SACU Member States Statistics Offices

### Annual inflation rates (%) for the year 2014

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
January	4.4	5.4	4.9	5.8	4.7
February	4.6	5.7	5.2	5.9	4.7
March	4.4	5.6	5.2	6.0	5.1
April	4.5	5.9	5.9	6.1	5.3
May	4.5	6.7	6.1	6.6	5.5
June	4.6	6.5	6.1	6.6	5.3
July	4.5	6.5	5.6	6.3	6.2
August	4.6	5.9	5.4	6.4	6.0
September	4.5	5.4	5.3	5.9	6.2
October	4.3	4.2	5.0	5.9	6.3
November	4.3	3.9	5.0	5.8	6.6
December	3.8	3.6	4.6	5.3	6.2
<b>Annual Average</b>	<b>4.4</b>	<b>5.4</b>	<b>5.4</b>	<b>6.1</b>	<b>5.7</b>

## 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