



SACU INFLATION REPORT

December 2015

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INTRODUCTION

This report examines the monthly inflation rate performance of individual SACU Member States and a selected international economies. The report also looks at the trend in oil prices and the world food prices using the Food and Agricultural Organisation (FAO) Food Price Index.

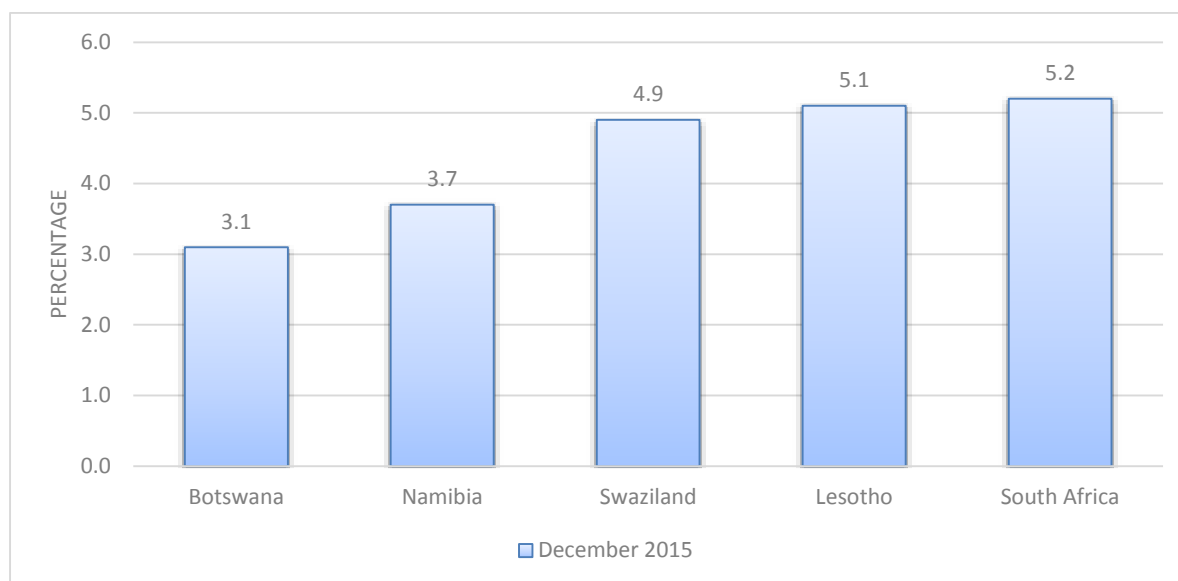
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI of the month under review to the previous month (month-on-month change) as well as to the same month in the previous year (year-on-year change). The inflation rate is vital for purposes of economic policy-making, especially the conduct of monetary policy. It is further used in a wide variety of public and private contracts for the purposes of adjusting payments (such as wages, rents, interest and social security benefits).

For the month of December 2015 compared to the preceding month, it was observed that consumer prices increased in all Member States.

Inflation Rate in SACU Member States

During the month of December 2015, the highest annual inflation rate among the Member States was registered in South Africa at 5.2 per cent followed by Lesotho at 5.1 per cent, Swaziland at 4.9 per cent, and Namibia at 3.7 per cent. While, Botswana continued to record the lowest inflation rate at 3.1 per cent. All Member States continued to record a single digit annual inflation rate during the month of December 2015 as shown on **Chart I**. The highest average inflation rate for 2015 was recorded in Swaziland at 5.0 per cent compared to 5.7 per cent in 2014, followed by South Africa (4.6 per cent in 2015 down from 6.1 per cent in 2014), Namibia (3.4 per cent in 2015 down from 5.4 per cent in 2014), Lesotho (3.2 per cent in 2015 down from 5.4 per cent in 2014), and Botswana (3.1 per cent in 2015 down from 4.4 per cent in 2014),

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



Source: Member States Statistics Offices

In **Botswana**, the annual inflation rate increased to 3.1 per cent in December 2015 from 2.9 per cent registered in the preceding month. The annual rate in December 2015 was lower than the 3.8 per cent recorded during the similar month in 2014. The fall in the annual inflation rate between December 2014 and December 2015 was mainly due to the fall in prices in *food & non-alcoholic beverages* (0.7 per cent down from 2.5 per cent in December 2014) and *transport* category (-5.8 per cent from -0.8 per cent in December 2014) which accounts for 21.84 per cent and 18.98 per cent of the overall inflation basket, respectively. On average, prices continued to remain stagnant between November 2015 and December 2015. The annual inflation rate was within the inflation target range of 3 – 6 percent set out by the Bank of Botswana. During the month of December 2015 the bank rate¹ stood at 6.0 per cent, while the prime rate stood at 7.5 per cent. Overall, consumer prices rose by 3.1 per cent in the year 2015 compared to 4.4 per cent recorded in 2014.

In **Lesotho**, the annual inflation rate rose by 5.1 per cent in December 2015, up from 4.8 per cent in the preceding month. A year earlier inflation rate was 3.6 per cent during the corresponding month. The acceleration in annual inflation rate between December 2014 and December 2015 was mainly due to a rise in prices for *food & non-alcoholic beverages* (9.3 per cent up from 5.2 per cent in December 2014). On average, prices increased by 0.3 per cent

¹ Bank rate is the rate at which the Central Bank lends to Commercial Banks

between November 2015 and December 2015. During the month of December 2015 the CBL rate stood at 6.25 per cent, while the prime lending rate stood at 10.69 per cent. In 2015, consumer prices rose by 3.2 per cent compared to 5.4 per cent recorded in 2014.

In **Namibia**, the annual inflation rate increased to 3.7 per cent in December 2015, from 3.3 per cent in the preceding month. A year earlier inflation rate was 4.6 per cent during the corresponding month. The deceleration in annual inflation rate between December 2014 and December 2015 was mainly reflected in *transport (-0.3 per cent down from 2.9 per cent in December 2014)*, *food & non-alcoholic beverages (5.9 per cent down from 7.0 per cent in December 2014)* and *housing & utilities (2.7 per cent down from 3.6 per cent in December 2014)*. On average, prices increased by 0.2 per cent between November 2015 and December 2015. During the month of December 2015, the repo rate stood at 6.50 per cent, while the prime rate stood at 10.25 per cent. Over the full year, consumer prices averaged at 3.4 per cent in the 2015 compared to 5.4 per cent recorded in 2014.

In **South Africa**, the annual inflation rate was 5.2 per cent in December 2015, up from 4.8 per cent recorded in the previous month. The annual rate in December 2015 was lower than the 5.3 per cent recorded during the similar month in 2014. The main contributors to the annual inflation rate in December 2015 were *housing & utilities (1.6 percentage points)* and *miscellaneous goods & services (1.0 percentage point)*. On average, prices increased by 0.3 per cent between November 2015 and December 2015. The annual inflation rate continued to remain within 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 6.25 per cent and the prime rate at 9.75 per cent in December 2015. Overall, consumer prices rose by 4.6 per cent in the year 2015 compared to 6.1 per cent recorded in 2014.

In **Swaziland**, the annual inflation rate increased to 4.9 per cent in December 2015 from 4.5 per cent in the previous month. Annual inflation rate in December 2015 was lower than the 6.2 per cent recorded during the similar month in 2014. The deceleration in annual inflation rate between December 2014 and December 2015 was mainly reflected in *food & non-alcoholic beverages (5.2 per cent down from 6.1 per cent in December 2014)* and *transport (-1.0 per cent down from 14.7 per cent in December 2014)* which accounts for 29.22 and 10.50 per cent of the overall inflation basket, respectively. On average, prices increased by 0.2 per cent between November 2015 and December 2015. Interest rate policy remained accommodative for growth in December 2015 with the bank rate recorded at 5.75 per cent, and the prime rate

at 9.25 per cent. In 2015, consumer prices rose by 5.0 per cent compared to 5.7 per cent recorded in 2014.

Inflation Rate for Selected Economies

Euro area annual inflation rate was 0.2 per cent in December 2015, up from 0.1 per cent in November 2015. A year earlier the inflation rate was -0.1 per cent. The largest upward impacts to the annual inflation rate came from *restaurants & cafes* (0.10 percentage points), *tobacco* (0.06 percentage points) and *vegetables* (0.06 percentage points), while *fuels for transport* (-0.40 percentage points), *heating oil* (-0.19 percentage points) and *gas* (-0.10 percentage points) had the biggest downward impacts. The annual rate recorded for December 2015 was below the European Central Bank inflation target of below but close to 2.0 percent.

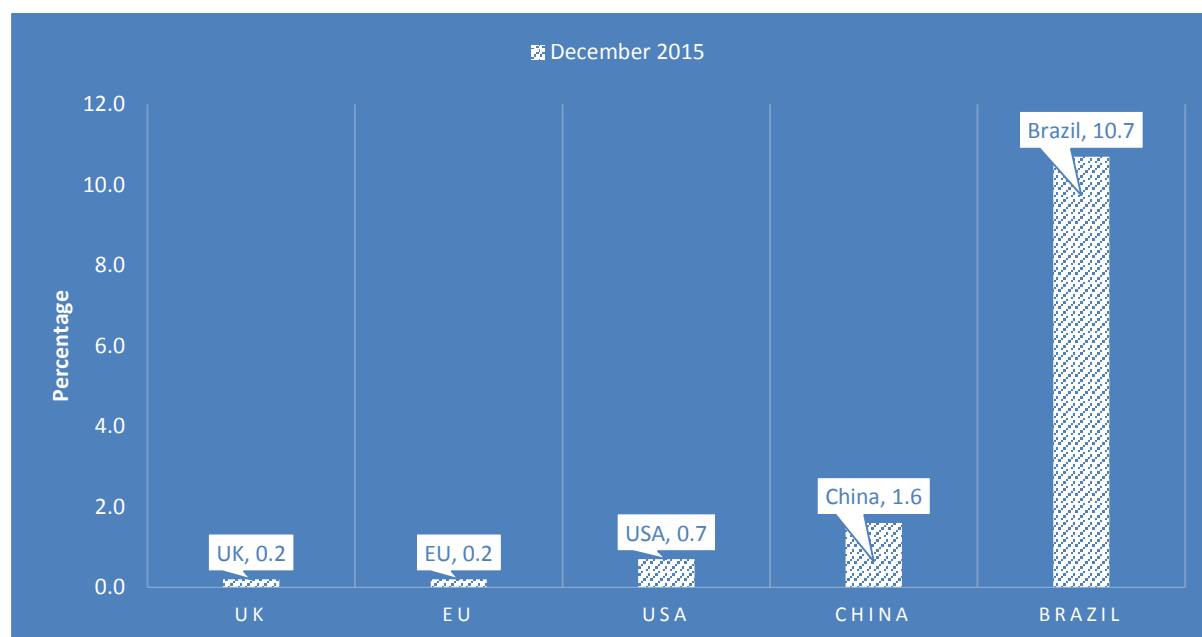
In the **UK**, the annual inflation rate increased by 0.2 per cent in December 2015, up from 0.1 per cent in November 2015. The rate was 0.5 per cent during a similar period a year earlier. The largest upward impact came from *education* (4.8 per cent), and *communication* (2.7 per cent), while the largest downward impact came from *food & non-alcoholic beverages* (-2.9 per cent) and *recreation & culture* (-0.3 per cent). The annual inflation rate for December 2015 continued to be below the Bank of England's inflation target of 2.0 percent.

In the **USA**, the world's largest economy, the annual inflation rate rose by 0.7 per cent in December 2015, up from 0.5 per cent in November 2015. The inflation rate was 0.8 per cent during the similar period a year earlier. The index for *all items less food and energy* rose by 2.1 per cent in December 2015 from 2.0 per cent in the preceding month. The *food index* rose by 0.8 per cent in December 2015, compared to 1.3 per cent in the preceding month. The *energy index* registered a decline of 12.6 per cent in December 2015 compared to a decline of 14.7 per cent in the preceding month. The inflation rate for December 2015 continues to remain below the Federal Reserve Bank's long- term inflation estimate of 2.0 percent.

In **Brazil**, the annual inflation rate was 10.7 per cent in December 2015 compared to 10.5 per cent in the preceding month. The rate was 6.4 per cent during the similar period a year earlier. The annual rate recorded for December 2015 continued to be above the Brazilian Central Bank inflation target of 4.5 per cent with a floating range of 2.0 percentage points.

In **China**, the annual inflation rate increased by 1.6 per cent in December 2015, compared to 1.5 per cent in the preceding month. The rate was 1.5 per cent during the similar period a year earlier. The main components with the highest annual rates were *tobacco, liquor & articles* (3.9 per cent), and *food* (2.7 per cent), while the lowest annual rates were observed on *transport & communication* (-1.3 per cent). The annual inflation rate for December 2015 continued to be below the Government's inflation target of 3.0 per cent.

Chart 2: Annual Inflation Rates for Selected Economies

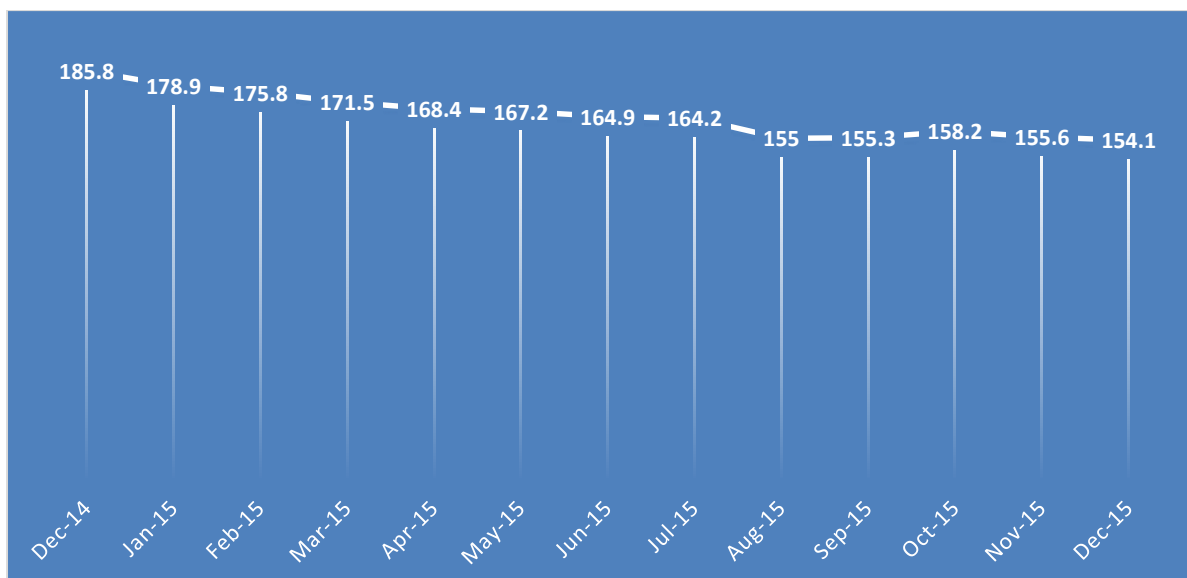


Source: inflation.eu

FAO Food Price Index

The FAO Food Price Index² averaged 154.1 points in December 2015, down by 1.5 points from its level in November 2015, this was reflected in all commodities with exception of sugar and oils, due to the strong US Dollar and generally abundant supplies.

Chart 3: FAO Food Price Index



Source: Food and Agriculture Organization of the United Nations

The FAO Cereal Price Index averaged 151.6 points in December 2015, down by 2.0 points from November 2015, mainly reflected in maize and wheat prices. The FAO Vegetable Oil Price Index averaged 141.1 points in December 2015, up by 2.9 points from November 2015, mainly driven by an increase in soybean oil prices.

The FAO Dairy Price Index averaged 149.5 points in December 2015, down by 1.6 points from its level in November 2015. The decline stemmed from a fall in prices for powdered milk. The FAO Meat Price Index averaged 152.1 points in December 2015, down by 3.5 points from November 2015. The ovine, bovine and pig meat prices were the most affected. The FAO Sugar Price Index averaged 207.8 points in December 2015, up by 1.3 points from November 2015. The increase in the sugar prices continued to be largely driven by weather, in Brazil, the world largest sugar producer, the excessive precipitation in the main producing region curtailed sugarcane harvesting. Furthermore, crop damages caused by excessive

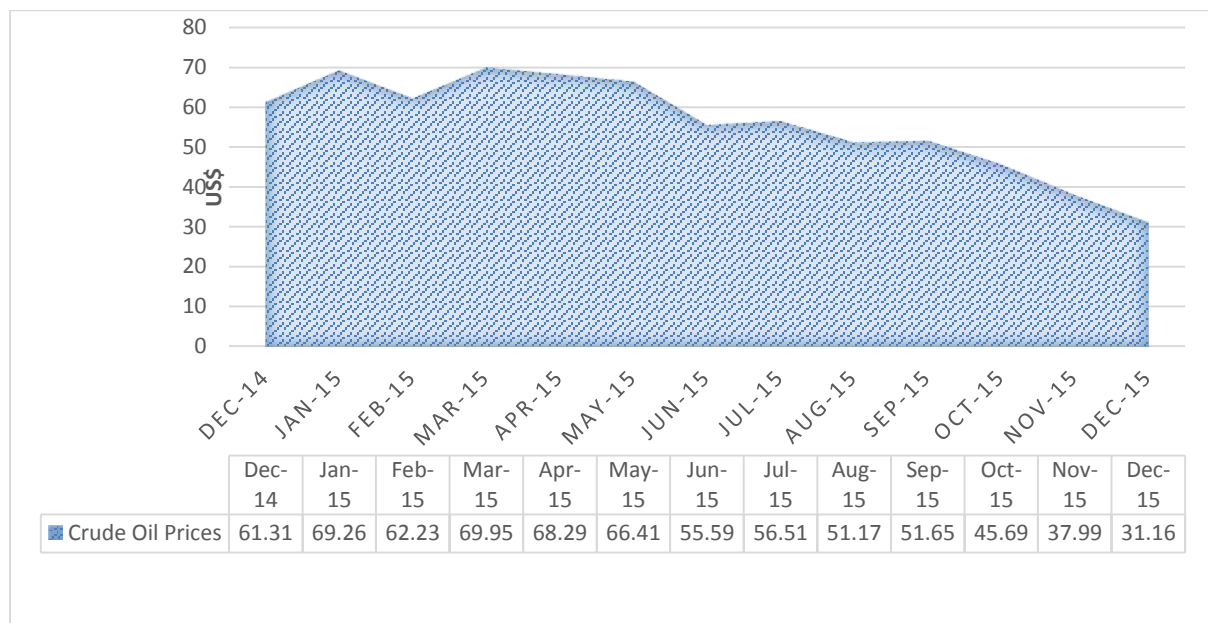
² Food Price index: consist of the average of 5 commodity group price indices(meat, dairy, cereals, oil & fat, and sugar) weighted with the average export share of each of the groups for 2002-2004

drought in India, Thailand, the Philippines, South Africa and Vietnam affected international sugar prices.

Brent Crude Oil Prices

Brent crude oil price closed at USD31.16 per barrel at the end of December 2015, which was 18.0 percent lower than at the end of November 2015, and lower than the USD61.31 per barrel recorded at the end of December 2014 as highlighted in **Chart 4**.

Chart 4: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual inflation rates by main categories (December 2015)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	0.7	9.3	5.9	5.9	5.2
Alcoholic beverages & tobacco	6.2	6.2	7.6	6.6	3.1
Clothing & footwear	7.7	4.3	0.2	4.5	5.7
Housing, water, electricity, gas & other fuels	9.7	-2.8	2.7	6.6	5.5
Furnishings, household equipment &...	5.5	4.8	2.9	3.5	5.4
Health	6.0	1.4	5.9	6.3	1.1
Transport	-5.8	0.8	-0.3	1.9	-1.0
Communications	0.5	0.0	1.1	0.2	7.6
Recreation & Culture	6.1	2.2	3.9	2.6	5.2
Education	6.6	3.9	4.3	9.3	6.7
Hotels, cafés & restaurants	6.2	0.8	6.9	5.0	5.5
Miscellaneous goods & services	7.3	5.3	5.4	6.7	9.1
All Items	3.1	5.1	3.7	5.2	4.9

Source: SACU Member States Statistics Offices

Consumer Price Index Basket Weights

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
<i>Food & non-alcoholic beverages</i>	21.84	38.14	16.45	15.41	29.22
<i>Alcoholic beverages & tobacco</i>	9.29	1.22	12.59	5.43	0.39
<i>Clothing & footwear</i>	7.52	17.43	3.05	4.07	3.42
<i>Housing, water, electricity, gas & other fuels</i>	11.46	10.60	28.36	24.52	29.15
<i>Furnishings, household equipment &...</i>	6.76	9.42	5.47	4.79	4.75
<i>Health</i>	2.71	1.88	2.01	1.46	3.39
<i>Transport</i>	18.98	8.47	14.28	16.43	10.50
<i>Communications</i>	3.01	1.24	3.81	2.63	2.74
<i>Recreation & Culture</i>	2.22	2.39	3.55	4.09	1.07
<i>Education</i>	3.37	2.75	3.65	2.95	9.11
<i>Hotels, cafés & restaurants</i>	3.27	0.66	1.39	3.50	1.79
<i>Miscellaneous goods & services</i>	9.57	5.81	5.39	14.72	4.47
All Items	100.00	100.00	100.00	100.00	100.00

Source: SACU Member States Statistics Offices