



SACU INFLATION REPORT

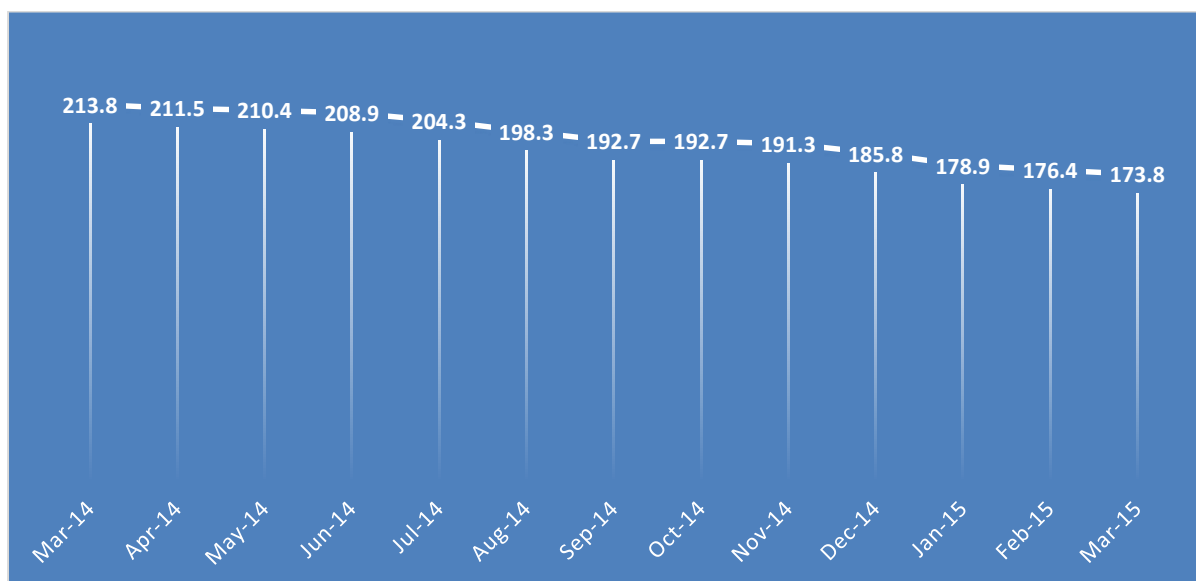
March 2015

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FAO Food Price Index

The Food and Agricultural Organisation (FAO) Food Price Index¹ averaged 173.8 points in March 2015, down by 2.6 points from its level in February 2015. The downward impact was mostly observed in sugar, while prices of dairy products rose for the second consecutive month. The index has been on a downward trend since April 2014 as depicted on Chart 1, on account of large global supplies for most commodities included in the index.

Chart 1: FAO Food Price Index



Source: Food and Agriculture Organization of the United Nations

The FAO Cereal Price Index averaged 169.8 points in March 2015, down by 1.9 points from February 2015, primarily driven by a reduction in wheat prices. The sharp fall in wheat prices reflects confirmation of an ample supply during the season. The FAO Vegetable Oil Price Index averaged 151.7 points in March 2015, down by 3.1 per cent from February 2015. The fall was driven by palm and soy oil. The FAO Dairy Price Index averaged 184.9 points in March 2015, up by 3.0 points from its level in February 2015. Whole milk powder registered the strongest increase, followed by skimmed milk powder and butter. Limited export supplies in Oceania and Europe was the principal cause of the reversal of the falling world dairy price that was observed between March 2014 and January 2015.

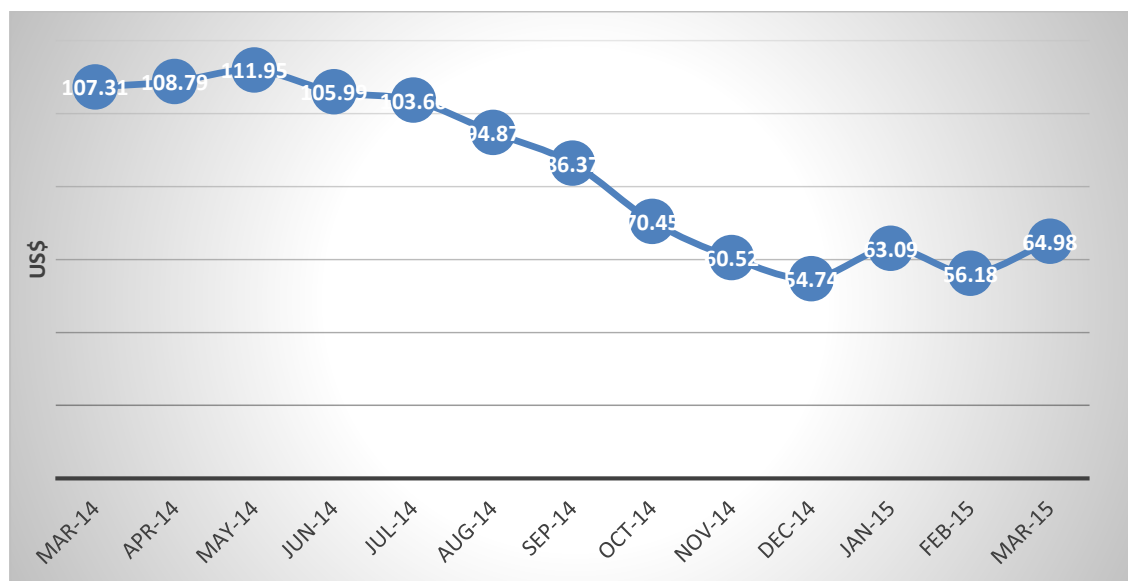
¹ Food Price index: consist of the average of 5 commodity group price indices (meat, dairy, cereals, oil & fat, and sugar) weighted with the average export share of each of the groups for 2002-2004

The FAO Meat Price Index averaged 177.0 points in March 2015, down by 1.8 points from its level in February 2015. The drop in prices was mainly caused by lower pork meat and poultry quotations. Reduced import demand in Asia and in the Russian Federation, which continues to impose restrictions on imports, have been important factors underlying the drop in prices. Similarly, the FAO Sugar Price Index averaged 187.9 points in March 2015, down by 19.1 points from February 2015. The decline mainly reflected improved crop prospects in Brazil and the weakening of the Brazilian currency against the US dollar.

Selected Commodity Prices

Brent crude oil price closed at USD64.98 per barrel at the end of March 2015, which was 15.7 per cent higher than at the end of February 2015, but lower than the USD107.31 per barrel recorded at the end of March 2014 as highlighted in Chart 2.

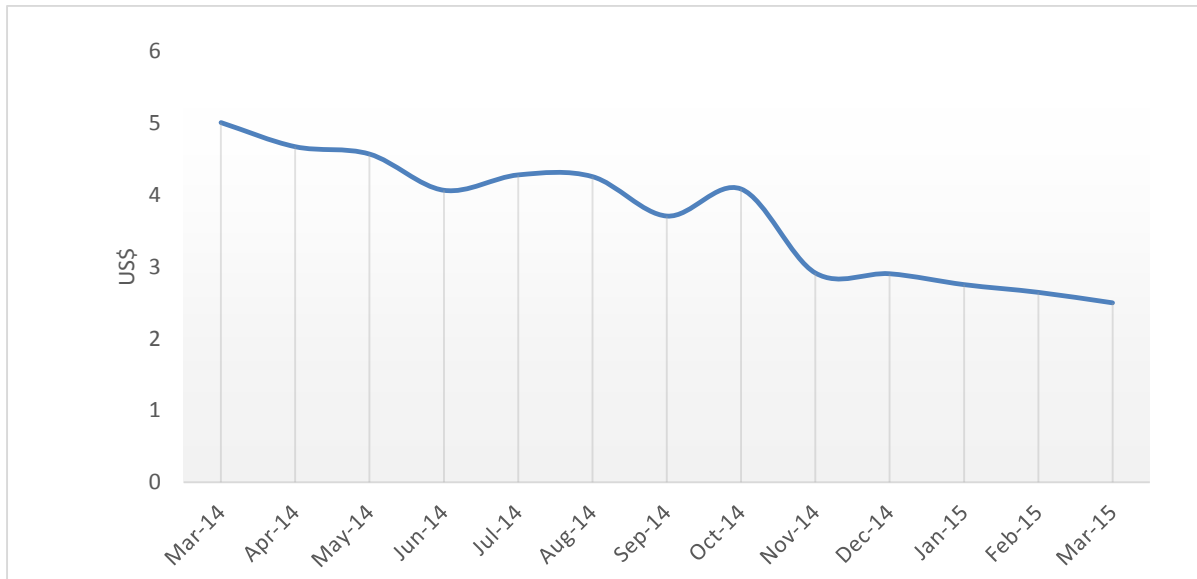
Chart 2: Crude Oil



Source: www.cnbc.com

The Natural gas price closed at USD2.50 at the end of March 2015, which was 5.5 per cent lower than at the end of February 2015 as outlined in Chart 3.

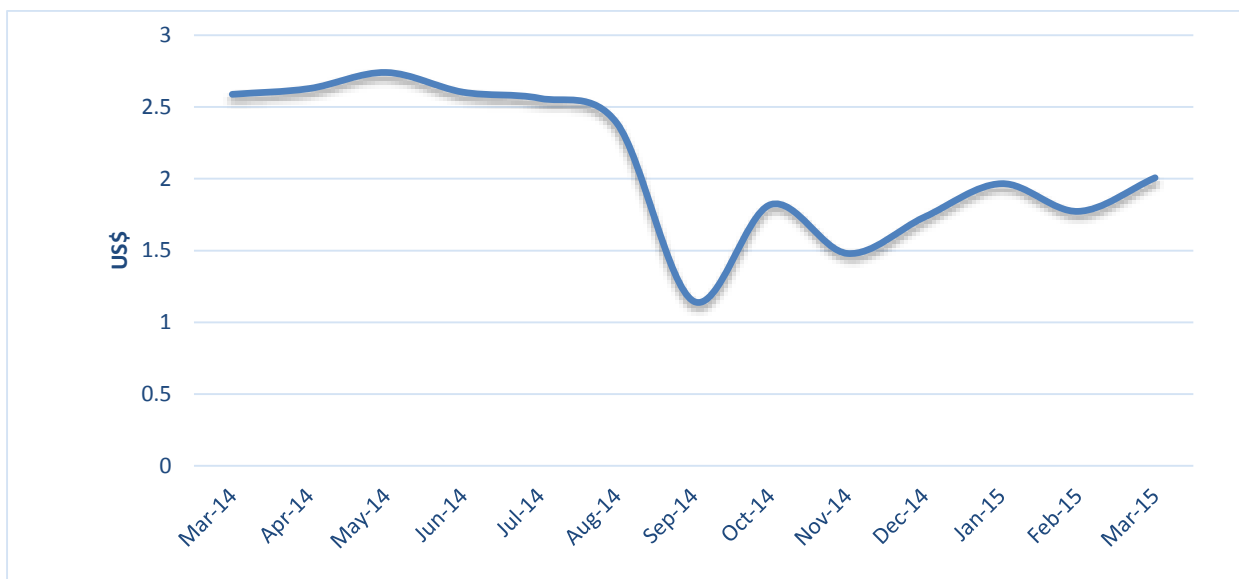
Chart 3: Natural Gas



Source: www.cnbc.com

RBOB gasoline price closed at USD2.00 per barrel at the end of March 2015, which was 13.2 per cent higher than at the end of February 2015 as illustrated in Chart 4.

Chart 4: RBOB Gas



Source: www.cnbc.com

Inflation Rate for Selected Economies

Euro Area

Euro area recorded an annual deflation of 0.1 per cent in March 2015, compared to a deflation rate of 0.3 per cent recorded in February 2015. A year earlier the inflation rate was 0.5 per cent. The largest upward impacts to annual rate came from *restaurants & cafes* (0.11 percentage points), *rents* (0.09 percentage points) and *tobacco* (0.07 percentage points), while fuels for *transport* (-0.44 percentage points), *heating oil* (-0.16 percentage points) and *telecommunications* (-0.06 percentage points) had the biggest downward impact. The annual rate recorded for March 2015 was below the European Central Bank inflation target of below but close to 2.0 per cent.

United Kingdom

The annual inflation rate remained stagnant in March 2015 for the second consecutive month. The rate was 1.6 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* (3.4 per cent), and *restaurants & hotel* (2.0 per cent), while the lowest annual rates were observed in *food & non-alcoholic beverages* (-3.0 per cent) and *transport* (-1.9 per cent). The annual inflation rate for March 2015 remained below the Bank of England's inflation target of 2.0 per cent.

USA

The world's largest economy recorded a deflation of 0.1 per cent in March 2015. The inflation rate was 1.5 per cent during the similar period a year earlier. The index for all items less food and energy rose by 1.8 per cent in March 2015, compared to 1.7 per cent in the preceding month. The food index rose by 2.3 per cent in March 2015 compared to 3.0 per cent in the preceding month. The energy index registered a decline of 18.3 per cent in March 2015 compared to a decline of 18.8 per cent in the preceding month. The inflation rate for March 2015 remained below the Federal Reserve Bank's long-term inflation estimate of 2.0 per cent.

Brazil

The annual inflation rate was 8.1 per cent in March 2015, up from 7.7 per cent in the preceding month. The rate was 6.2 per cent during the similar period a year earlier. The annual rate recorded for March 2015 continued to be above the Brazilian Central Bank inflation target of 4.5 per cent with a floating range of 2 percentage points.

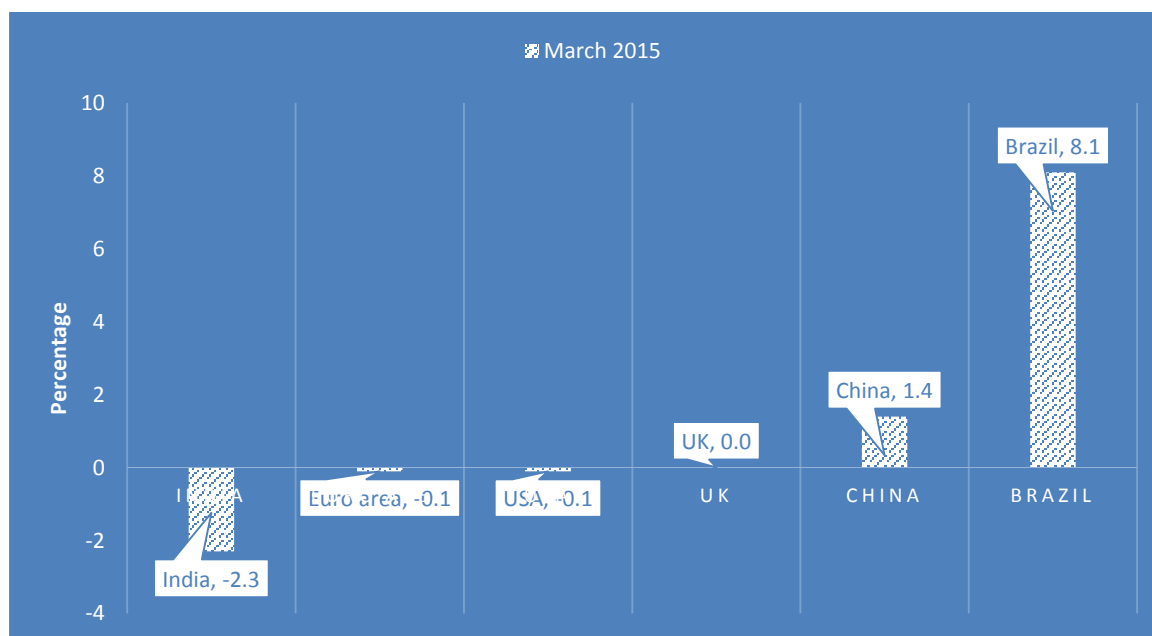
China

The annual inflation rate rose by 1.4 per cent in March 2015, unchanged from the preceding month. The rate was 2.4 per cent during the similar period a year earlier. The main components with the highest annual rates were *clothing* (3.0 per cent), and *food* (2.3 per cent), while the lowest annual rates were observed on *transport & communication* (-1.5 per cent). The annual inflation rate for March 2015 continued to be below the Government's inflation target of 3.0 per cent.

India

India recorded a deflation of 2.3 per cent in March 2015 compared to a deflation of 2.1 per cent in the preceding month. The inflation rate was 6.0 per cent during the similar period a year earlier. The main component with the highest annual rate was *fuel & power* (3.3 per cent), while the lowest annual rates were observed in *primary articles* (-1.0 per cent) and *manufactured products* (-0.3 per cent). The rate registered during March 2015 continued to be below the Reserve Bank target range of 4.0 – 4.5 per cent.

Chart 5: Annual Inflation Rates for Selected Economies

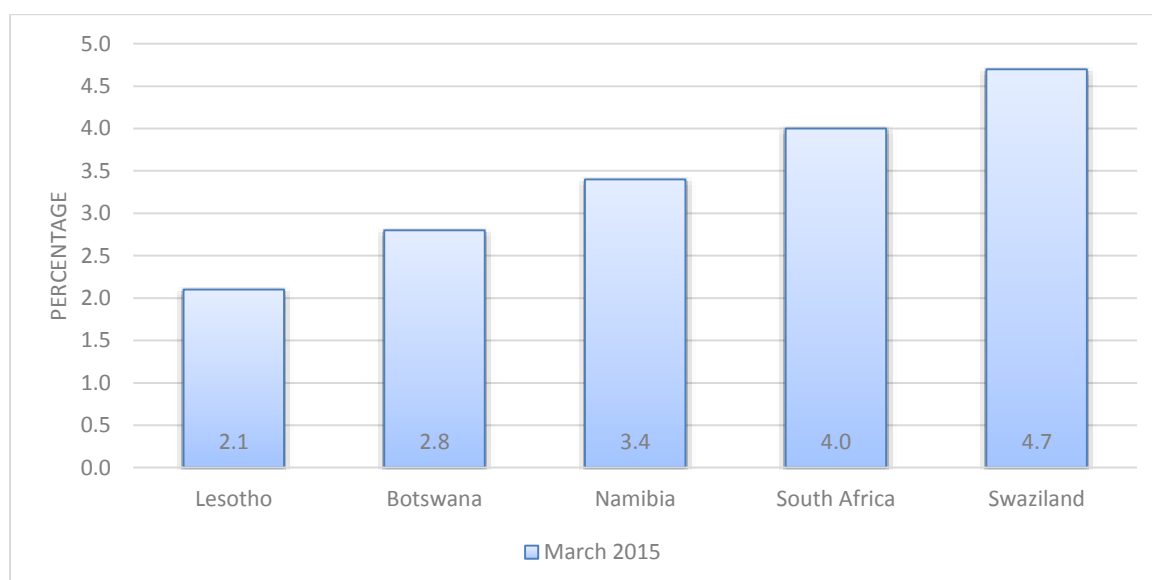


Source: inflation.eu

Inflation Rate in SACU Member States

For the month of March 2015, consumer prices continued to ease in Namibia and Swaziland, while it remained unchanged in Botswana and Lesotho. On the other hand, consumer prices slightly increased in South Africa. Swaziland registered the highest annual inflation rate among the Member States registering inflation rate of 4.7 per cent followed by South Africa at 4.0 per cent, Namibia at 3.4 per cent, and Botswana at 2.8 per cent. While, Lesotho continued to record the lowest inflation rate of 2.1 per cent. All Member States continued to record a single digit annual inflation rate during March 2015 as shown on Chart 6.

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



Source: Member States Statistics Offices

In **Botswana**, the annual inflation rate rose by 2.8 per cent in March 2015 unchanged from the preceding month. The annual rate in March 2015 was lower than the 4.4 per cent recorded during the similar month in 2014. The fall in the annual inflation rate between March 2014 and March 2015 was mainly due to the fall in prices experienced in *transport* category (-5.9 per cent from 1.1 per cent in March 2014) which accounts for 18.98 per cent of the overall inflation basket. On average, prices increased by 0.1 per cent between February 2015 and March 2015. The annual inflation rate was below the inflation target range of 3 – 6 per cent set out by the

Bank of Botswana. During the month of March 2015 the bank rate² remained unchanged at 6.5 per cent, while the prime rate stood at 8.0 per cent.

In **Lesotho**, the annual inflation rate rose by 2.1 per cent in March 2015 unchanged from the preceding month. A year earlier inflation rate was 5.6 per cent during the corresponding month. The deceleration of annual inflation rate between March 2014 and March 2015 was mainly due to the drop in prices for *housing & utilities* (-9.3 per cent down from 10.1 per cent in March 2014) and *transport* (-0.1 per cent down from 13.5 per cent in March 2014). On average, prices increased by 0.6 per cent between February 2015 and March 2015. Lesotho monetary policy targets the maintenance of adequate net international reserves (NIR). The NIR target is set to a minimum of USD0.600 billion, which translates to M6.95 billion, a target that is consistent with the maintenance of the exchange rate peg between the Loti and the Rand. During the month of March 2015 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 eased to 3.4 per cent in March 2015, down from 3.6 per cent in the preceding month. A year earlier inflation rate was 5.2 per cent during the corresponding month. The deceleration in annual inflation rate between March 2014 and March 2015 was mainly reflected in *transport* (-3.7 per cent down from 7.4 per cent in March 2014), and *food & non-alcoholic beverages* (5.5 per cent down from 8.6 per cent in March 2014). On average, prices fell by 0.2 per cent between February and March 2015. During the month of March 2015, the repo rate stood at 6.25 per cent, while the prime rate stood at 10.00 per cent.

In **South Africa**, the annual inflation rate slightly rose to 4.0 per cent in March 2015, up from 3.9 per cent in the previous month. The annual rate in March 2015 was lower than the 6.0 per cent recorded during the similar month in 2014. The main contributors to the annual inflation rate in March 2015 were *housing & utilities* (1.4 percentage points) and *miscellaneous goods & services* (1.2 percentage points). On average, prices increased by 1.4 per cent between February 2015 and March 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 5.75 per cent in March 2015 and the prime rate at 9.25 per cent.

² Bank rate is the rate at which the Central Bank lends to Commercial Banks

In **Swaziland**, the annual inflation rate eased to 4.7 per cent in March 2015 down from 5.0 per cent in the previous month. Annual inflation rate in March 2015 was lower than the 5.1 per cent recorded during the similar month in 2014. The decline in annual inflation rate between March 2014 and March 2015 was mainly reflected in *food & non-alcoholic beverages (4.3 per cent down from 4.3 per cent in March 2014)* and *housing & utilities (3.0 per cent down from 5.7 per cent in March 2014)* which accounts for 29.2 and 29.15 per cent of the overall inflation basket, respectively. On average, prices increased by 0.4 per cent between February 2015 and March 2015. Interest rate policy remained accommodative for growth in March 2015 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 (March 2015)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	1.9	4.3	5.5	5.8	4.3
Alcoholic beverages & tobacco	6.6	5.9	8.6	9.0	4.4
Clothing & footwear	7.5	4.5	1.3	5.7	8.1
Housing, water, electricity, gas & other fuels	3.7	-9.3	2.9	5.7	3.0
Furnishings, household equipment &...	6.3	3.9	4.2	2.1	3.9
Health	6.3	1.1	4.7	6.0	4.0
Transport	-4.8	-0.1	-3.7	-5.0	8.1
Communications	0.0	0.0	0.1	-1.6	-0.9
Recreation & Culture	3.3	3.0	4.6	2.4	7.8
Education	6.3	3.9	4.3	9.3	4.7
Hotels, cafés & restaurants	5.6	4.3	5.6	6.7	11.0
Miscellaneous goods & services	6.0	3.0	6.4	7.5	9.5
All Items	2.8	2.1	3.4	4.0	4.7

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 Items	100.00	100.00	100.00	100.00	100.00

Source: SACU Member States Statistics Offices