



SACU INFLATION REPORT

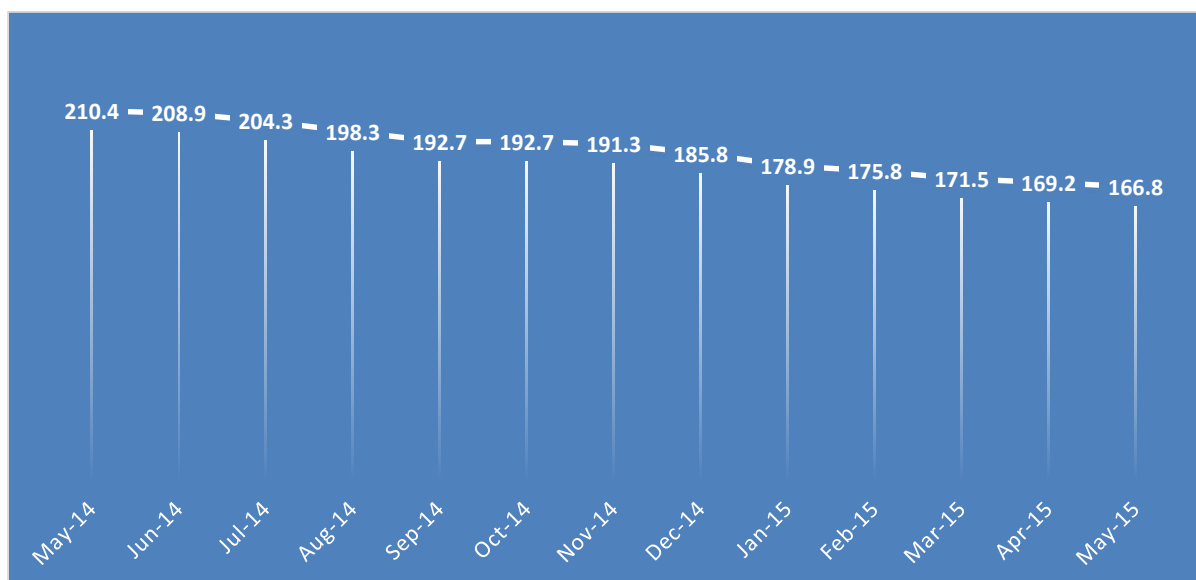
May 2015

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FAO Food Price Index

The Food and Agricultural Organisation (FAO) Food Price Index¹ averaged 166.8 points in May 2015, down by 2.4 points from its level in April 2015, and as much as 43.6 points below the corresponding month last year. The downward impact was mostly observed in dairy and cereals products.

Chart I: FAO Food Price Index



Source: Food and Agriculture Organization of the United Nations

The FAO Cereal Price Index averaged 160.8 points in May 2015, down by 6.4 points from April 2015, the downward pressure on prices was primarily driven by favourable crop outlooks combined with ample stocks. The FAO Vegetable Oil Price Index averaged 154.1 points in May 2015, up by 3.9 per cent from April 2015. The gain has been driven by both palm and soy oil.

The FAO Dairy Price Index averaged 167.5 points in May 2015, down by 5.0 points from its level in April 2015. Whole milk powder and butter were the main commodities affected. The FAO Meat Price Index averaged 171.0 points in May 2015, down by 1.7 points from its level in April 2015. The FAO Sugar Price Index averaged 189.3 points in May 2015, up by 3.7 points

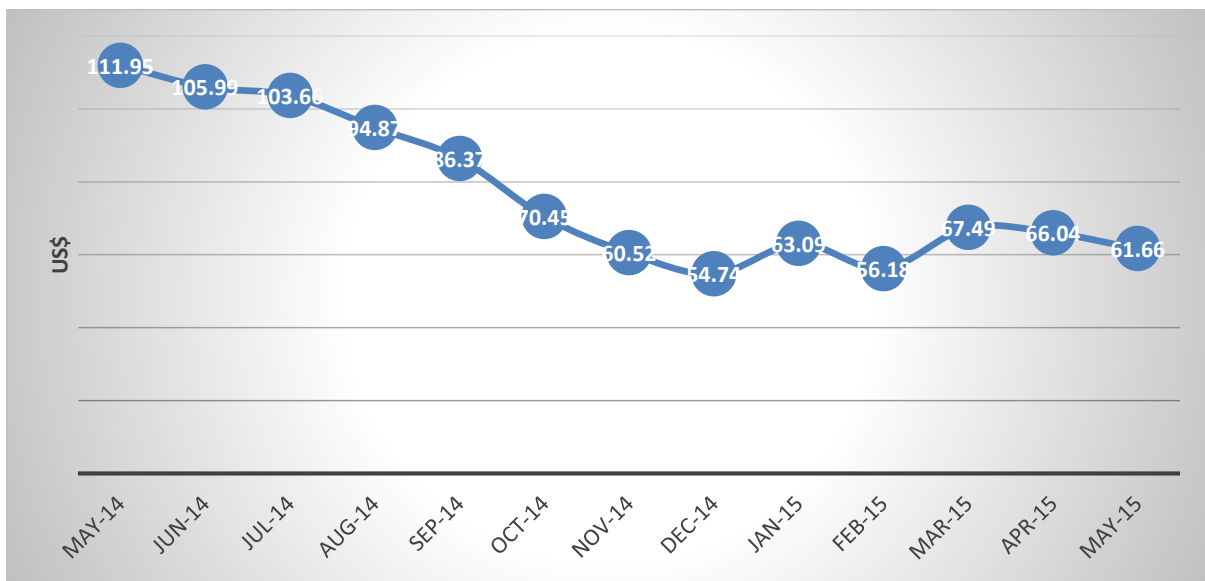
¹ Food Price index: consist of the average of 5 commodity group price indices (meat, dairy, cereals, oil & fat, and sugar) weighted with the average export share of each of the groups for 2002-2004

from April 2015. The increase was mainly due to a slow start of the crushing season in Centre/South Brazil.

Selected Commodity Prices

Brent crude oil price closed at USD61.66 per barrel at the end of May 2015, which was 6.6 per cent lower than at the end of April 2015, and lower than the USD111.95 per barrel recorded at the end of May 2014 as highlighted in Chart 2.

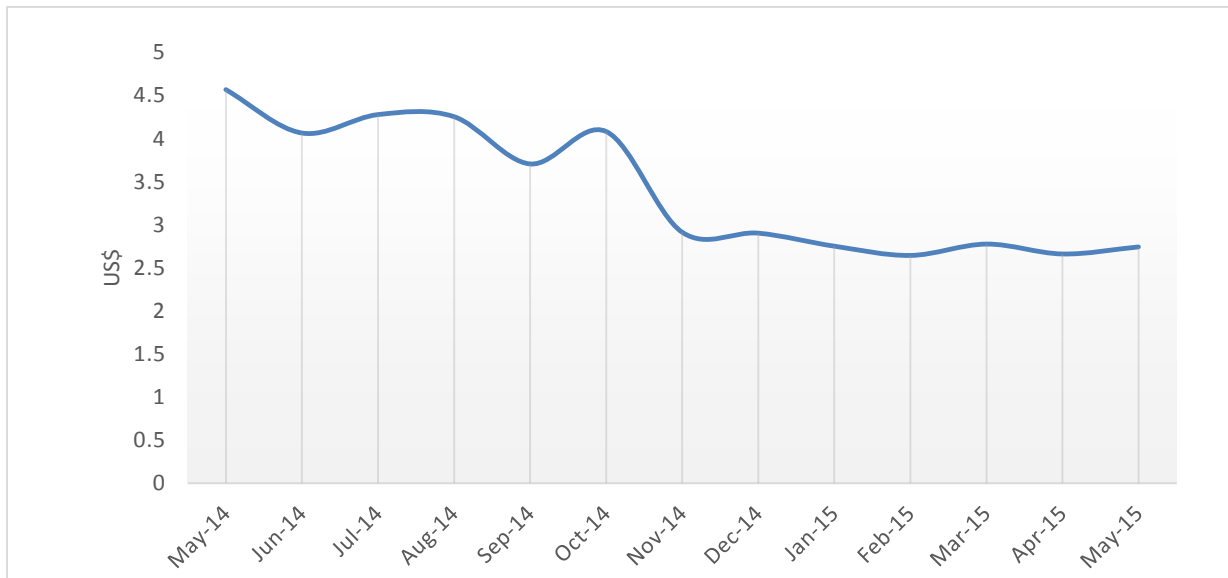
Chart 2: Crude Oil



Source: www.cnbc.com

The Natural gas price closed at USD2.74 at the end of May 2015, which was 3.1 per cent higher than at the end of April 2015 as outlined in Chart 3.

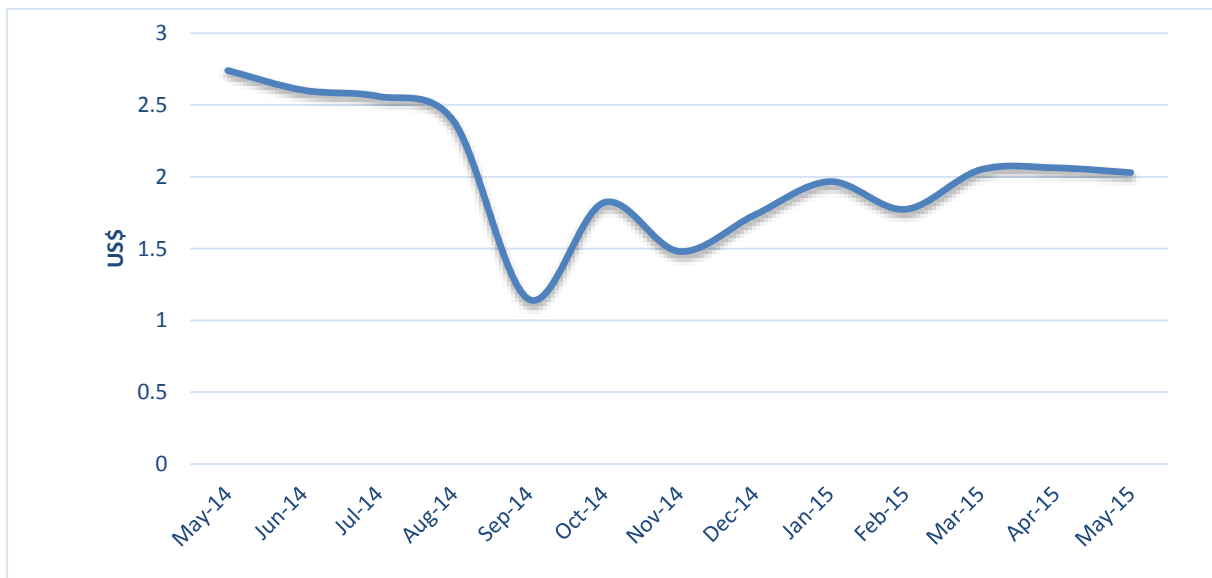
Chart 3: Natural Gas



Source: www.cnbc.com

RBOB gasoline price closed at USD2.03 per barrel at the end of May 2015, which was 1.6 per cent lower than at the end of April 2015 as illustrated in Chart 4.

Chart 4: RBOB Gas



Source: www.cnbc.com

Inflation Rate for Selected Economies

Euro Area

Euro area annual inflation was 0.3 per cent in May 2015, compared to no change (0.0 per cent) in April 2015. A year earlier the inflation rate was 0.6 per cent. The largest upward impacts to annual rate came from *vegetables* (0.09 percentage points), *restaurants & cafes* (0.08 percentage points), and *tobacco* (0.07 percentage points), while *fuels for transport* (-0.34 percentage points), *heating oil* (-0.15 percentage points) and *gas* (-0.08 percentage points) had the biggest downward impact. The annual rate recorded for May 2015 remained below the European Central Bank inflation target of below but close to 2.0 per cent.

United Kingdom

The UK economy recorded an inflation rate of 0.1 per cent in May 2015, compared to a deflation of 0.1 per cent in April 2015. The rate was 1.5 per cent during a similar period a year earlier. The largest upward impact came from *education* (10.0 per cent), *alcohol beverages & tobacco* (2.2 per cent), and *restaurants & hotel* (2.2 per cent), while *food & non-alcoholic beverages* (-1.8 per cent) and *transport* (-1.5 per cent) recorded the largest downward impacts. The annual inflation rate for May 2015 remained below the Bank of England's inflation target of 2.0 per cent.

USA

The world's largest economy annual inflation was stagnant in May 2015 compared to a deflation of 0.2 per cent in April 2015. The inflation rate was 2.1 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 May 2015, compared to 1.8 per cent in the preceding month. The *food index* rose by 1.6 per cent in May 2015 compared to 2.0 per cent in the preceding month. The *energy index* registered a decline of 16.3 per cent in May 2015 compared to a decline of 19.4 per cent in the preceding month. The inflation rate for May 2015 remained below the Federal Reserve Bank's long-term inflation estimate of 2.0 per cent.

Brazil

The annual inflation rate was 8.5 per cent in May 2015, up from 8.2 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 May 2015 continued to be above the Brazilian Central Bank inflation target of 4.5 per cent with a floating range of 2 percentage points.

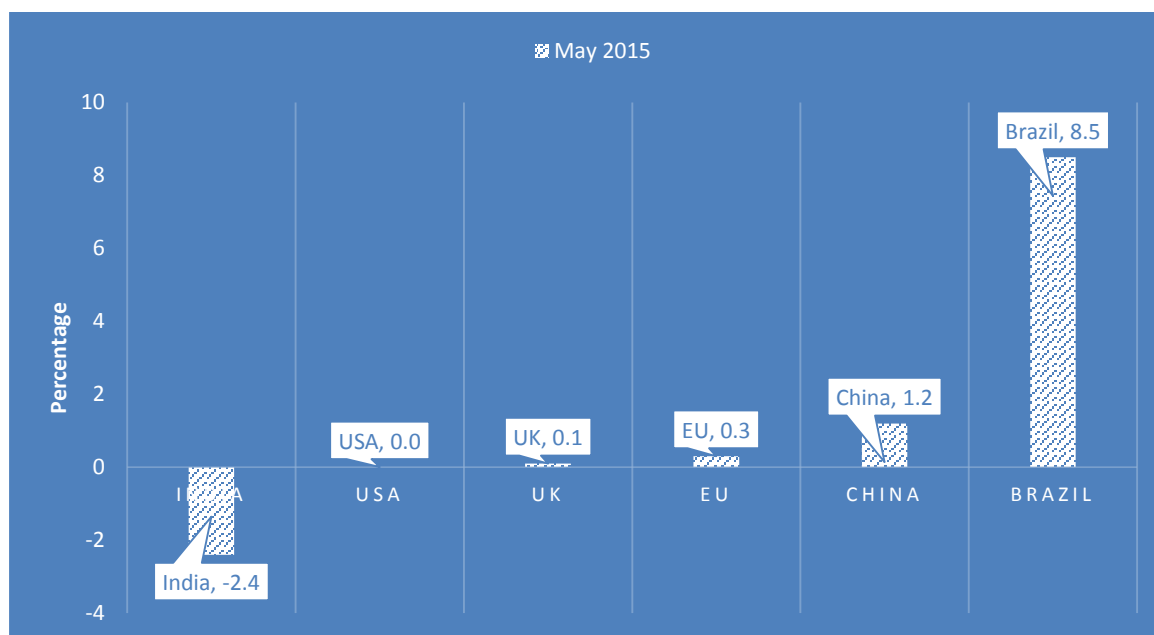
China

The annual inflation rate rose by 1.2 per cent in May 2015, from 1.5 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 *clothing (2.8 per cent)*, and *health care & personal articles (1.8 per cent)*, while the lowest annual rates were observed on *transport & communication (-1.3 per cent)*. The annual inflation rate for May 2015 continued to be below the Government's inflation target of 3.0 per cent.

India

India recorded a deflation of 2.4 per cent in May 2015 compared to a deflation of 2.7 per cent in the preceding month. The inflation rate was 6.2 per cent during the similar period a year earlier. The rate registered during May 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

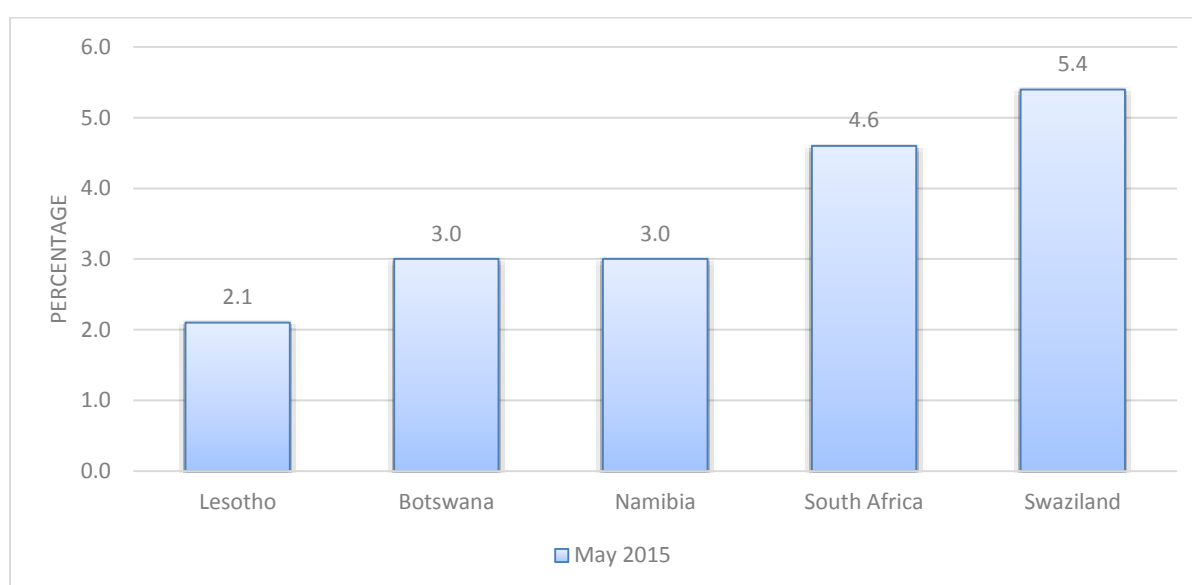


Source: inflation.eu

Inflation Rate in SACU Member States

For the month of May 2015, consumer prices eased in Botswana, while it increased in Lesotho, Namibia, South Africa and Swaziland. Swaziland registered the highest annual inflation rate among the Member States registering inflation rate of 5.4 per cent followed by South Africa at 4.6 per cent, Botswana at 3.0 per cent, and Namibia at 3.0 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 May 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 3.0 per cent in May 2015 compared to 3.1 per cent in the preceding month. The annual rate in May 2015 was lower than the 4.5 per cent recorded during the similar month in 2014. The fall in the annual inflation rate between May 2014 and May 2015 was mainly due to the fall in prices experienced in *food & non-alcoholic beverages* (1.3 per cent from 3.2 per cent in May 2014) and *transport* (-4.7 per cent from 1.0 per cent in May 2014) which accounts for 21.84 per cent and 18.98 per cent of the overall inflation basket, respectively. On average, prices increased by 0.2 per cent between April 2015 and May 2015. The annual inflation rate was within the inflation target range of 3 – 6 per cent set

out by the Bank of Botswana. During the month of May 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 May 2015 from 2.0 per cent in the preceding month. A year earlier inflation rate was 6.7 per cent during the corresponding month. The slowing pace in annual inflation rate between May 2014 and May 2015 was mainly due to the drop in prices for *food & non-alcoholic beverages* (4.0 per cent from 6.4 per cent in May 2014), *housing & utilities* (-8.5 per cent from 12.3 per cent in May 2014) and *transport* (0.1 per cent from 13.9 per cent in May 2014). On average, prices increased by 0.6 per cent between April 2015 and May 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 May 2015 the prime lending rate was recorded at 10.25 per cent.

In **Namibia**, the annual inflation rate rose by 3.0 per cent in May 2015, up from 2.9 per cent in the preceding month. A year earlier inflation rate was 6.1 per cent during the corresponding month. The deceleration in annual inflation rate between May 2014 and May 2015 was mainly reflected in *transport* (-3.3 per cent from 10.5 per cent in May 2014), *food & non-alcoholic beverages* (4.5 per cent from 9.9 per cent in May 2014) and *housing & utilities* (2.5 per cent from 3.6 per cent in May 2014). On average, prices fell by 0.4 per cent between April and May 2015. During the month of May 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 rose to 4.6 per cent in May 2015, up from 4.5 per cent in the previous month. The annual rate in May 2015 was lower than the 6.6 per cent recorded during the similar month in 2014. The main contributors to the annual inflation rate in May 2015 were *housing & utilities* (1.3 percentage points) and *miscellaneous goods & services* (1.1 percentage points). On average, prices increased by 0.3 per cent between April 2015 and May 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 May 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 rose to 5.4 per cent in May 2015 up from 4.9 per cent in the previous month. Annual inflation rate in May 2015 was lower than the 5.5 per cent recorded during the similar month in 2014. The decline in annual inflation rate between May 2014 and May 2015 was mainly reflected in *food & non-alcoholic beverages (3.4 per cent from 7.3 per cent in May 2014)* which accounts for 29.22 per cent of the overall inflation basket. On average, prices increased by 0.7 per cent between April 2015 and May 2015. Interest rate policy remained accommodative for growth in May 2015 with the bank rate recorded at 5.50 per cent, and the prime rate at 9.00 per cent.

Appendix

Annual inflation rates by main categories (May 2015)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	1.3	4.0	4.5	4.7	3.4
Alcoholic beverages & tobacco	5.6	6.1	7.2	9.7	3.7
Clothing & footwear	7.5	4.3	2.4	5.4	7.9
Housing, water, electricity, gas & other fuels	6.1	-8.5	2.5	5.6	5.1
Furnishings, household equipment &...	6.4	3.2	4.8	2.6	3.1
Health	8.1	1.0	5.0	7.0	4.2
Transport	-4.7	0.1	-3.3	-0.7	8.2
Communications	0.5	0.0	0.2	-0.4	3.1
Recreation & Culture	6.7	3.4	3.2	1.8	8.2
Education	6.3	3.9	4.3	9.3	5.6
Hotels, cafés & restaurants	5.1	4.5	5.2	6.4	10.2
Miscellaneous goods & services	7.4	3.4	6.3	7.4	11.5
All Items	3.0	2.1	3.0	4.6	5.4

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