



SACU INFLATION REPORT

December 2016

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INTRODUCTION

The 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 for 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).

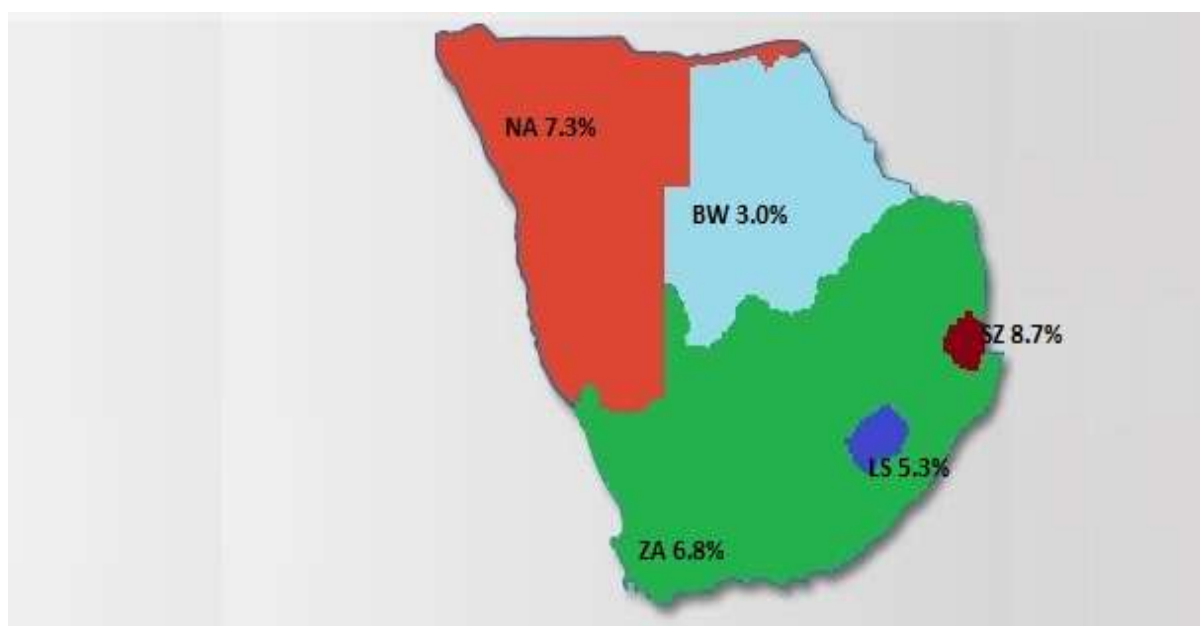
For the month of December 2016 compared to the preceding month, it was observed that inflation rate remained unchanged in Namibia, while consumer prices increased in Botswana, South Africa and Swaziland. On the other hand, consumer prices declined in Lesotho during the same period. The cost of *food & non-alcoholic beverages* continues to register a double figure inflation in Member States with the exception of Botswana and Lesotho. The inflationary pressure in food prices can be attributed to the prevailing drought in the region.

Inflation Rate in SACU Member States

During the month of December 2016, inflation rate remained unchanged in Namibia when compared to November 2016, while prices increased in Botswana, South Africa and Swaziland. On the other hand, consumer prices declined in Lesotho during the same period. **Map I** shows that the change in consumer prices in December 2016 was high in Swaziland recording a change of 8.7 per cent followed by Namibia at 7.3 per cent, South Africa at 6.8 per cent, Lesotho at 5.3 per cent, and Botswana at 3.0 per cent. All Member States continued to record a single digit annual inflation rate during the month of December 2016.

Overall in 2016, consumer prices increased in all Member States with exception of Botswana where prices dropped when compared to 2015. Member States recorded the following inflation rates for 2016: Botswana (2.8% compared to 3.1% in 2015); Lesotho (6.6% compared to 3.2% in 2015); Namibia (6.7% compared to 3.4% in 2015); South Africa (6.4% compared to 4.6% in 2015); and Swaziland (7.8% compared to 5.0% in 2015). The rise in consumer prices is mainly due to the prevailing drought in the region that has put pressure on food prices.

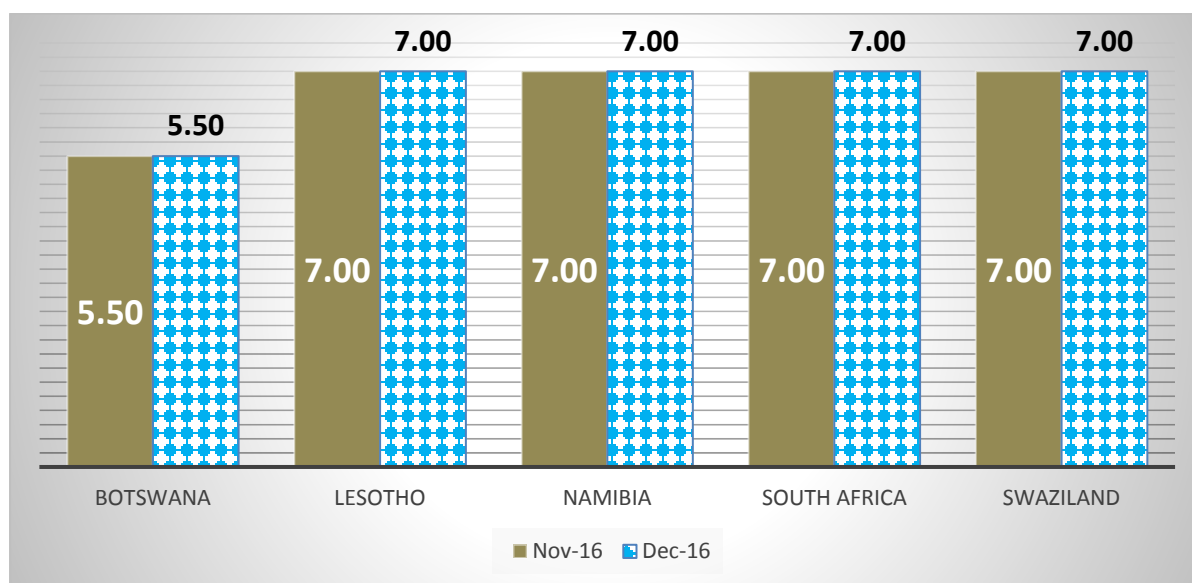
Map I: Annual Inflation Rates (%) for December 2016 in SACU Member States



Source: Member States Statistics Offices; (BW-Botswana; LS –Lesotho; NA-Namibia; ZA-South Africa; SZ- Swaziland)

By end of December 2016, monetary policy stance in Member States remained generally accommodative with the repo rate / bank rate¹ ranging between 5.50 per cent and 7.00 per cent, as depicted in **Chart I**. Monetary stance was unaltered between December 2016 and November 2016 in all Member States. During the month of December, the highest prime lending rate was observed in Lesotho at 11.69 per cent, followed by Namibia at 10.75 per cent, South Africa (10.50 per cent), Swaziland (10.50 per cent), and Botswana (7.00 per cent).

Chart I: Member States' Repo/Bank rates

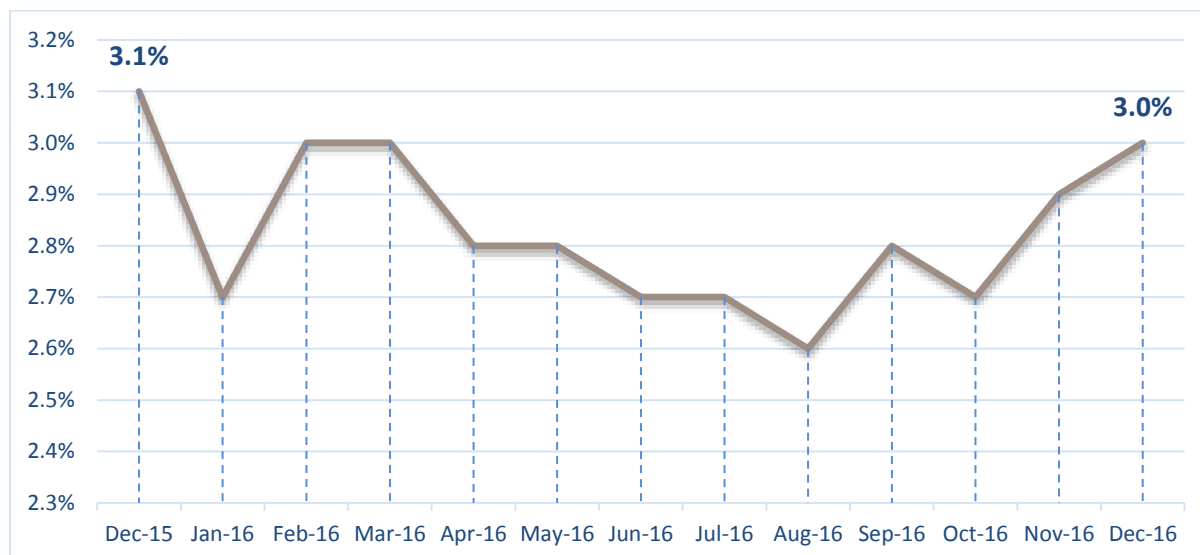


In **Botswana**, the annual inflation rate slightly rose 3.0 per cent in December 2016 from 2.9 per cent in the preceding month, as reflected in **Chart 2**. The annual rate in December 2016 was slightly lower than the 3.1 per cent recorded during the similar month in 2015. The decline in the annual inflation rate to 3.0 per cent between December 2016 and December 2015 was mainly reflected in *housing & utilities* (3.3 per cent compared to 9.7 per cent in December 2015) which accounts for 14.90 per cent of the overall inflation basket. Inflation rates of the main categories based on the basket weights shows that *food & non-alcoholic beverages* rose by 3.9 per cent in December 2016 as opposed to 0.7 per cent during the corresponding month in 2015, while, *transport* recorded a decline of 0.3 per cent compared to a decline of 5.8 per cent in December 2015.

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

On average, consumer prices increased by 0.1 per cent between December 2016 and November 2016. The annual inflation rate recorded in December 2016 continues to be below the inflation target range of 3 – 6 percent set out by the Bank of Botswana.

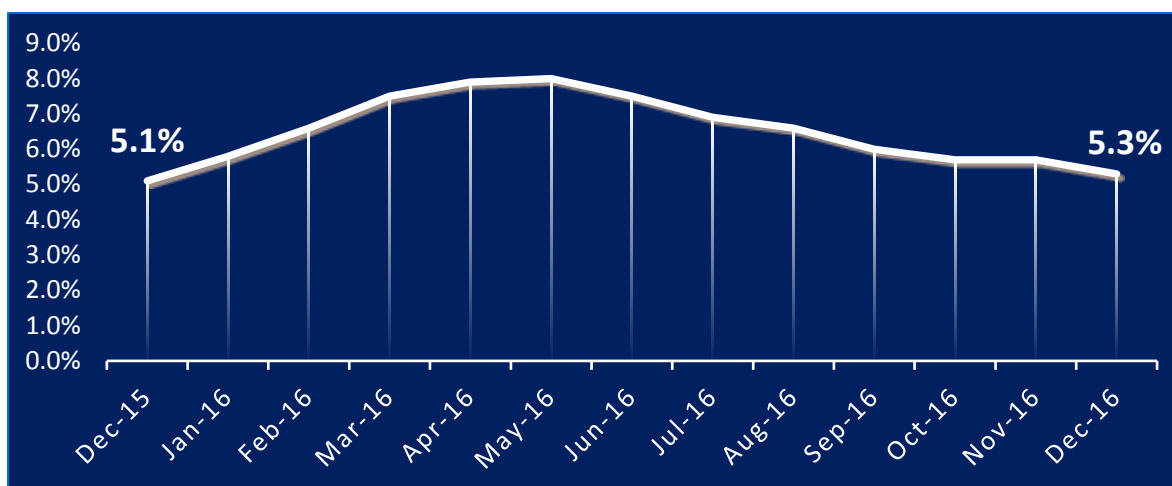
Chart 2: Annual inflation rates



Source: Statistics Botswana

In **Lesotho**, the annual inflation rate rose by 5.3 per cent in December 2016 compared to 5.7 per cent in the preceding month as reflected in **Chart 3**. A year earlier inflation rate was 5.1 per cent during the corresponding month. The acceleration in annual inflation rate between December 2016 and December 2015 was mainly due to the increase in cost of *food & non-alcoholic beverages* (9.4 per cent up from 9.3 per cent in December 2015) that accounts for 38.1 per cent of the overall inflation basket. The other main categories based on the basket weights, the *clothing & footwear* category reflected that prices increased by 3.7 per cent in December 2016, while the prices of the third main category, *housing & utilities* were stagnant. On average, prices were stagnant between December 2016 and November 2016.

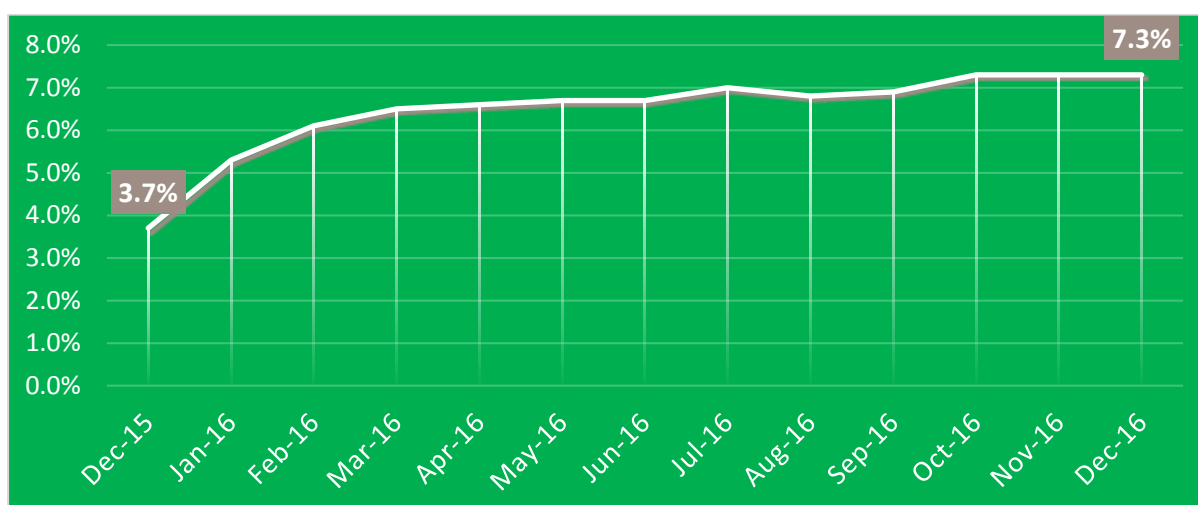
Chart 3: Annual inflation rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate rose by 7.3 per cent in December 2016 unchanged for the third consecutive months. A year earlier inflation rate was 3.7 per cent during the corresponding month as reflected in **Chart 4**. The acceleration in annual inflation rate between December 2016 and December 2015 was mainly reflected in *housing & utilities* (7.6 per cent up from 2.7 per cent in December 2015) and *food & non-alcoholic beverages* (12.5 per cent up from 5.9 per cent in December 2015) which accounts for 28.36 per cent and 16.45 per cent respectively, of the overall inflation basket. The other main category based on the basket weight, the *transport* category recorded an increase in prices of 3.9 per cent in December 2016 compared to a decline of 0.3 per cent during the corresponding month of 2015. On average, prices increased by 0.2 per cent between December 2016 and November 2016.

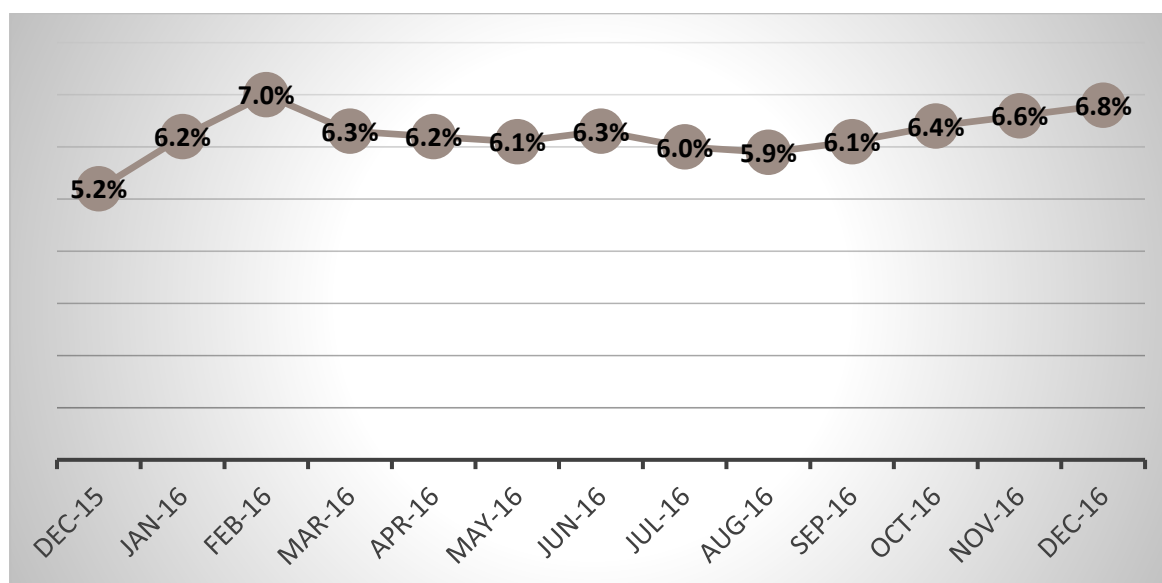
Chart 4: Annual inflation rates



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate rose by 6.8 per cent in December 2016 from 6.6 per cent recorded in the previous month as depicted in **Chart 5**. The annual rate in December 2016 was higher than the 5.2 per cent recorded during the similar month in 2015. The main contributors to the annual inflation rate in December 2016 were *food & non-alcoholic beverages* (1.8 percentage points) and *housing & utilities* (1.4 percentage points). On average, prices increased by 0.4 per cent between December 2016 and November 2016. The annual inflation rate was above the target range of 3-6 per cent set out by the South African Reserve Bank.

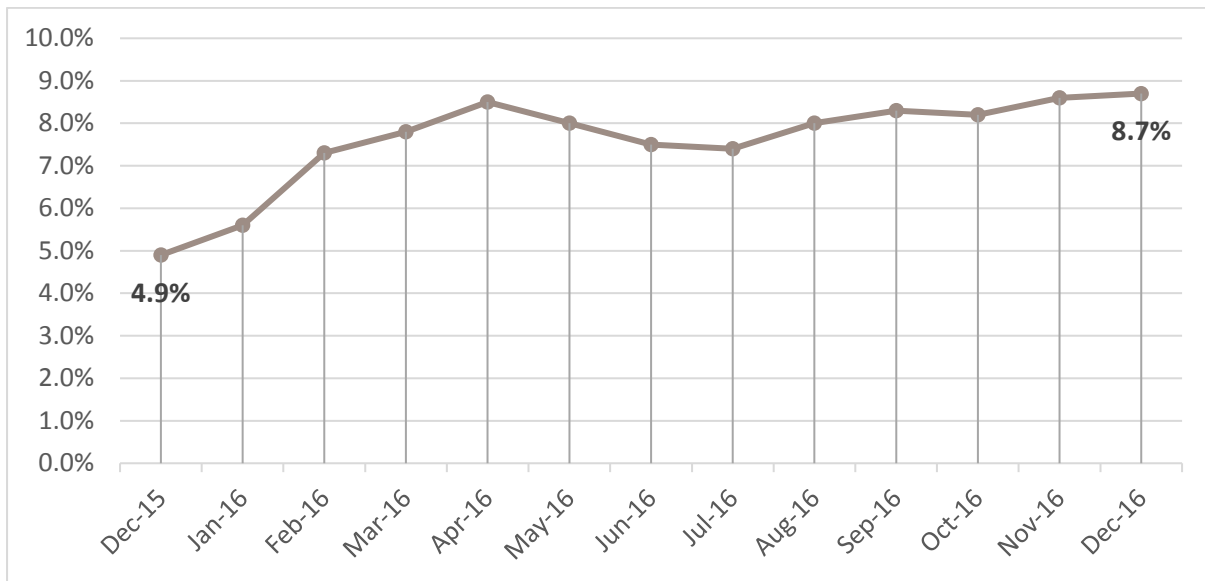
Chart 5: Annual inflation rates



Source: Statistics South Africa

In **Swaziland**, the annual inflation rate slightly rose to 8.7 per cent in December 2016 from 8.6 per cent in the preceding month as indicated in **Chart 6**. Annual inflation rate in December 2016 was higher than the 4.9 per cent recorded during the similar month in 2015. The main contributor to the increase in prices between December 2016 and December 2015 was mainly the cost of *food & non-alcoholic beverages* (19.0 per cent compared to 5.2 per cent in December 2015) which accounts for 29.22 per cent of the overall inflation basket. The second main category in the basket based on the weight, the *housing & utilities* category reflected an increase of 3.6 per cent in December 2016 compared to 5.5 per cent in December 2015. The third main category, *transport*, increased by 9.3 per cent in December 2016 compared to a decline of 1.0 per cent during the similar month in 2015. On average, prices increased by 0.3 per cent between December 2016 and November 2016.

Chart 6: Annual inflation rates

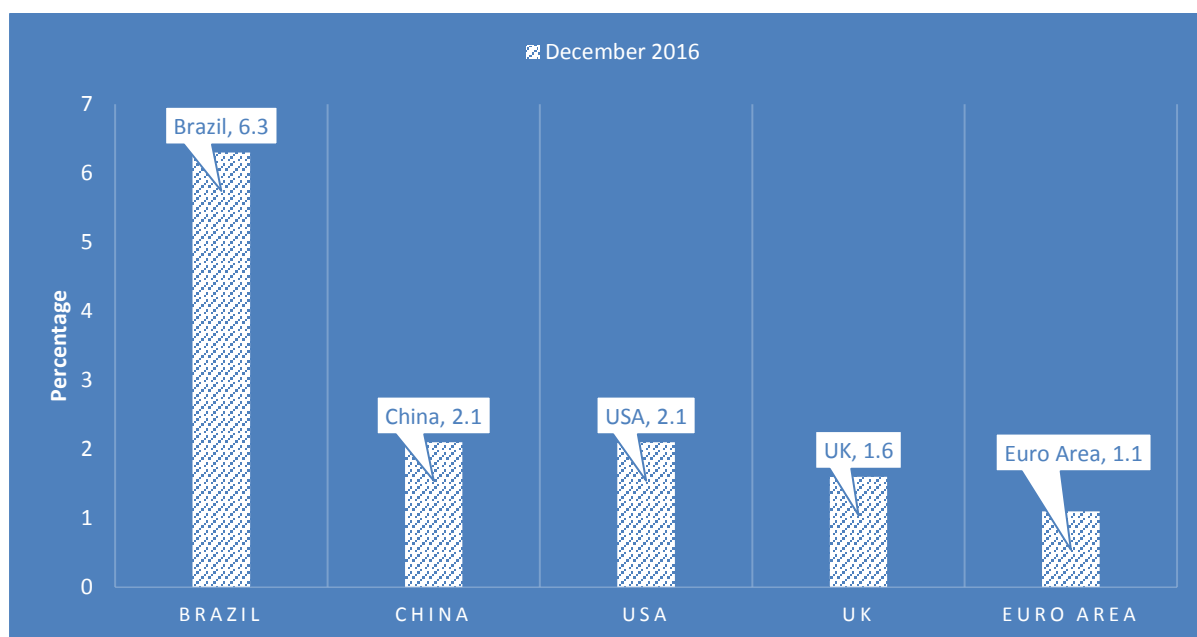


Source: Central Statistics Office

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in a selected economies for the month of December 2016. Consumer prices in Brazil eased to 6.3 per cent in December 2016 from 7.0 per cent in the preceding month, and similarly, China’s inflation rate eased to 2.1 per cent in December 2016 from 2.3 per cent in the preceding month. In the USA, inflation rate rose by 2.1 per cent in December 2016 compared to 1.7 per cent in November 2016, while in the UK, inflation rate rose by 1.6 per cent compared to 1.2 per cent in previous month. Inflation rate in the Euro area increased by 1.1 per cent compared to 0.6 per cent in the preceding month.

Chart 7: Annual Inflation Rates for Selected Economies

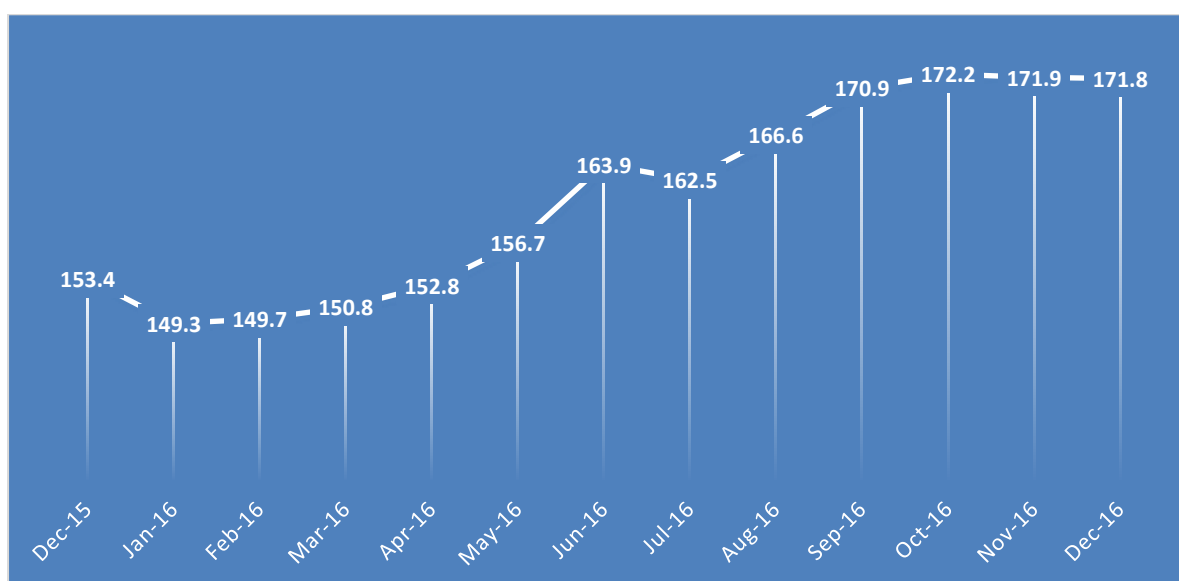


Source: inflation.eu

FAO Food Price Index

Chart 8 shows that the FAO Food Price Index² averaged at 172 points in December 2016, unchanged from November 2016 with strong gains in the prices of vegetable oils and dairy largely offsetting a fall in sugar and meat quotations. Overall in 2016, the index averaged 161.6 points, down by 1.5 per cent from 2015, representing the fifth consecutive annual decline. While prices of sugar and vegetable oils rose significantly in 2016, falling prices in cereal, meat and dairy markets kept the Index below its 2015 average.

Chart 8: FAO Food Price Index



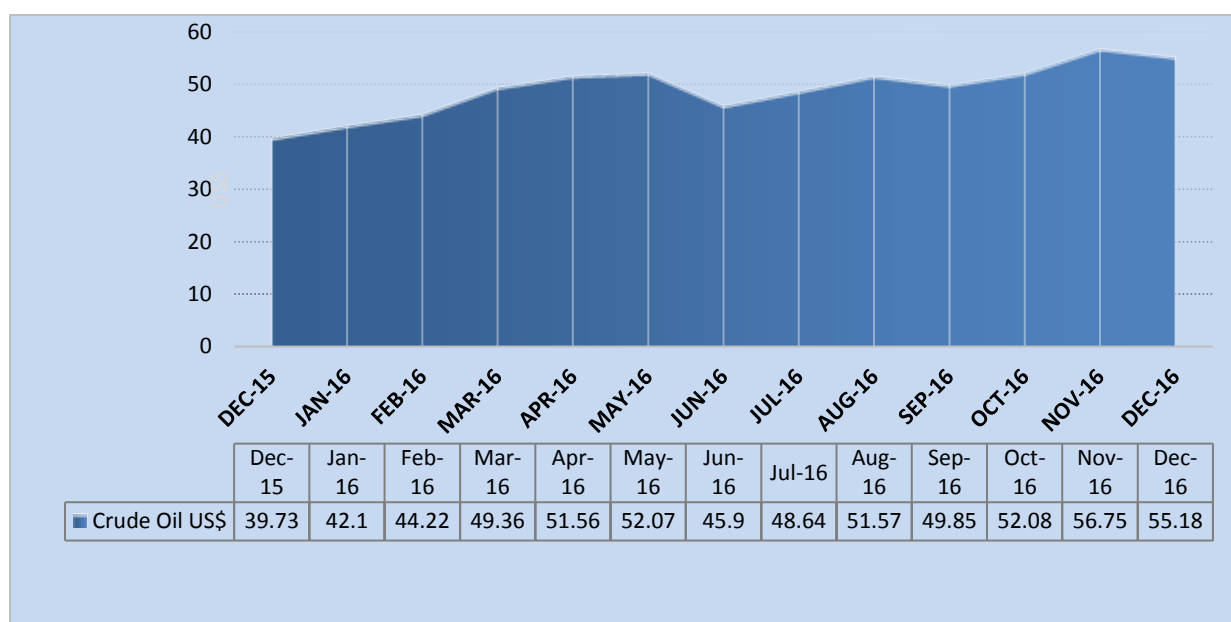
Source: Food and Agriculture Organization of the United Nations

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

Brent Crude Oil Prices

Brent crude oil price closed at USD55.18 per barrel at the end of December 2016, which was 2.8 per cent lower than at the end of November 2016. Year on year, the price level was higher than the USD39.73 per barrel recorded at the end of December 2015 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual inflation rates by main categories (December 2016)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	3.9	9.4	12.5	11.7	19.0
Alcoholic beverages & tobacco	2.8	3.1	5.6	5.5	5.4
Clothing & footwear	4.9	3.7	0.3	5.3	9.2
Housing, water, electricity, gas & other fuels	3.3	0.0	7.6	5.6	3.6
Furnishings, household equipment &...	2.8	3.4	7.9	4.0	8.7
Health	2.8	1.3	7.3	5.7	0.4
Transport	-0.3	1.3	3.9	5.7	9.3
Communications	0.0	0.0	5.8	-0.2	2.6
Recreation & Culture	1.7	0.6	6.5	7.6	5.7
Education	3.6	4.9	7.6	4.6	2.4
Hotels, cafés & restaurants	3.1	2.6	10.3	7.1	1.5
Miscellaneous goods & services	7.9	3.3	5.8	7.6	6.0
All Items	3.0	5.3	7.3	6.8	8.7

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>	16.51	38.14	16.45	15.41	29.22
<i>Alcoholic beverages & tobacco</i>	7.83	1.22	12.59	5.43	0.39
<i>Clothing & footwear</i>	6.27	17.43	3.05	4.07	3.42
<i>Housing, water, electricity, gas & other fuels</i>	14.90	10.60	28.36	24.52	29.15
<i>Furnishings, household equipment &...</i>	6.39	9.42	5.47	4.79	4.75
<i>Health</i>	3.62	1.88	2.01	1.46	3.39
<i>Transport</i>	20.65	8.47	14.28	16.43	10.50
<i>Communications</i>	4.27	1.24	3.81	2.63	2.74
<i>Recreation & Culture</i>	2.92	2.39	3.55	4.09	1.07
<i>Education</i>	3.34	2.75	3.65	2.95	9.11
<i>Hotels, cafés & restaurants</i>	2.76	0.66	1.39	3.50	1.79
<i>Miscellaneous goods & services</i>	10.55	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