



SACU INFLATION REPORT

February 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.

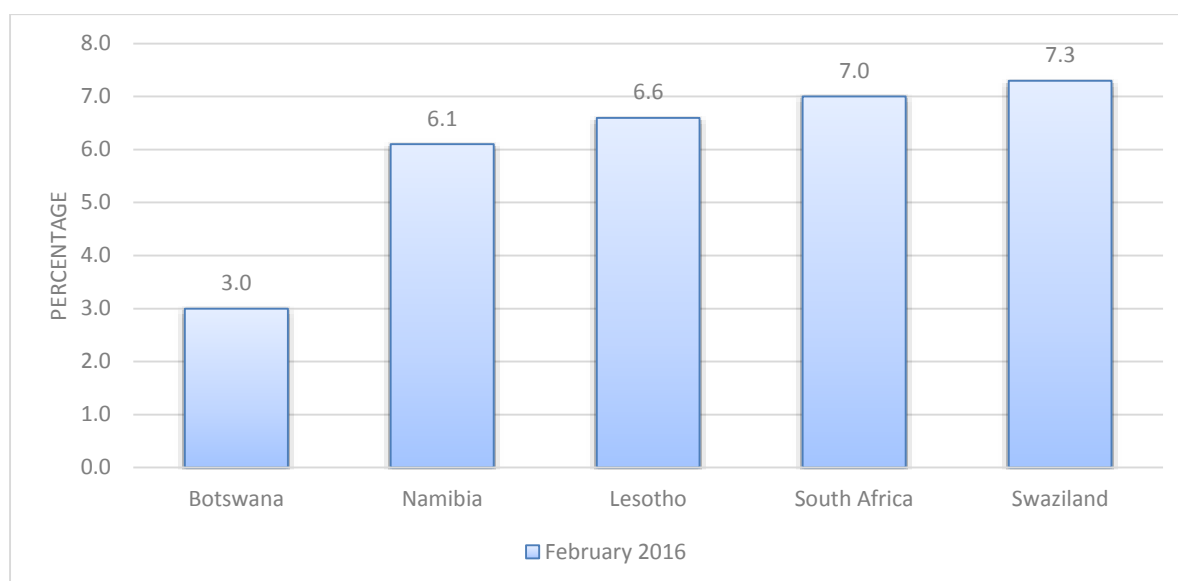
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI of the month under review to the previous month (month-on-month change) as well as to the same month in the previous year (year-on-year 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 February 2016 compared to the preceding month, it was observed that consumer prices increased all the SACU Member States as well as in China, while consumer prices eased in the Euro area, USA and Brazil.

Inflation Rate in SACU Member States

During the month of February 2016, inflation rates increased in all Member States when compared to January 2016. The highest annual inflation rate among the Member States was registered in Swaziland at 7.3 per cent followed by South Africa at 7.0 per cent, Lesotho at 6.6 per cent, and Namibia at 6.1 per cent. While, Botswana continued to record the lowest inflation rate at 3.0 per cent. All Member States continued to record a single digit annual inflation rate during the month of February 2016 as shown on **Chart I**.

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



Source: Member States Statistics Offices

In **Botswana**, the annual inflation rate increased by 3.0 per cent in February 2016 compared to 2.7 per cent registered in the preceding month. The annual rate in February 2016 was higher than the 2.8 per cent recorded during the similar month in 2015. The increase in the annual inflation rate between February 2015 and February 2016 was mainly due to the rise in prices of *housing & utilities* (9.7 per cent up from 3.7 per cent in February 2015) which accounts for 11.46 per cent of the overall inflation basket. On average, prices remained stagnant between January 2016 and February 2016. The annual inflation rate fell within the inflation target range of 3 – 6 per cent set out by the Bank of Botswana. During the month of February 2016 the bank rate¹ stood at 6.0 per cent, while the prime rate stood at 7.5 per cent.

In **Lesotho**, the annual inflation rate rose by 6.6 per cent in February 2016, up from 5.8 per cent in the preceding month. A year earlier inflation rate was 2.1 per cent during the corresponding month. The acceleration in annual inflation rate between February 2015 and February 2016 was mainly due to the increase in prices for *food & non-alcoholic beverages* (11.5 per cent up from 4.9 per cent in February 2015) which accounts for 38.1 per cent of the overall inflation basket. On average, prices increased by 0.8 per cent between January 2016 and February 2016. During the month of February 2016 the CBL rate stood at 6.75 per cent, while the prime lending rate stood at 11.44 per cent.

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

In **Namibia**, the annual inflation rate increased by 6.1 per cent in February 2016, from 5.3 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 February 2015 and February 2016 was mainly reflected in *housing & utilities (7.4 per cent up from 2.9 per cent in February 2015)* which accounts for 28.36 per cent of the overall inflation basket. On average, prices increased by 0.6 per cent between January 2016 and February 2016. During the month of February 2016, the repo rate stood at 6.75 per cent, while the prime rate stood at 10.50 per cent.

In **South Africa**, the annual inflation rate was 7.0 per cent in February 2016, up from 6.2 per cent recorded in the previous month. The annual rate in February 2016 was higher than the 3.9 per cent recorded during the similar month in 2015. The main contributors to the annual inflation rate in February 2016 were *housing & utilities (1.6 percentage points)* and *food & non-alcoholic beverages (1.3 percentage points)*. On average, prices increased by 1.4 per cent between January 2016 and February 2016. The annual inflation rate remained above the target range of 3-6 per cent set out by the South African Reserve Bank. Interest rate policy remained accommodative for growth during the February 2016 with the repo rate at 6.75 per cent, while the prime rate stood at 10.25 per cent.

In **Swaziland**, the annual inflation rate increased to 7.3 per cent in February 2016 from 5.6 per cent in the previous month. Annual inflation rate in February 2016 was higher than the 5.0 per cent recorded during the similar month in 2015. The main driver in the annual inflation rate between February 2015 and February 2016 was mainly reflected in *food & non-alcoholic beverages (10.5 per cent compared to 5.2 per cent in February 2015)* and *housing & utilities (5.9 per cent compared to 2.3 per cent in February 2015)* which accounts for 29.22 and 29.15 per cent of the overall inflation basket, respectively. On average, prices increased by 2.4 per cent between January 2016 and February 2016. Interest rate policy remained accommodative for growth in February 2016 with the bank rate recorded at 6.25 per cent, and the prime rate at 9.75 per cent.

Inflation Rate for Selected Economies

Euro area annual inflation rate was -0.2 per cent in February 2016, down from 0.3 per cent in January 2016. A year earlier the inflation rate was -0.3 per cent. The biggest downward impacts to the annual inflation rate came from *fuels for transport* (-0.49 percentage points), *heating oil* (-0.24 percentage points) and *gas* (-0.10 percentage points), while *restaurants & cafes* (0.13 percentage points), *rents* (0.08 percentage points) and *fruit* (0.06 percentage points) had the largest upward impacts. The annual rate recorded for February 2016 was below the European Central Bank inflation target of below but close to 2.0 percent.

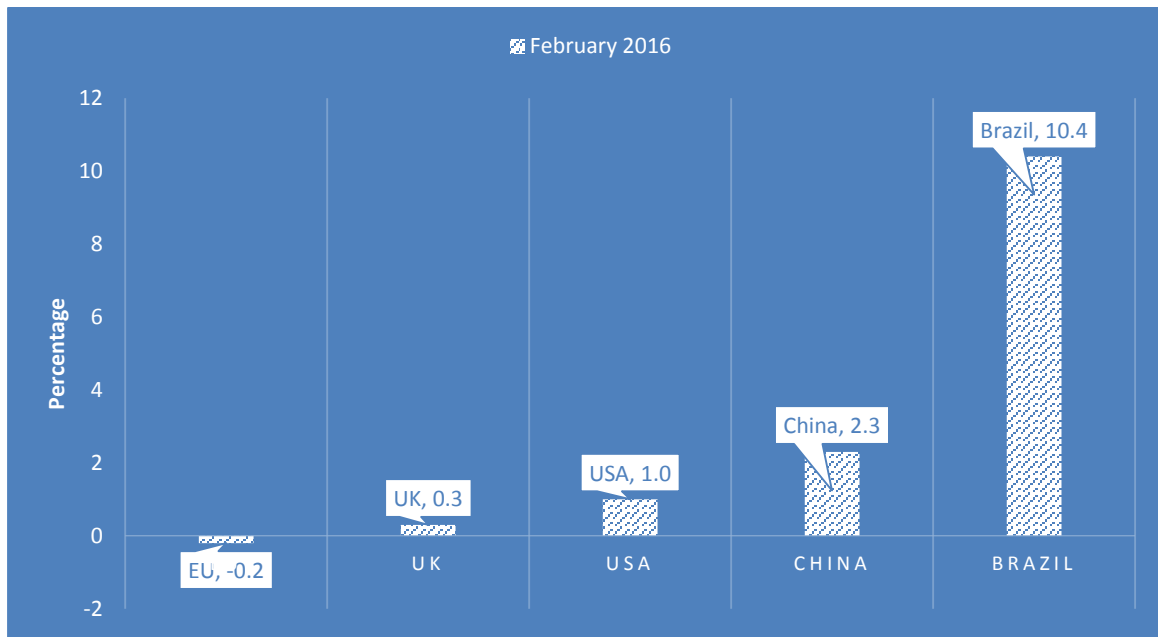
In the **UK**, the annual inflation rate increased by 0.3 per cent in February 2016, unchanged from January 2016. The rate was stagnant during a similar period a year earlier. The largest upward impact came from *education* (4.8 per cent) and *communications* (2.0 per cent), while *food & non-alcoholic beverages* (-2.3 per cent), and *recreations* (-1.1 per cent) recorded the biggest downward impacts. The annual inflation rate for February 2016 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 1.0 per cent in February 2016, down from 1.4 per cent in January 2016. The inflation rate was stagnant during the similar period a year earlier. The index for *all items less food and energy* rose by 2.3 per cent in February 2016 from 2.2 per cent in the preceding month. The *food index* rose by 0.9 per cent in February 2016 from 0.8 per cent in the preceding month. The *energy index* registered a decline of 12.5 per cent in February 2016 compared to a decline of 6.5 per cent in the preceding month. The inflation rate for February 2016 continues to remain below the Federal Reserve Bank's long- term inflation estimate of 2.0 percent.

In **Brazil**, the annual inflation rate was 10.4 per cent in February 2016 compared to 10.7 per cent in the preceding month. The rate was 7.7 per cent during the similar period a year earlier. The annual rate recorded for February 2016 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 2.3 per cent in February 2016, compared to 1.8 per cent in the preceding month. The rate was 1.4 per cent during the similar period a year earlier. The main components with the highest annual rates were *food* (5.8 per cent), and *health care* (2.8 per cent), while the lowest annual rates were observed on *transport & communication* (-1.6 per cent). The annual inflation rate for February 2016 continued to be below the Government's inflation target of 3.0 per cent.

Chart 2: Annual Inflation Rates for Selected Economies

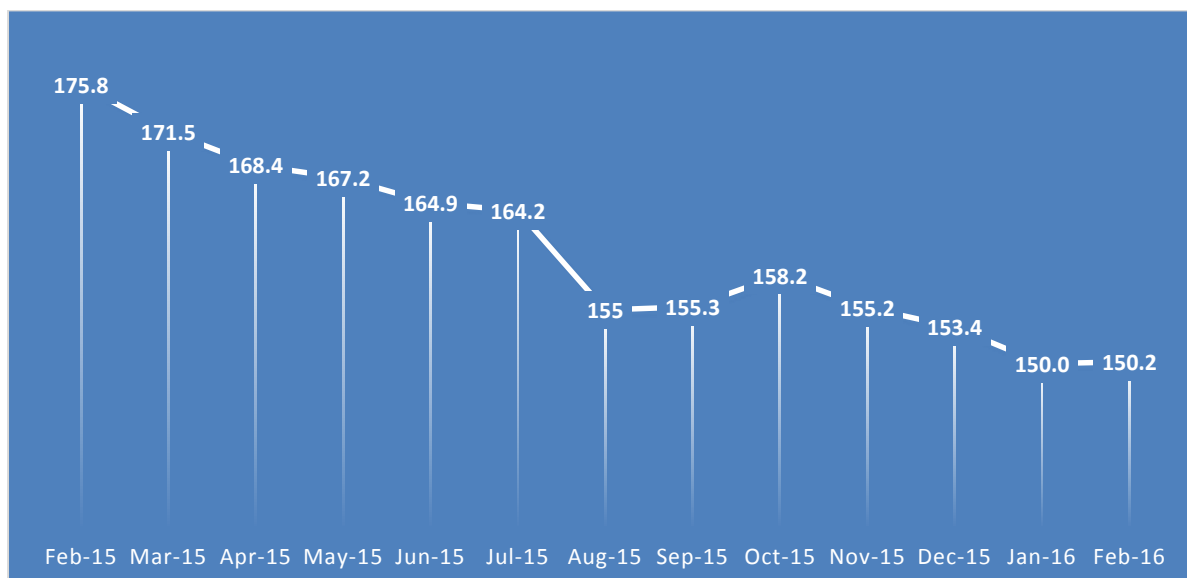


Source: *inflation.eu*

FAO Food Price Index

The FAO Food Price Index² averaged 150.2 points in February 2016, up by 0.2 points from its level in January 2016, the slight increase was reflected in meat and vegetables oils.

Chart 3: FAO Food Price Index



Source: Food and Agriculture Organization of the United Nations

The FAO Cereal Price Index averaged 148.3 points in February 2016, down by 0.8 points from January 2016, due to ample global supplies. The FAO Vegetable Oil Price Index averaged 150.3 points in February 2016, up by 11.2 points from January 2016, this was mainly reflected in palm oil prices which appreciated by 13 per cent based on reports of falling inventories in South East Asia, combined with poor prospects for production in the coming months.

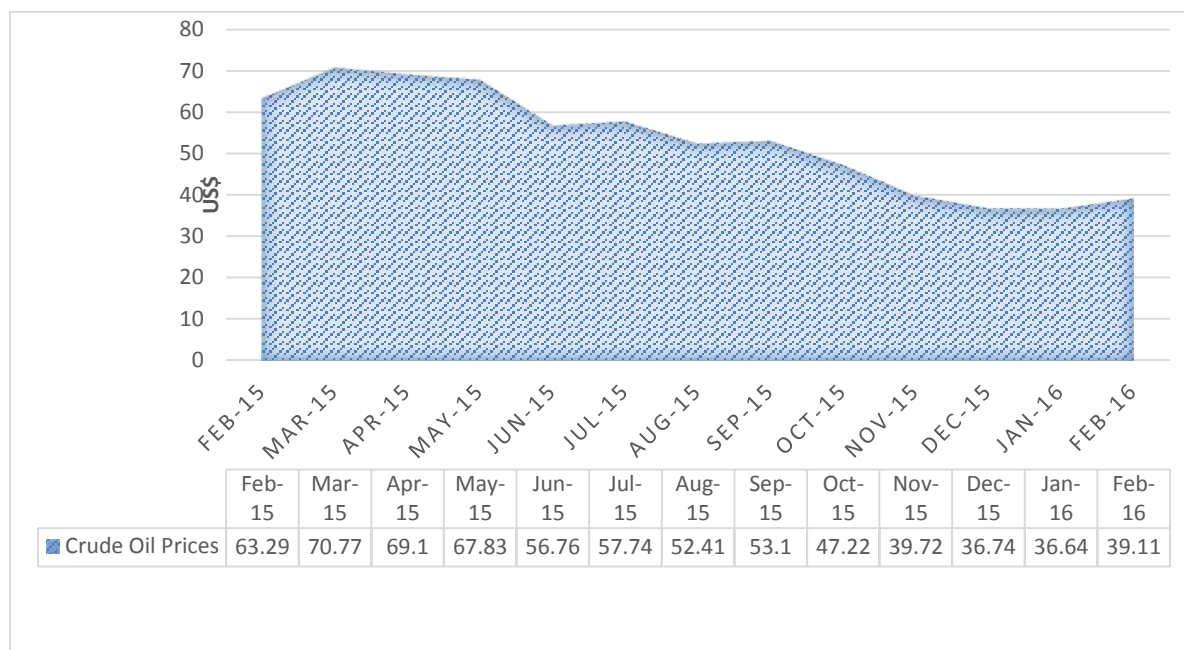
The FAO Dairy Price Index averaged 142 points in February 2016, down by 3.1 points from its level in January 2016. The decline stemmed from a lacklustre import demand and ample availability of supplies for export. The FAO Meat Price Index averaged 148.2 points in February 2016, up by 1.0 points from January 2016. The FAO Sugar Price Index averaged 187.1 points in February 2016, down by 12.3 points from January 2016. The decline was prompted by better than expected crop conditions in Brazil, the world largest sugar producer and exporter.

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 USD39.11 per barrel at the end of February 2016, which was 6.7 percent higher than at the end of January 2016, but lower than the USD63.29 per barrel recorded at the end of February 2015 as highlighted in **Chart 4**.

Chart 4: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual inflation rates by main categories (February 2016)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	1.5	11.5	7.2	8.6	10.5
Alcoholic beverages & tobacco	3.1	3.9	7.9	7.6	3.6
Clothing & footwear	7.4	4.7	0.9	4.6	4.9
Housing, water, electricity, gas & other fuels	9.7	1.3	7.4	6.6	5.9
Furnishings, household equipment &...	3.6	4.4	3.8	3.5	5.6
Health	3.4	1.4	7.0	5.5	0.3
Transport	-3.2	1.2	4.7	8.7	11.9
Communications	0.5	0.0	0.8	0.2	7.6
Recreation & Culture	6.8	2.2	5.6	6.0	2.9
Education	3.7	4.9	7.6	9.3	3.0
Hotels, cafés & restaurants	4.4	2.3	5.8	6.3	0.7
Miscellaneous goods & services	7.0	5.0	3.2	6.8	9.2
All Items	3.0	6.6	6.1	7.0	7.3

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