



SACU INFLATION REPORT

March 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.

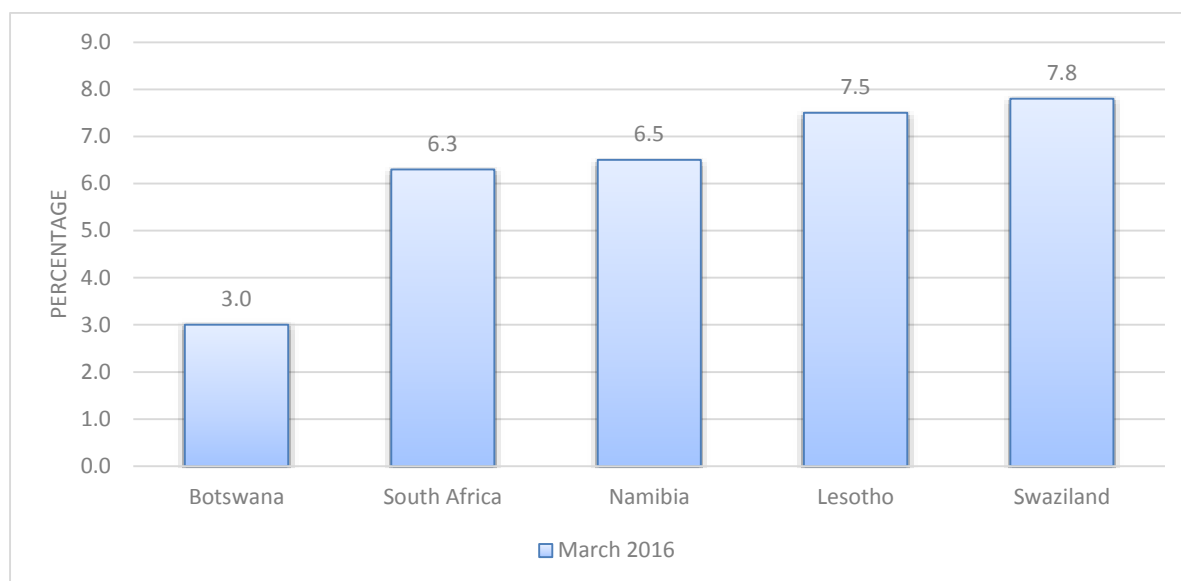
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI of the month under review to the previous month (month-on-month change) as well as to the same month in the previous year (year-on-year 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 March 2016 compared to the preceding month, it was observed that consumer prices continued to increase in most of the SACU Member States with exception of Botswana and South Africa.

Inflation Rate in SACU Member States

During the month of March 2016, inflation rates when compared to February 2016 increased in Lesotho, Namibia and Swaziland, while it remained unchanged in Botswana. On the other hand, inflation rate for March 2016 eased in South Africa when compared to February 2016. The highest annual inflation rate among the Member States was registered in Swaziland at 7.8 per cent followed by Lesotho at 7.5 per cent, Namibia at 6.5 per cent, and South Africa at 6.3 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 March 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 March 2016 unchanged from the preceding month. The annual rate in March 2016 was higher than the 2.8 per cent recorded during the similar month in 2015. The increase in the annual inflation rate between March 2015 and March 2016 was mainly due to the rise in prices of *housing & utilities* (10.5 per cent up from 3.7 per cent in March 2015) which accounts for 11.46 per cent of the overall inflation basket. On average, prices increased by 0.3 per cent between February 2016 and March 2016. The annual inflation rate continued to be within the inflation target range of 3 – 6 per cent set out by the Bank of Botswana. During the month of March 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 7.5 per cent in March 2016, up from 6.6 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 March 2015 and March 2016 was mainly due to the increase in prices for *food & non-alcoholic beverages* (13.8 per cent up from 4.3 per cent in March 2015) which accounts for 38.1 per cent of the overall inflation basket. On average, prices increased by 1.2 per cent between February 2016 and March 2016. During the month of March 2016 the CBL rate stood at 6.75 per cent but was increased by 25 basis points to 7.00 per cent on 22 March 2016, 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 6.5 per cent in March 2016, from 6.1 per cent in the preceding month. A year earlier inflation rate was 3.4 per cent during the corresponding month. The acceleration in annual inflation rate between March 2015 and March 2016 was mainly reflected in *housing & utilities (7.5 per cent up from 2.9 per cent in March 2015)* and *transport (4.3 per cent up from -3.7 per cent in March 2015)* which accounts for 28.36 per cent and 14.28 per cent, respectively of the overall inflation basket. On average, prices increased by 0.8 per cent between February 2016 and March 2016. During the month of March 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 6.3 per cent in March 2016, down from 7.0 per cent recorded in the previous month. The annual rate in March 2016 was higher than the 4.0 per cent recorded during the similar month in 2015. The main contributors to the annual inflation rate in March 2016 were *housing & utilities (1.6 percentage points)* and *food & non-alcoholic beverages (1.5 percentage points)*. On average, prices increased by 0.8 per cent between February 2016 and March 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 March 2016 with the repo rate at 7.00 per cent, while the prime rate stood at 10.50 per cent.

In **Swaziland**, the annual inflation rate increased to 7.8 per cent in March 2016 from 7.3 per cent in the previous month. Annual inflation rate in March 2016 was higher than the 4.7 per cent recorded during the similar month in 2015. The main driver in the annual inflation rate between March 2015 and March 2016 was mainly reflected in *food & non-alcoholic beverages (13.4 per cent compared to 4.3 per cent in March 2015)* and *housing & utilities (5.0 per cent compared to 3.0 per cent in March 2015)* which accounts for 29.22 and 29.15 per cent of the overall inflation basket, respectively. On average, prices increased by 0.8 per cent between February 2016 and March 2016. Interest rate policy remained accommodative for growth in March 2016 with the bank rate recorded at 6.50 per cent, and the prime rate at 10.0 per cent.

Inflation Rate for Selected Economies

Euro area annual inflation rate was stagnant in March 2016, compared to -0.2 per cent recorded in February 2016. A year earlier the inflation rate was -0.1 per cent. The largest upward impacts to the annual inflation rate came from *restaurants & cafes (0.12 percentage points)*, *package holidays (0.09 percentage points)* and *rents (0.07 percentage points)*, while *fuels for transport (-0.60 percentage points)*, *heating oil (-0.23 percentage points)* and *gas (-0.10 percentage points)* had the biggest downward impacts. The annual rate recorded for March 2016 was below the European Central Bank inflation target of below but close to 2.0 percent.

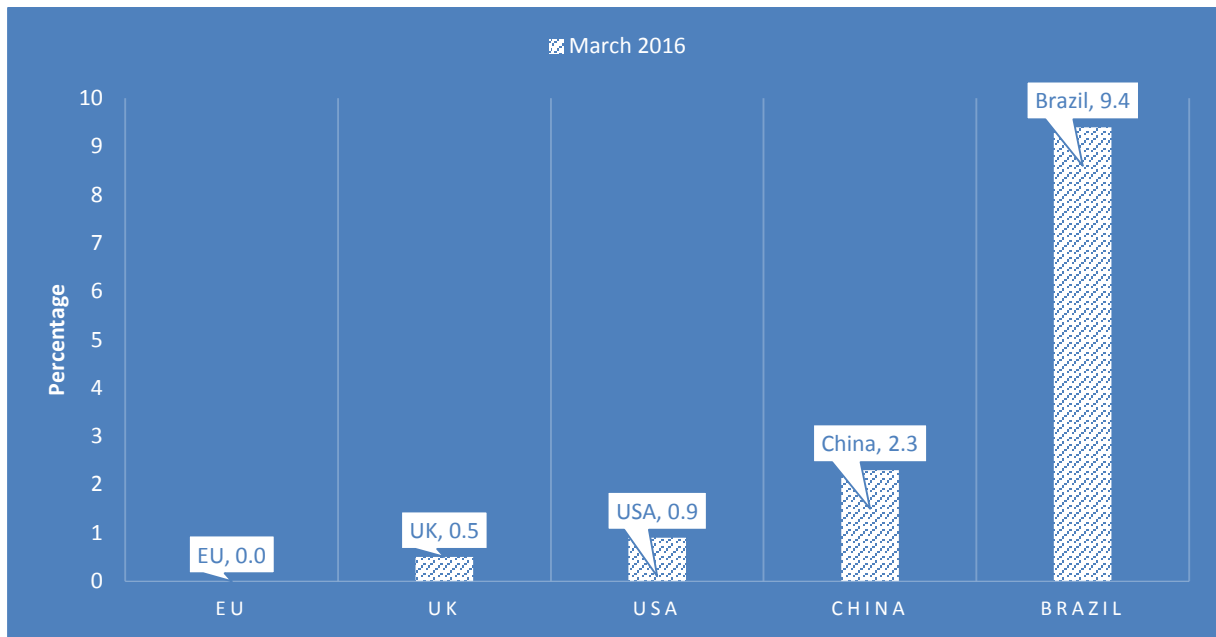
In the **UK**, the annual inflation rate increased by 0.5 per cent in March 2016, compared with 0.3 per cent in February 2016. The rate was stagnant during a similar period a year earlier. The largest upward impact came from *education (4.8 per cent)* and *restaurants & hotels (2.1 per cent)*, while *food & non-alcoholic beverages (-2.7 per cent)* recorded the biggest downward impacts. The annual inflation rate for March 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 0.9 per cent in March 2016, down from 1.0 per cent in February 2016. The rate was -0.1 per cent during the similar period a year earlier. The index for *all items less food and energy* rose by 2.2 per cent in March 2016 from 2.3 per cent in the preceding month. The *food index* rose by 0.8 per cent in March 2016 from 0.9 per cent in the preceding month. The *energy index* registered a decline of 12.6 per cent in March 2016 compared to a decline of 12.5 per cent in the preceding month. The inflation rate for March 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 9.4 per cent in March 2016 compared to 10.4 per cent in the preceding month. The rate was 8.1 per cent during the similar period a year earlier. The annual rate recorded for March 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 March 2016, unchanged from 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 (6.0 per cent)*, and *health care (3.1 per cent)*, while the lowest annual rates were observed on *transport & communication (-2.6 per cent)*. The annual inflation rate for March 2016 continued to be below the Government's inflation target of 3.0 per cent.

Chart 2: Annual Inflation Rates for Selected Economies

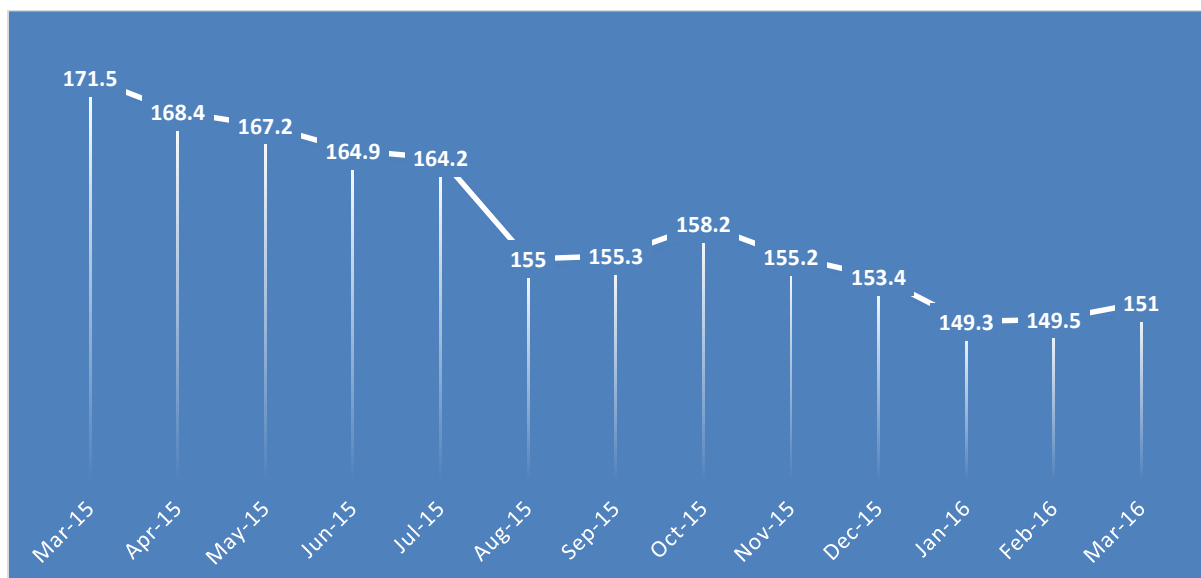


Source: *inflation.eu*

FAO Food Price Index

The FAO Food Price Index² averaged 151.0 points in March 2016, up by 0.1 per cent from its level in February 2016, the slight increase was reflected in sugar and vegetables oils.

Chart 3: FAO Food Price Index



Source: Food and Agriculture Organization of the United Nations

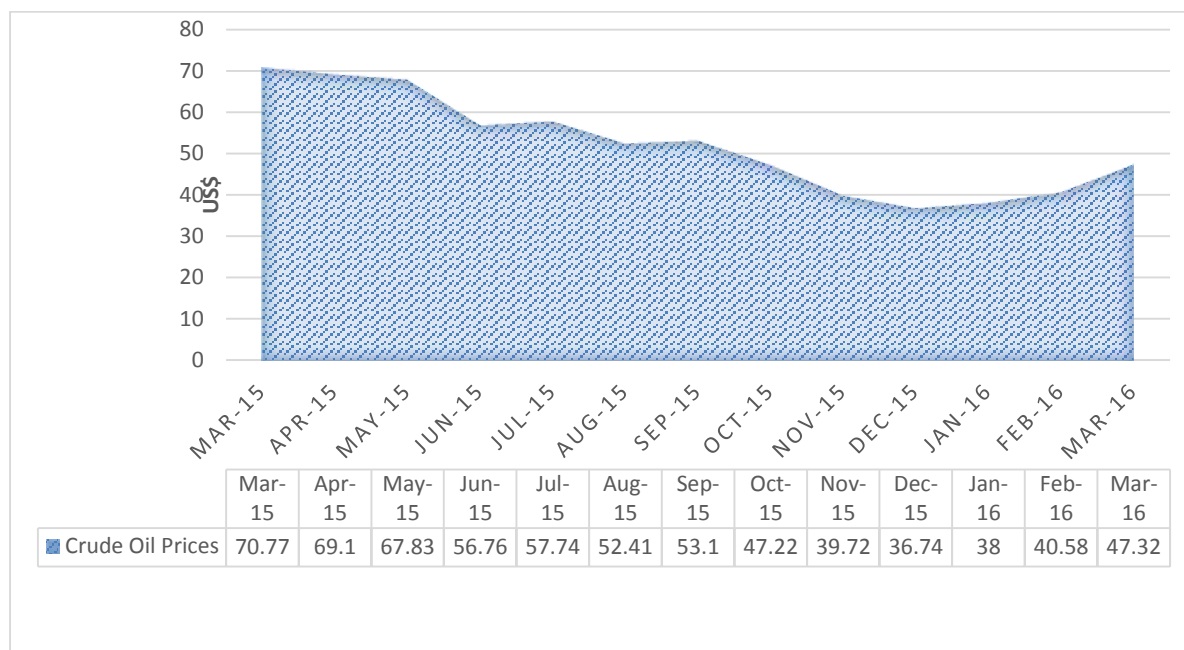
The FAO Cereal Price Index averaged 147.6 points in March 2016, down by 0.6 points from February 2016, due to favourable supply outlook. The FAO Vegetable Oil Price Index averaged 159.8 points in March 2016, up by 9.5 points from February 2016, the upturn was mainly driven by palm oil prices. The FAO Dairy Price Index averaged 130.3 points in March 2016, down by 11.7 points from its level in February 2016, the decline was mostly reflected in butter and cheese. The FAO Meat Price Index averaged 146.4 points in March 2016, up by 0.1 points from February 2016. The FAO Sugar Price Index averaged 219 points in March 2016, up by 32 points from February 2016 reaching its highest level since November 2014. The sharp increase reflects the expectation of a larger production deficit during the crop year than earlier anticipated, following the recent heavy rainfall 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 USD47.32 per barrel at the end of March 2016, which was 16.6 percent higher than at the end of February 2016, but lower than the USD70.77 per barrel recorded at the end of March 2015 as highlighted in **Chart 4**.

Chart 4: Brent Crude Oil



Source: www.cnn.com

Appendix

Annual inflation rates by main categories (March 2016)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	1.9	13.8	9.7	9.5	13.4
Alcoholic beverages & tobacco	2.0	3.9	7.8	6.2	1.8
Clothing & footwear	7.2	4.9	-0.8	4.8	5.6
Housing, water, electricity, gas & other fuels	10.5	-0.4	7.5	6.4	5.0
Furnishings, household equipment &...	3.2	3.6	4.0	3.8	6.4
Health	3.4	1.8	7.3	6.6	0.3
Transport	-3.2	1.1	4.3	4.5	12.2
Communications	0.5	0.0	1.0	0.1	7.6
Recreation & Culture	6.7	2.2	5.5	6.2	2.4
Education	3.7	4.9	7.6	4.6	4.0
Hotels, cafés & restaurants	4.2	2.4	5.7	5.9	0.3
Miscellaneous goods & services	7.2	5.0	3.4	6.7	5.1
All Items	3.0	7.5	6.5	6.3	7.8

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