



SACU INFLATION REPORT

September 2016

The content of this publication is intended for general information only. While precaution is taken to ensure the accuracy of information, the SACU Secretariat shall not be liable to any person for inaccurate information or opinions contained in this publication. Enquiries related to this publication should be directed to Mr Abel Sindano, E-mail: abel.sindano@sacu.int

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.

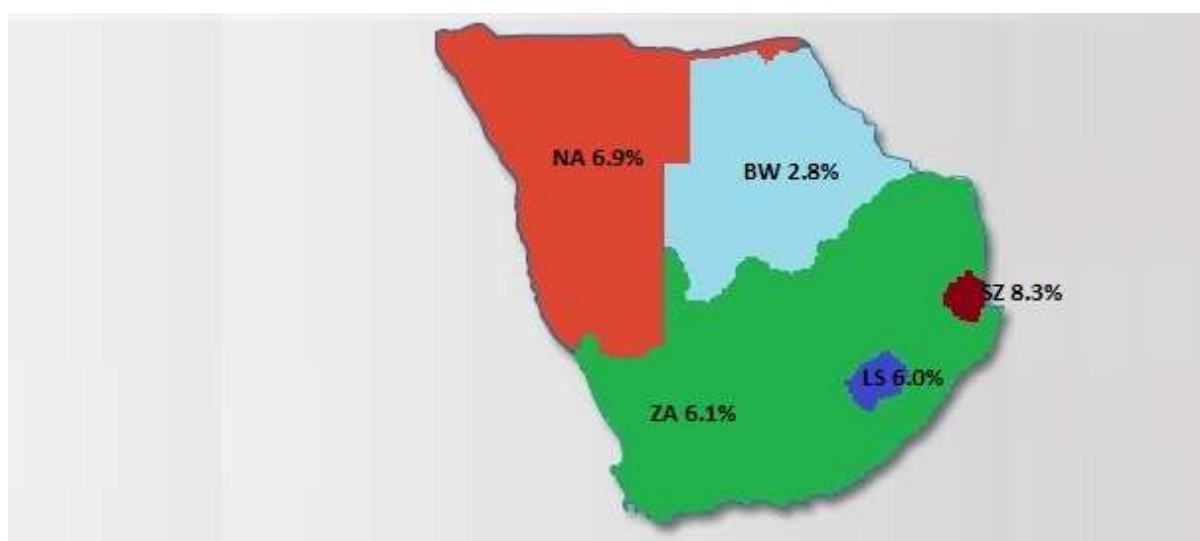
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the same month in the previous year (year-on-year 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 September 2016 compared to the preceding month, it was observed that consumer prices rose in all Member States with the exception of Lesotho where prices declined. The cost of *food & non-alcoholic beverages* continues to register a double figure inflation in Member States with the exception of Botswana. 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 September 2016, inflation rates increased in all Member States when compared to August 2016 with the exception of Lesotho where prices declined. **Map I** shows that the change in consumer prices in September 2016 was high in Swaziland recording a change of 8.3 per cent followed by Namibia at 6.9 per cent, South Africa at 6.1 per cent, Lesotho at 6.0 per cent, and Botswana at 2.8 per cent. All Member States continued to record a single digit annual inflation rate during the month of September 2016.

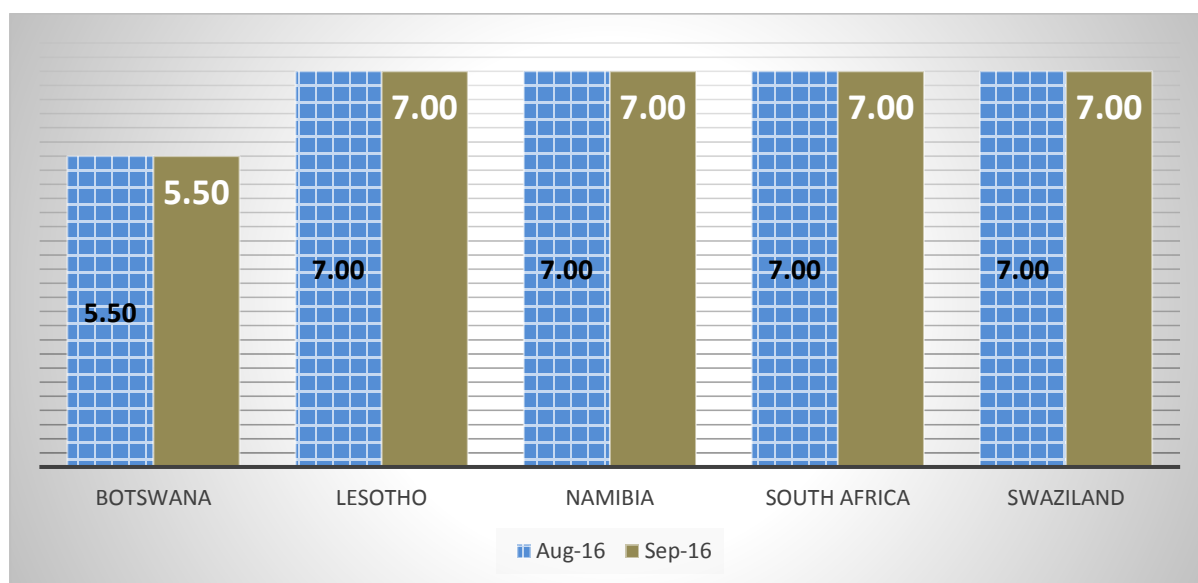
Map I: Annual Inflation Rates (%) for September 2016 in SACU Member States



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

By end of September 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 August 2016 and September 2016 in all Member States. During the month of September, 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

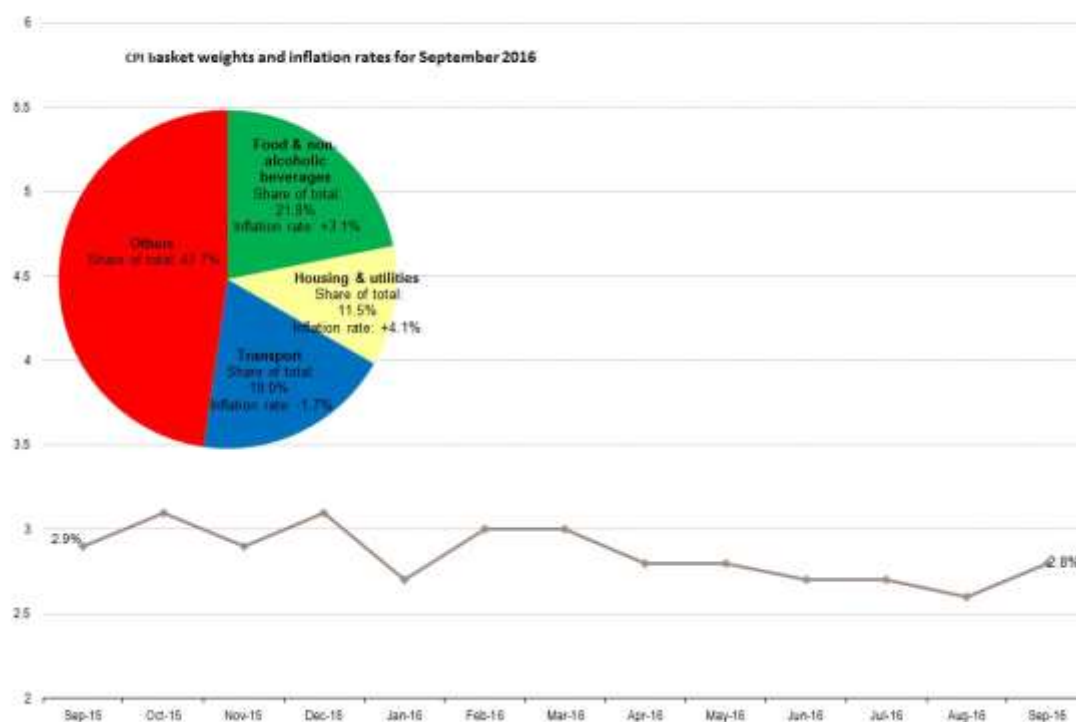


In **Botswana**, the annual inflation rate rose to 2.8 per cent in September 2016 from 2.6 per cent in the preceding month, making it the highest rate recorded in four months. The annual rate in September 2016 was lower than the 2.9 per cent recorded during the similar month in 2015. The deceleration in the annual inflation rate between September 2015 and September 2016 was mainly reflected in *housing & utilities* (4.1 per cent down from 9.7 per cent in September 2015) which accounts for 11.46 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 3.1 per cent in September 2016 as oppose to 1.1 per cent during the corresponding month in 2015, while the second main category, *transport* recorded a decline of 1.7 per cent compared to a decline of 6.5 per cent in September 2015, as reflected in **Chart 2**.

On average, consumer prices increased by 0.3 per cent between August 2016 and September 2016. The annual inflation rate recorded in September 2016 continues to be below the inflation target range of 3 – 6 percent set out by the Bank of Botswana.

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

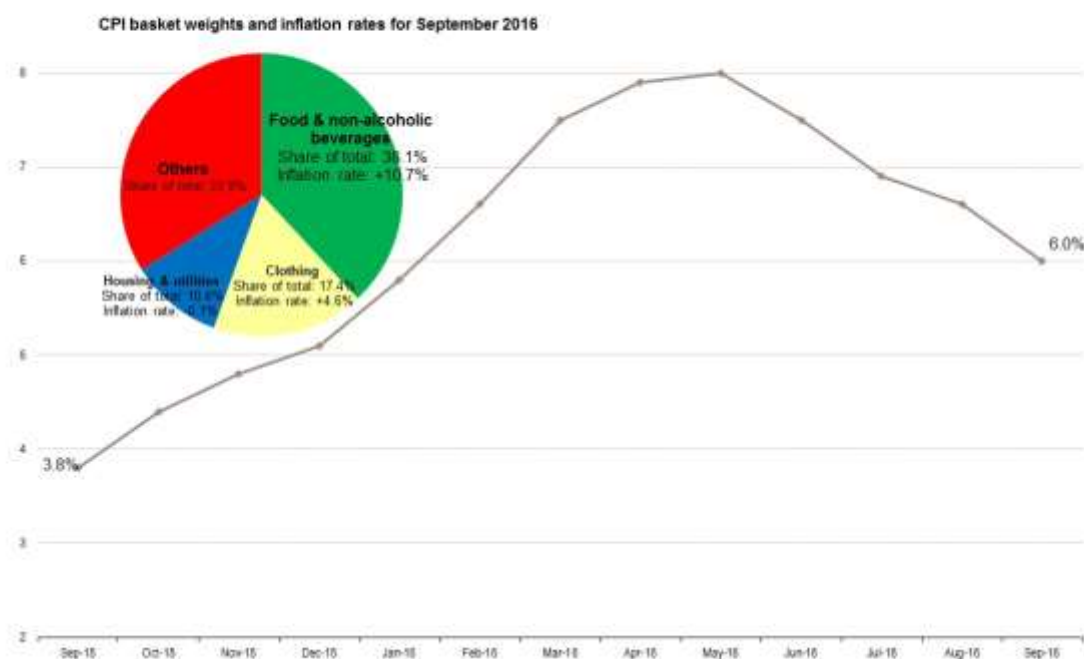
Chart 2: Consumer Price Index Basket Weights / Inflation rates for September 2016, and Overall inflation rate



Source: Statistics Botswana

In **Lesotho**, the annual inflation rate continued to be on a downward trend since May 2016, recording a rate of 6.0 per cent in September 2016 from 6.6 per cent in the preceding month. A year earlier inflation rate was 3.8 per cent during the corresponding month. The acceleration in annual inflation rate between September 2015 and September 2016 was mainly due to the increase in cost of *food & non-alcoholic beverages* (10.7 per cent up from 8.1 per cent in September 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 4.6 per cent in September 2016, while the prices of the third main category, *housing & utilities* declined by 0.1 per cent as reflected in **Chart 3**. On average, prices were stagnant between August 2016 and September 2016.

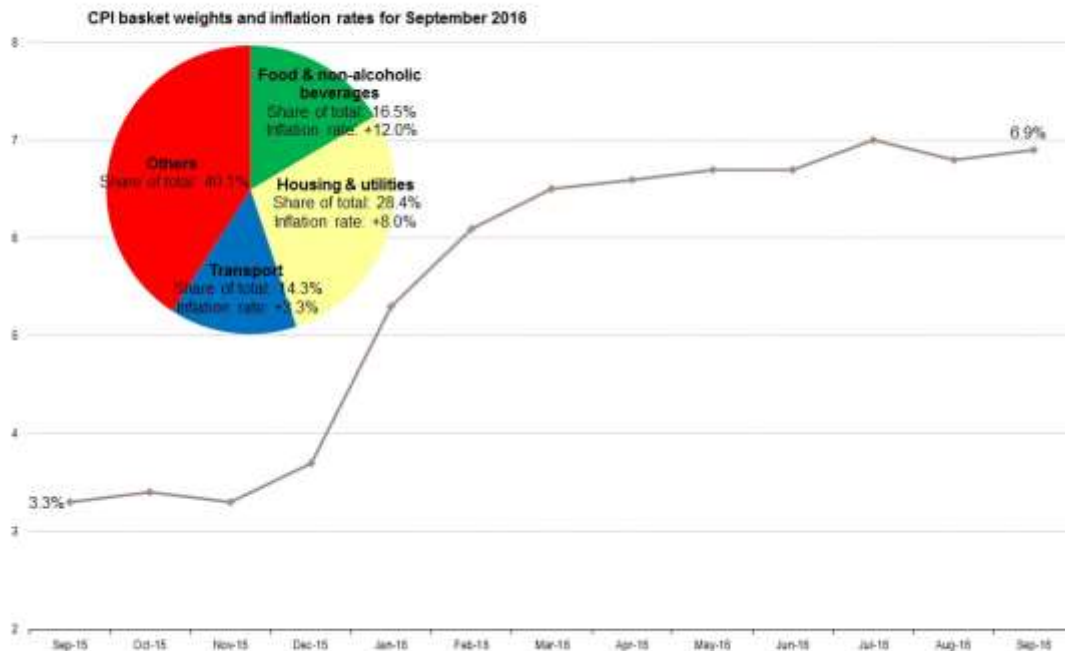
Chart 3: Consumer Price Index Basket Weights / Inflation rates for September 2016, and Overall inflation rate



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate rose by 6.9 per cent in September 2016 compared to 6.8 per cent in the preceding month. A year earlier inflation rate was 3.3 per cent during the corresponding month as reflected in **Chart 4**. The acceleration in annual inflation rate between September 2015 and September 2016 was mainly reflected in *housing & utilities* (8.0 per cent up from 2.3 per cent in September 2015) and *food & non-alcoholic beverages* (12.0 per cent up from 5.7 per cent in September 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 3.3 per cent in September 2016 compared to a decline of 2.2 per cent during the corresponding month of 2015. On average, prices increased by 0.2 per cent between August 2016 and September 2016.

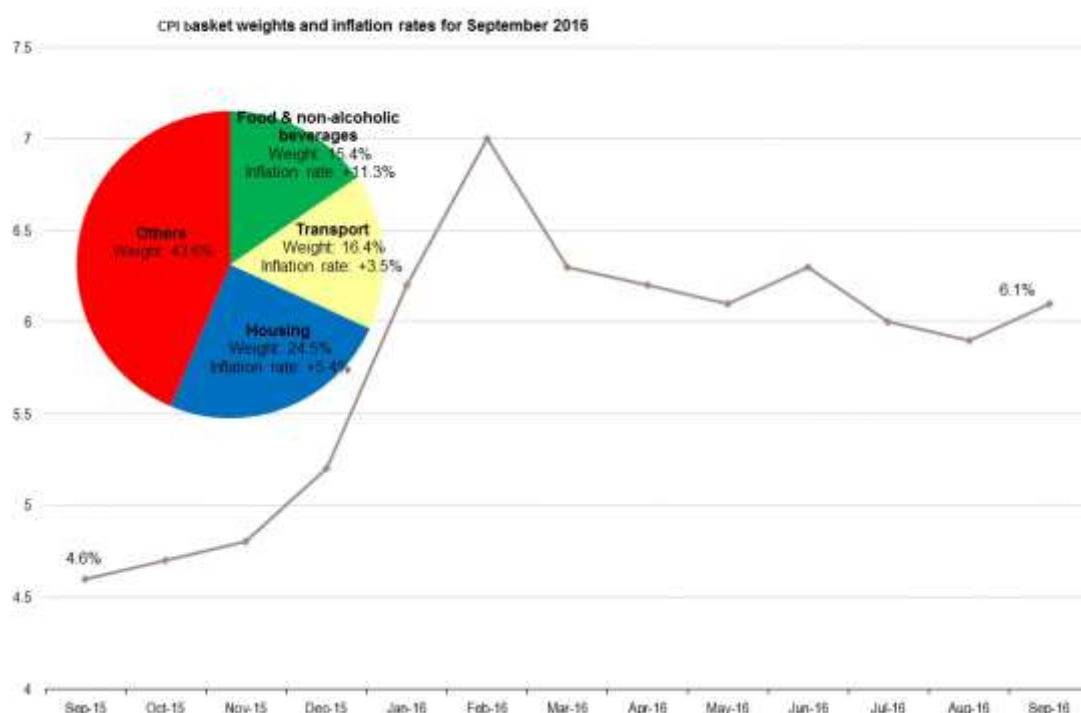
Chart 4: Consumer Price Index Basket Weights / Inflation rates for September 2016, and Overall inflation rate



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate rose by 6.1 per cent in September 2016 from 5.9 per cent recorded in the previous month as depicted in **Chart 5**. The annual rate in September 2016 was higher than the 4.6 per cent recorded during the similar month in 2015. The main contributors to the annual inflation rate in September 2016 were *food & non-alcoholic beverages* (1.7 percentage points) and *housing & utilities* (1.4 percentage points). On average, prices declined by 0.2 per cent between August 2016 and September 2016. The annual inflation rate was above the target range of 3-6 per cent set out by the South African Reserve Bank.

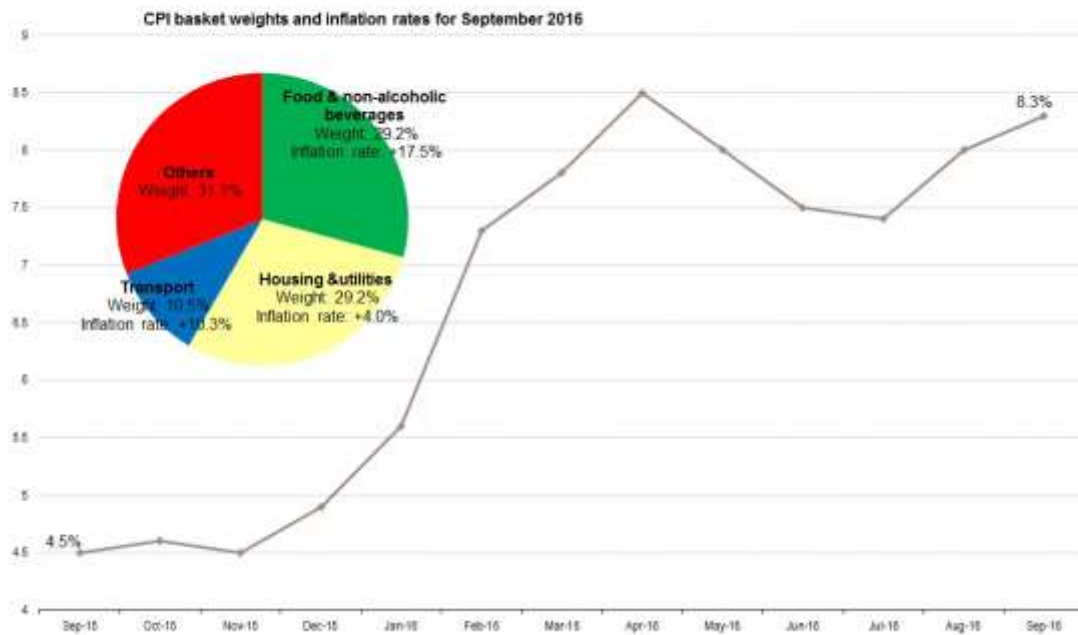
Chart 5: Consumer Price Index Basket Weights / Inflation rates for September 2016, and Overall inflation rate



Source: Statistics South Africa

In **Swaziland**, the annual inflation rate rose by 8.3 per cent in September 2016 compared to 8.0 per cent in the preceding month as indicated in **Chart 6**. Annual inflation rate in September 2016 was higher than the 4.1 per cent recorded during the similar month in 2015. The main contributor to the increase in prices between September 2015 and September 2016 was mainly the cost of *food & non-alcoholic beverages* (17.5 per cent compared to 4.1 per cent in September 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 4.0 per cent in September 2016 compared to 5.4 per cent in September 2015. The third main category, *transport*, increased by 10.3 per cent in September 2016 compared to a decline of 3.1 per cent during the similar month in 2015. On average, prices increased by 0.5 per cent between August 2016 and September 2016.

Chart 6: Consumer Price Index Basket Weights / Inflation rates for September 2016, and Overall inflation rate

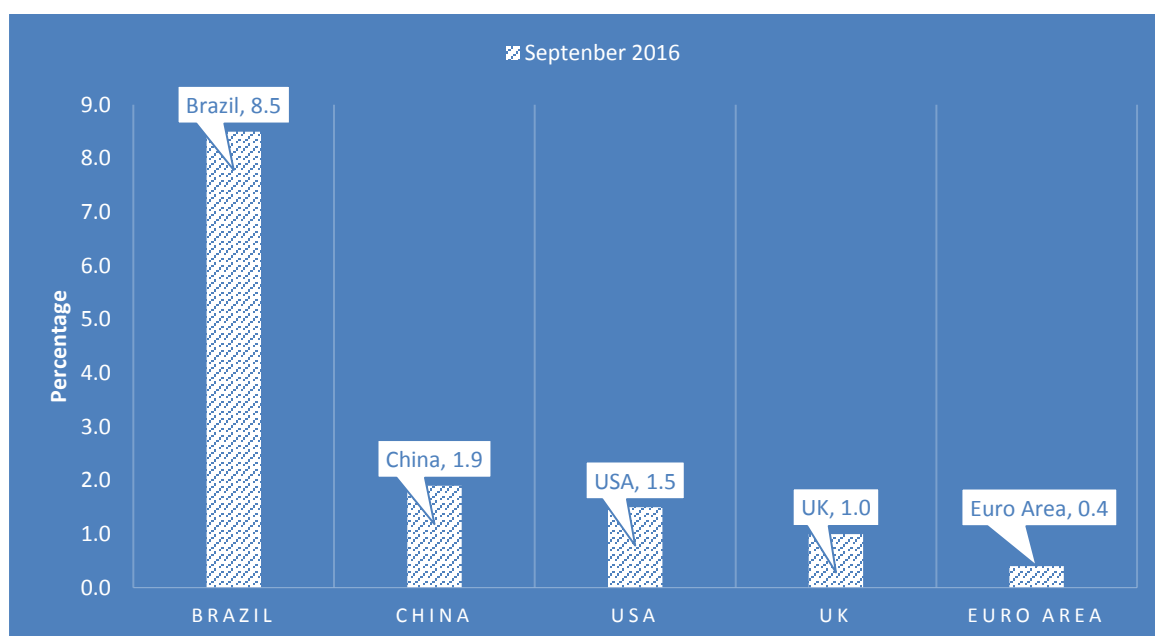


Source: Central Statistics Office

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in a selected economies for the month of September 2016. Consumer prices in Brazil rose by 8.5 per cent in September 2016 compared to 9.0 per cent in the preceding month, while, China's inflation rate rose by 1.9 per cent in September 2016 from 1.3 per cent in the preceding month. In the USA, inflation rate rose by 1.5 per cent in September 2016 compared to 1.1 per cent in August 2016, while in the UK, inflation rate rose by 1.0 per cent compared to 0.6 per cent in previous month. Inflation rate in the Euro area also increased by 0.4 per cent compared to 0.2 per cent in the preceding month.

Chart 7: Annual Inflation Rates for Selected Economies

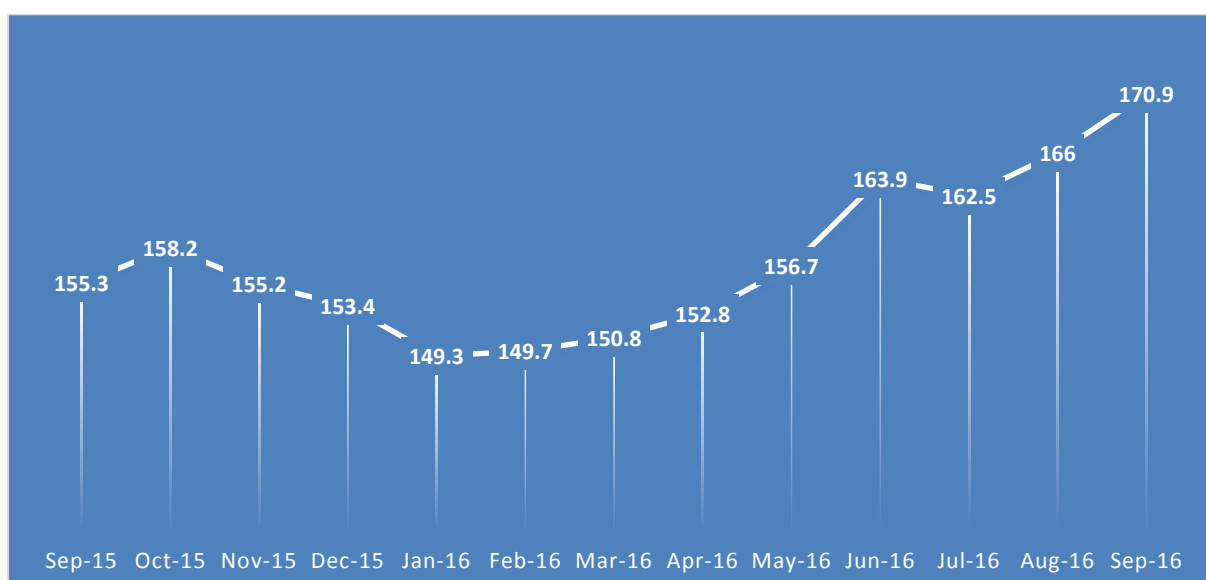


Source: inflation.eu

FAO Food Price Index

Chart 8 shows that the FAO Food Price Index² averaged at 170.9 points in September 2016, up by 2.9 per cent from August 2016 and 10 per cent higher when compared to September 2015. The increase in September was largely reflected in the prices for dairy and sugar. The price surge in dairy prices stems from expectations that falling milk production in the EU would result in tighter availabilities for export. While the surge in international sugar prices was largely on the back of unfavourable weather conditions in the Centre South main producing region in Brazil, the world's largest sugar producer and exporter. Further upward pressure on prices of sugar came from reports of lower production in India, the world's second largest sugar producer, and tight supplies in Thailand and China.

Chart 8: FAO Food Price Index



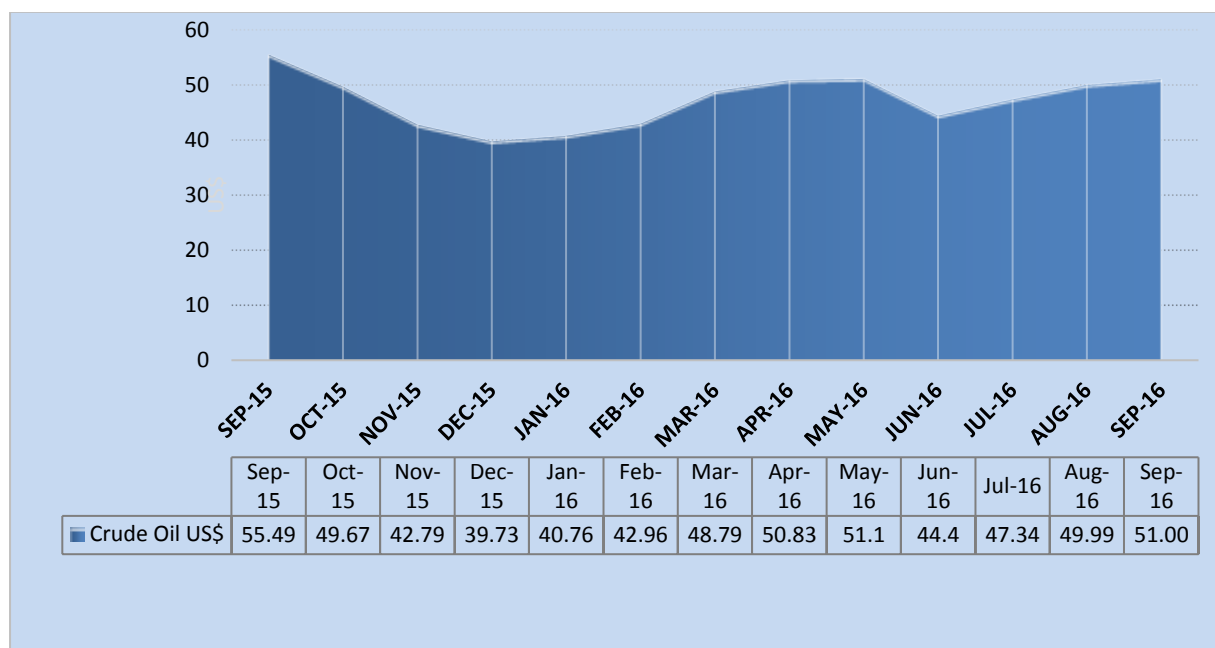
Source: Food and Agriculture Organization of the United Nations

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 USD51.00 per barrel at the end of September 2016, which was 2.0 per cent higher than at the end of August 2016. Similarly, the price level was lower than the USD55.49 per barrel recorded at the end of September 2015 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual inflation rates by main categories (September 2016)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	3.1	10.7	12.0	11.3	17.5
Alcoholic beverages & tobacco	2.8	3.8	5.2	5.2	5.0
Clothing & footwear	5.7	4.6	1.1	5.3	9.0
Housing, water, electricity, gas & other fuels	4.1	-0.1	8.0	5.4	4.0
Furnishings, household equipment &...	2.4	3.4	6.1	4.0	6.6
Health	2.6	1.9	7.2	5.0	0.1
Transport	-1.7	0.8	3.3	3.5	10.3
Communications	0.0	0.0	1.3	-0.2	2.6
Recreation & Culture	1.8	0.8	5.7	6.9	4.9
Education	3.6	4.9	7.6	4.6	2.4
Hotels, cafés & restaurants	3.9	2.5	9.5	6.7	2.2
Miscellaneous goods & services	7.4	3.7	5.7	7.2	4.1
All Items	2.8	6.0	6.9	6.1	8.3

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