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SACU INFLATION REPORT

March 2017

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INTRODUCTION

The report examines the monthly inflation rate performance of individual SACU Member States and 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.

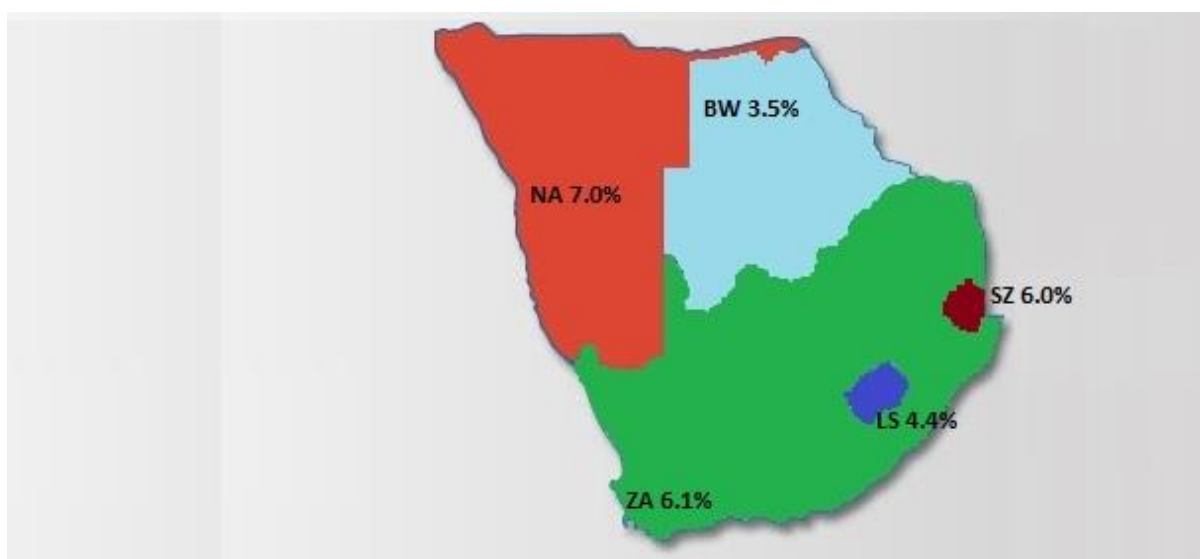
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the same month in the previous year (year-on-year change). The inflation rate is vital for purposes of economic policy-making, especially the conduct of monetary policy and to consumers in general. 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 2017 compared to the preceding month, it was observed that consumer prices decelerated in all Member States with exception of Botswana where prices increased. All Member States continued to record a single digit annual inflation rate during the month of March 2017.

Inflation Rate in SACU Member States

Consumer prices eased in Lesotho, Namibia, South Africa and Swaziland during the month of March 2017 when compared to February 2017, while prices increased in Botswana. **Map I** shows that Namibia recorded the highest change in consumer prices in March 2017 at 7.0 per cent followed by South Africa at 6.1 per cent, Swaziland at 6.0 per cent, Lesotho at 4.4 per cent, and Botswana at 3.5 per cent. All Member States continued to record a single digit annual inflation rate during the month of March 2017.

Map I: Annual Inflation Rates (%) for March 2017 in SACU Member States

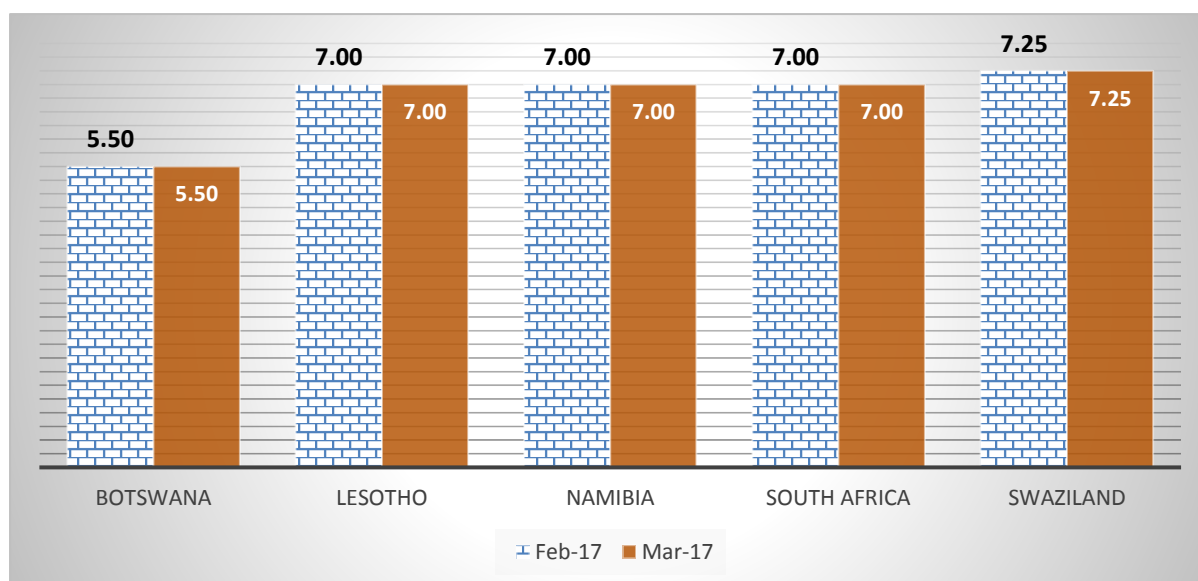


Source: Member States Statistics Offices; (BW-Botswana; LS –Lesotho; NA-Namibia; ZA-South Africa; SZ- Swaziland)

By end of March 2017, monetary policy stance in Member States remained generally accommodative with the repo rate / bank rate¹ ranging between 5.50 per cent and 7.25 per cent, as depicted in **Chart I**. Monetary stance was unaltered between March 2017 and February 2017 in all Member States. During the month of March 2017, the highest prime lending rate was observed in Lesotho at 11.69 per cent, followed by Namibia at 10.75 per cent, Swaziland (10.75 per cent), South Africa (10.50 per cent), and Botswana (7.00 per cent).

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

Chart I: Member States' Repo/Bank rates

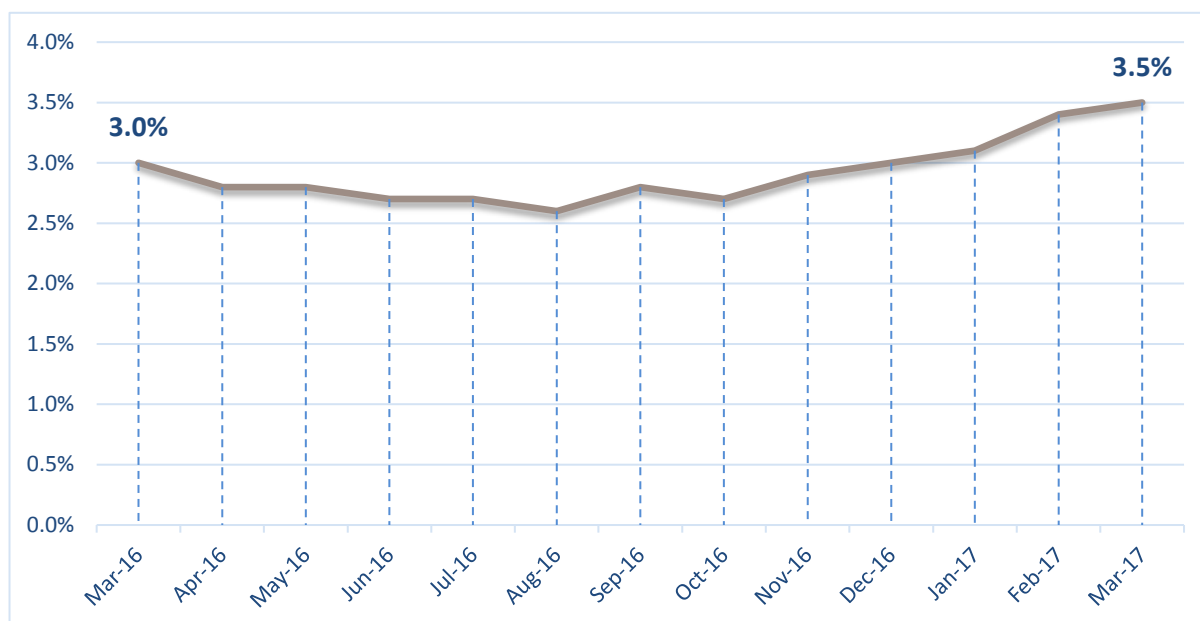


Source: Member States' Central Banks

In **Botswana**, the annual inflation rate continued with an upward trend, rising by 3.5 per cent in March 2017 from 3.4 per cent in the preceding month, as reflected in **Chart 2**. The annual rate in March 2017 was higher than the 3.0 per cent recorded during the similar month in 2016. The increase in the annual inflation rate to 3.5 per cent between March 2017 and March 2016 was mainly reflected in *transport* (1.6 per cent compared to -3.2 per cent in March 2016) which accounts for 20.65 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 4.4 per cent in March 2017 as opposed to 1.9 per cent during the corresponding month in 2016, while, *housing & utilities* recorded an increase of 2.8 per cent compared to a rise of 10.5 per cent in March 2016.

On average, consumer prices increased by 0.2 per cent between March 2017 and February 2017. The annual inflation rate recorded in March 2017 continued to be within the inflation target range of 3 – 6 percent set out by the Bank of Botswana.

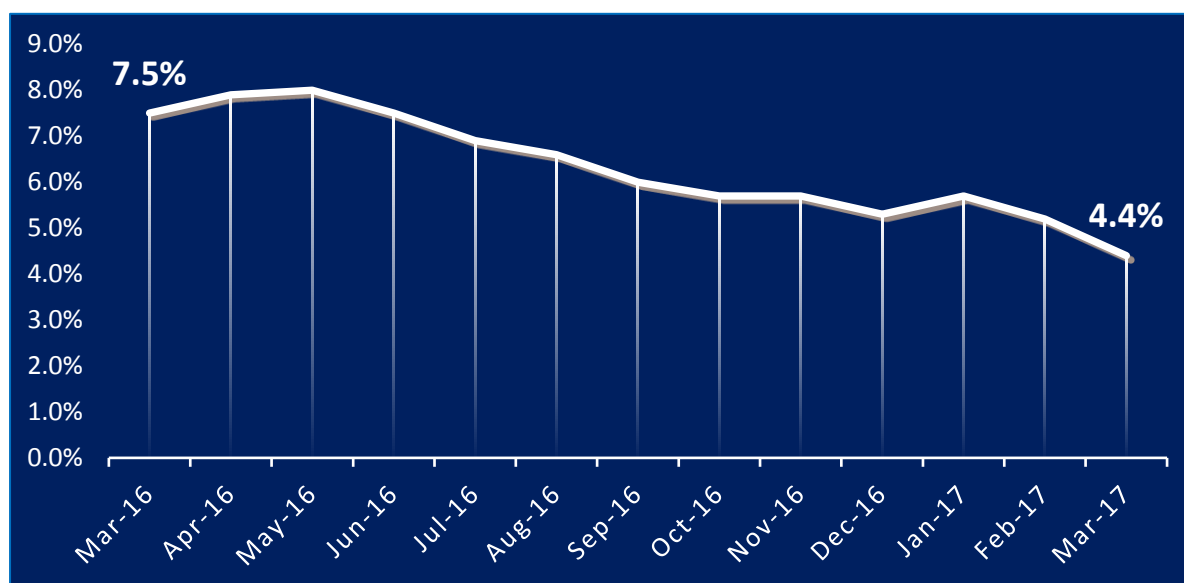
Chart 2: Botswana Annual inflation rates



Source: Statistics Botswana

In **Lesotho**, the annual inflation eased to 4.4 per cent in March 2017 compared to 5.2 per cent in the preceding month as reflected in **Chart 3**. A year earlier inflation rate was 7.5 per cent during the corresponding month. The deceleration in the annual inflation rate between March 2017 and March 2016 was mainly due to the decline in cost of *food & non-alcoholic beverages* (5.2 per cent down from 13.8 per cent in March 2016) that accounts for 36.1 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 2.6 per cent in March 2017, while the prices of the third main category, *housing & utilities* rose by 7.6 per cent. On average, prices increased by 0.5 per cent between March 2017 and February 2017.

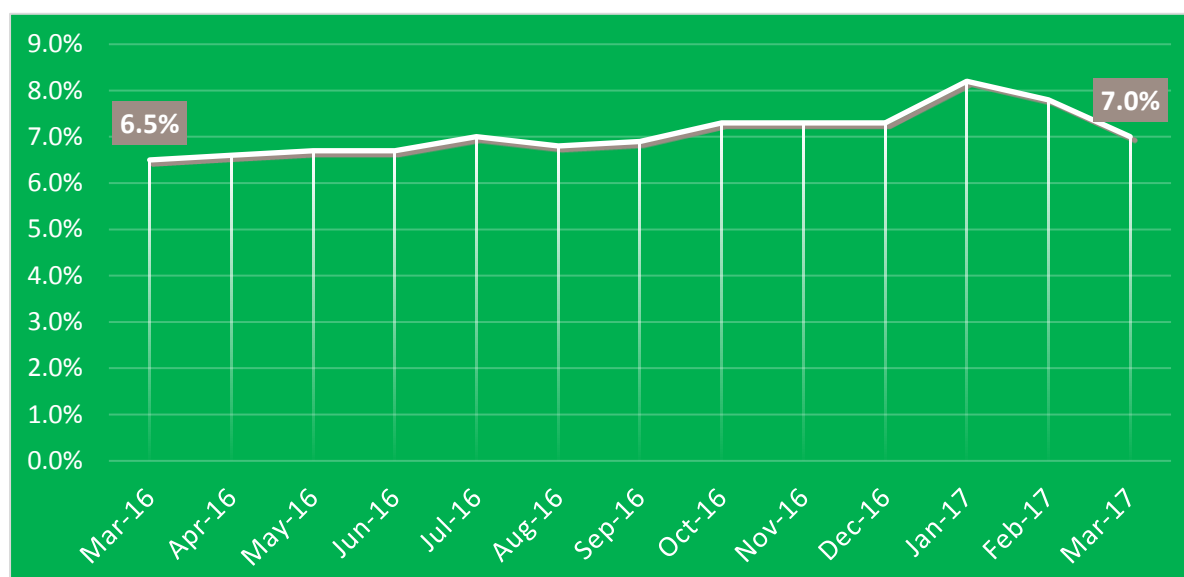
Chart 3: Lesotho Annual inflation rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate continued to ease recording a rate of 7.0 per cent in March 2017 from 7.8 per cent in the preceding month. A year earlier inflation rate was 6.5 per cent during the corresponding month as reflected in **Chart 4**. The acceleration in annual inflation rate between March 2017 and March 2016 was mainly reflected in *housing & utilities* (9.4 per cent up from 7.5 per cent in March 2016) which accounts for 28.36 per cent of the overall inflation basket. The other main categories based on the basket weight, the *food & non-alcoholic beverages* and *transport* categories recorded an increase in prices of 7.3 per cent and 6.5 per cent, respectively in March 2017. On average, prices increased by 0.1 per cent between March 2017 and February 2017.

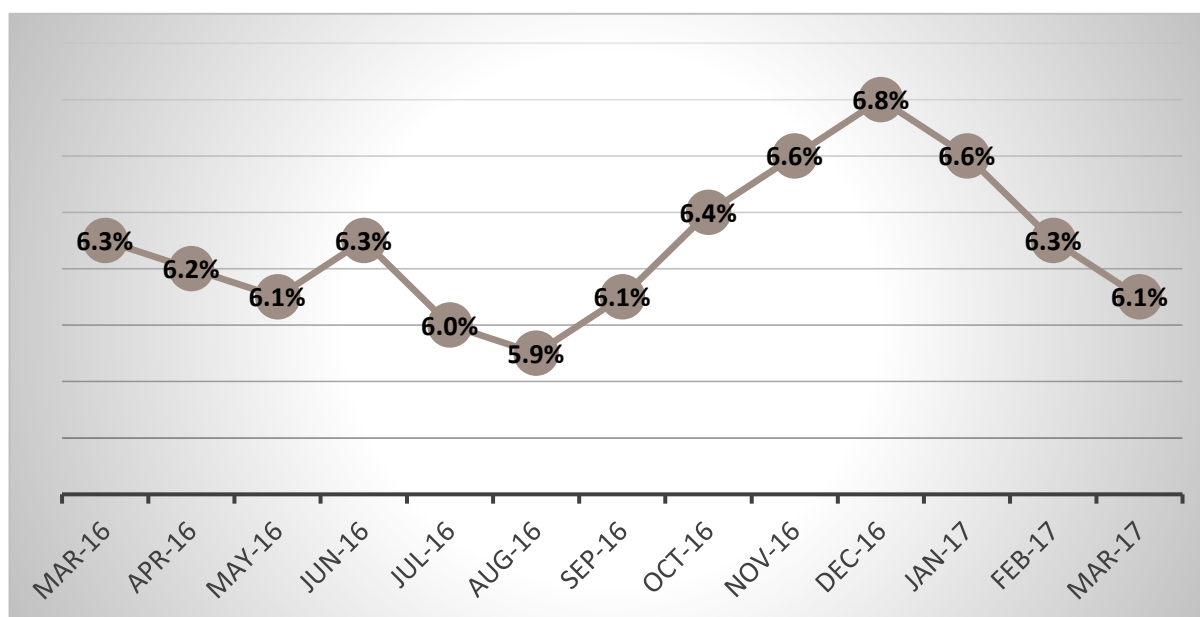
Chart 4: Namibia Annual inflation rates



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate continued a downward trend to 6.1 per cent in March 2017 from 6.3 per cent recorded in the previous month as depicted in **Chart 5**. The annual rate in March 2017 was lower than the 6.3 per cent recorded during the similar month in 2016. The main contributors to the annual inflation rate in March 2017 were *food & non-alcoholic beverages (1.5 percentage points)* and *housing & utilities (1.4 percentage points)*. On average, prices increased by 0.6 per cent between March 2017 and February 2017. The annual inflation rate continued to be above the target range of 3-6 per cent set out by the South African Reserve Bank.

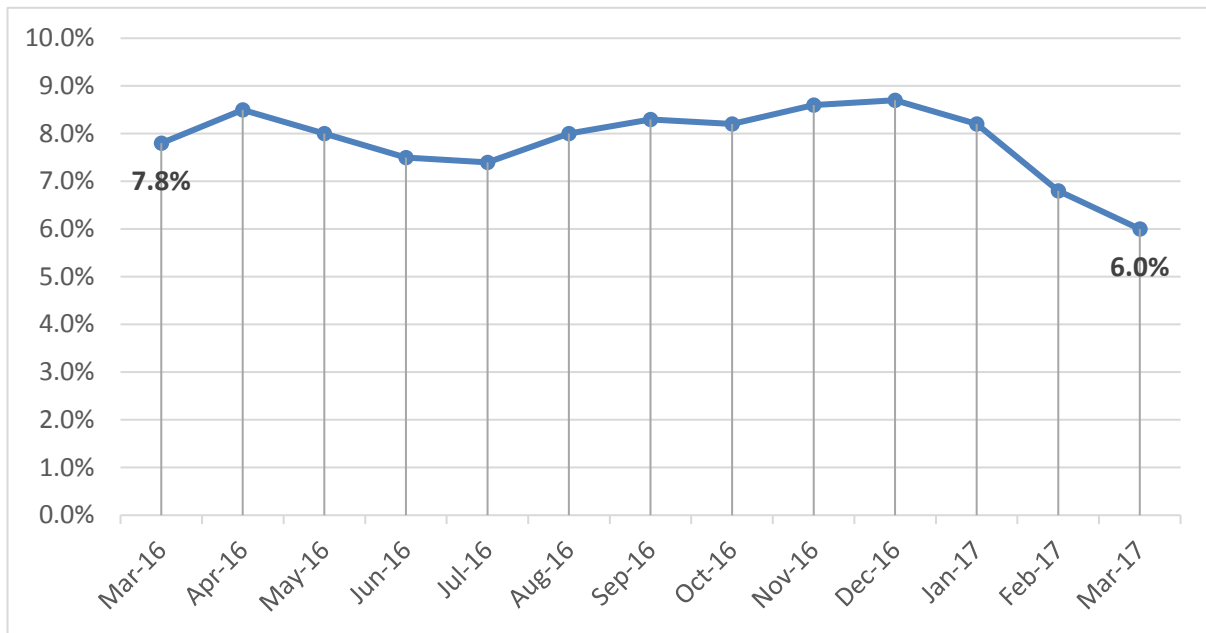
Chart 5: South Africa Annual inflation rates



Source: Statistics South Africa

In **Swaziland**, the annual inflation rate eased to 6.0 per cent in March 2017 from 6.8 per cent in the preceding month as indicated in **Chart 6**. Annual inflation rate in March 2017 was lower than the 7.8 per cent recorded during the similar month in 2016. The main contributor to the deceleration in prices between March 2017 and March 2016 was mainly the cost of *food & non-alcoholic beverages* (10.3 per cent compared to 13.4 per cent in March 2016) and, *transport* (2.0 per cent compared to 12.2 per cent in March 2016) which accounts for 29.22 per cent and 10.5 per cent of the overall inflation basket, respectively. The other main category in the basket based on the weight, the *housing & utilities* category reflected an increase of 3.7 per cent in March 2017 compared to 5.0 per cent in March 2016. On average, prices increased by 0.1 per cent between March 2017 and February 2017.

Chart 6: Swaziland Annual inflation rates

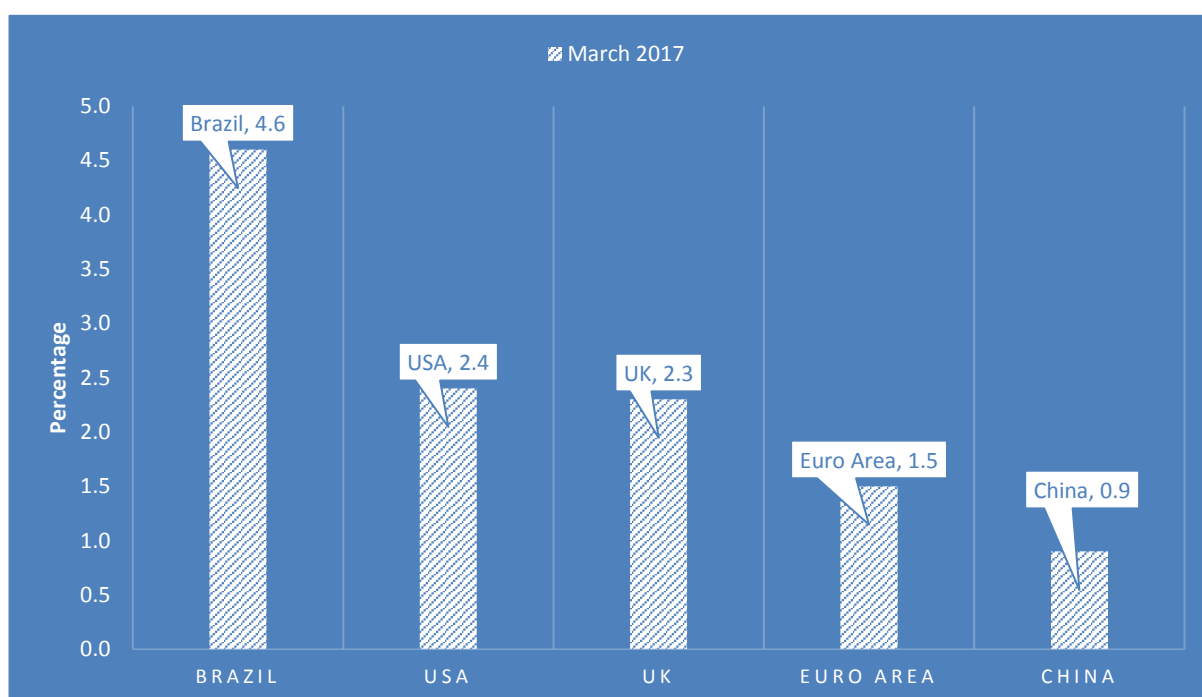


Source: Central Statistics Office

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in selected economies for the month of March 2017. In **Brazil** consumer prices eased to 4.6 per cent in March 2017 from 4.8 per cent in the preceding month, and down from 9.4 per cent in March 2016. In March 2017 consumer prices in **China** rose by 0.9 per cent up from 0.8 per cent in the preceding month while the rate was 2.3 per cent during a similar month in 2016. In the **USA**, inflation rate rose by 2.4 per cent in March 2017 compared to 2.7 per cent in February 2017, and 0.9 per cent in March 2016. While in the **UK**, inflation rate rose by 2.3 per cent unchanged from previous month and the rate was 0.5 per cent in March 2016. **Euro area** annual inflation was 1.5 per cent in March 2017, down from 2.0 per cent in February 2017, while the rate was stagnant in March 2016.

Chart 7: Annual Inflation Rates for Selected Economies

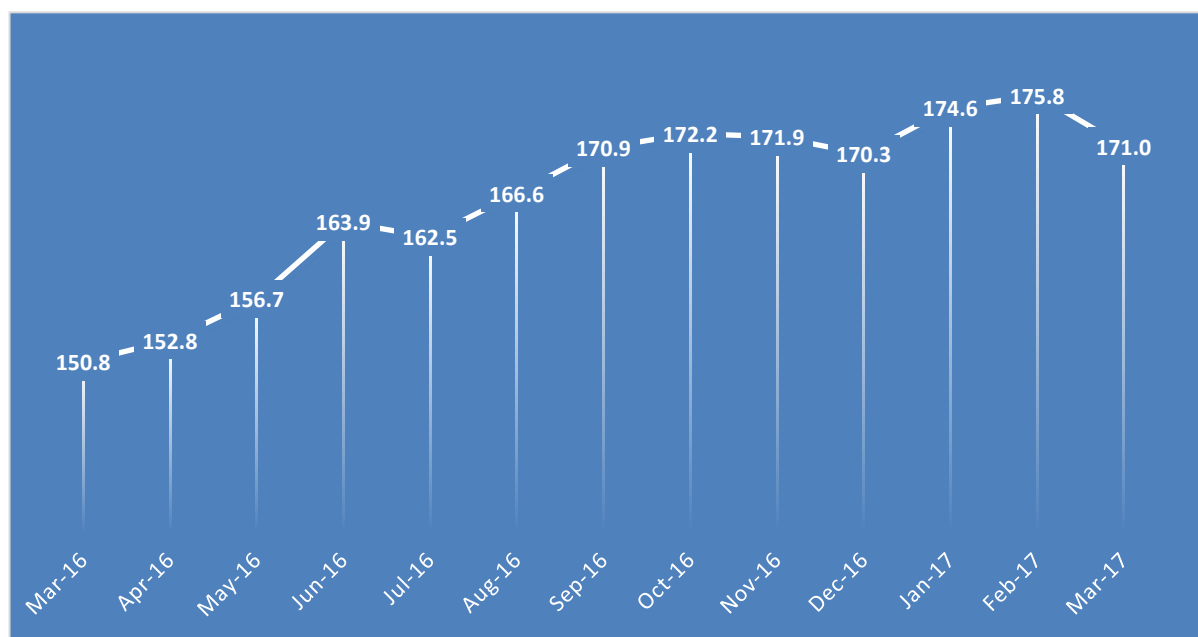


Source: inflation.eu

FAO Food Price Index

Chart 8 shows that the FAO Food Price Index² averaged at 171.0 points in March 2017, down by 2.8 per cent from February 2017 value. With the exception of meat, the indices of all other commodities used in the calculation of the FAO Food Price Index declined in March, especially those of sugar and vegetable oils. The decline in the FAO Sugar Price Index mainly reflected generally weak import demand combined with expectation of higher Brazilian supplies entering world markets as a result of a strong output increase and slower domestic intake for bio-ethanol production. While, the slide in the FAO Vegetable Oil Price Index primarily reflects developments in the palm and soy oil sector. Palm oil values dropped by 5.6 per cent as prospective production increases in Southeast Asia, Indonesia in particular, coincided with weak global import demand. Meanwhile, soy oil quotations fell by 3.5 per cent fuelled by much improved harvest forecasts in South America and prospects of higher 2017/18 plantings in the US.

Chart 8: FAO Food Price Index



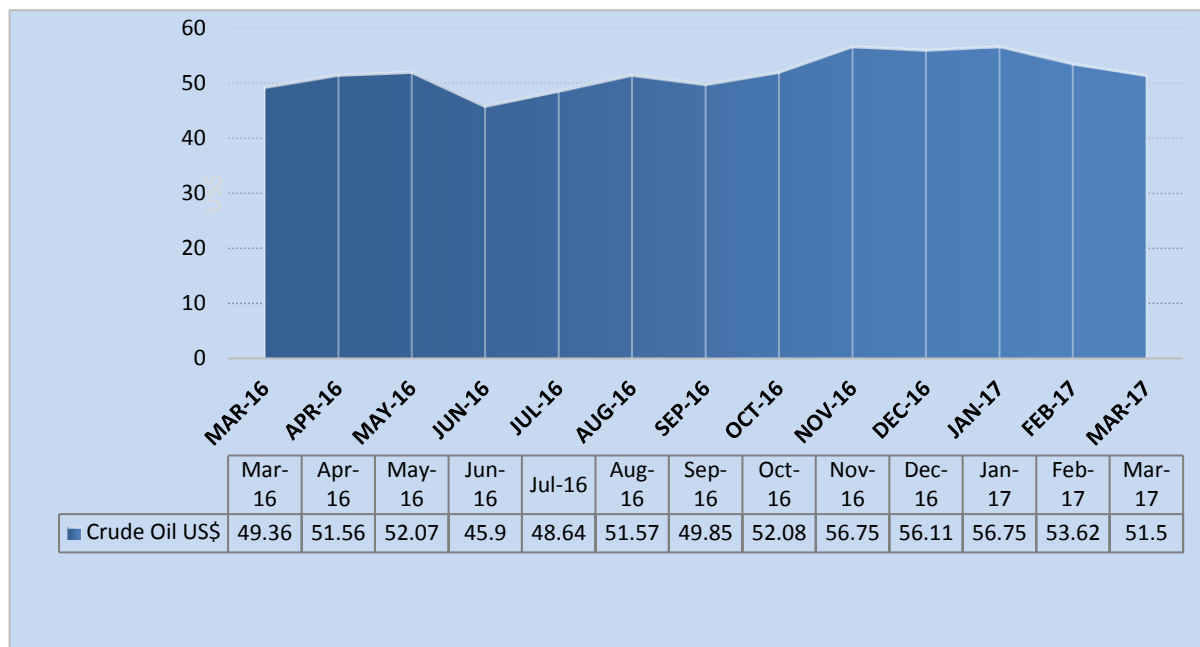
Source: Food and Agriculture Organization of the United Nations

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 USD51.5 per barrel at the end of March 2017, which was 4.0 per cent lower than at the end of February 2017. Year on year, the price level was higher than the USD49.36 per barrel recorded at the end of March 2016 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual inflation rates by main categories (March 2017)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	4.4	5.2	7.3	8.7	10.3
Alcoholic beverages & tobacco	4.9	4.9	4.4	3.2	5.1
Clothing & footwear	3.8	2.6	2.0	4.5	7.7
Housing, water, electricity, gas & other fuels	2.8	7.6	9.4	5.7	3.7
Furnishings, household equipment &...	3.6	3.5	7.4	3.2	7.7
Health	3.4	0.5	5.6	6.2	0.7
Transport	1.6	3.0	6.5	7.7	2.0
Communications	0.1	0.0	5.6	-0.9	2.6
Recreation & Culture	1.7	0.8	4.0	3.7	7.3
Education	4.2	5.1	7.8	7.0	7.6
Hotels, cafés & restaurants	3.7	1.0	8.6	6.1	2.8
Miscellaneous goods & services	8.4	3.1	6.5	7.5	5.4
All Items	3.5	4.4	7.0	6.1	6.0

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	36.1	16.45	15.41	29.22
<i>Alcoholic beverages & tobacco</i>	7.83	3.3	12.59	5.43	0.39
<i>Clothing & footwear</i>	6.27	13.1	3.05	4.07	3.42
<i>Housing, water, electricity, gas & other fuels</i>	14.90	12.4	28.36	24.52	29.15
<i>Furnishings, household equipment &...</i>	6.39	8.5	5.47	4.79	4.75
<i>Health</i>	3.62	1.5	2.01	1.46	3.39
<i>Transport</i>	20.65	4.8	14.28	16.43	10.50
<i>Communications</i>	4.27	2.1	3.81	2.63	2.74
<i>Recreation & Culture</i>	2.92	5.7	3.55	4.09	1.07
<i>Education</i>	3.34	4.2	3.65	2.95	9.11
<i>Hotels, cafés & restaurants</i>	2.76	1.0	1.39	3.50	1.79
<i>Miscellaneous goods & services</i>	10.55	7.3	5.39	14.72	4.47
All Items	100.00	100.00	100.00	100.00	100.00

Source: SACU Member States Statistics Offices