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SACU INFLATION REPORT

May 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.

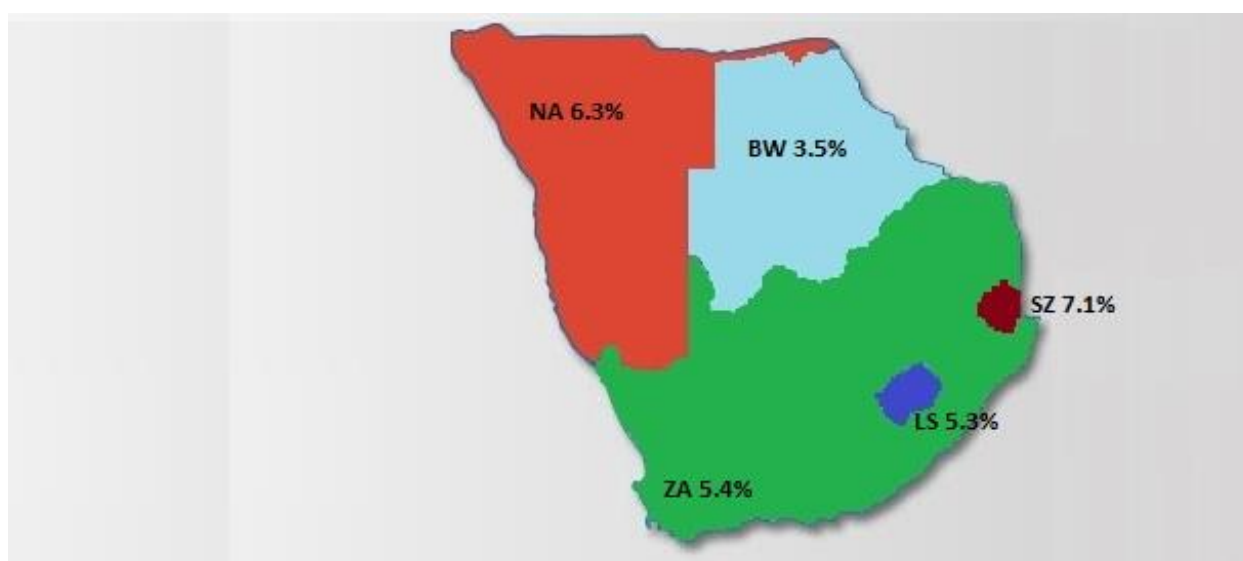
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the corresponding month in the previous year (year-on-year 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 May 2017 compared to the preceding month, it was observed that Swaziland recorded the highest change in consumer prices at 7.1 per cent followed by Namibia at 6.3 per cent, South Africa at 5.4 per cent, Lesotho at 5.3 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 May 2017.

Inflation Rate in SACU Member States

Consumer prices eased in Namibia, and Swaziland during the month of May 2017 when compared to April 2017, while prices increased in Botswana, Lesotho and South Africa during same period. **Map I** shows that Swaziland recorded the highest change in consumer prices in May 2017 at 7.1 per cent followed by Namibia at 6.3 per cent, South Africa at 5.4 per cent, Lesotho at 5.3 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 May 2017.

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

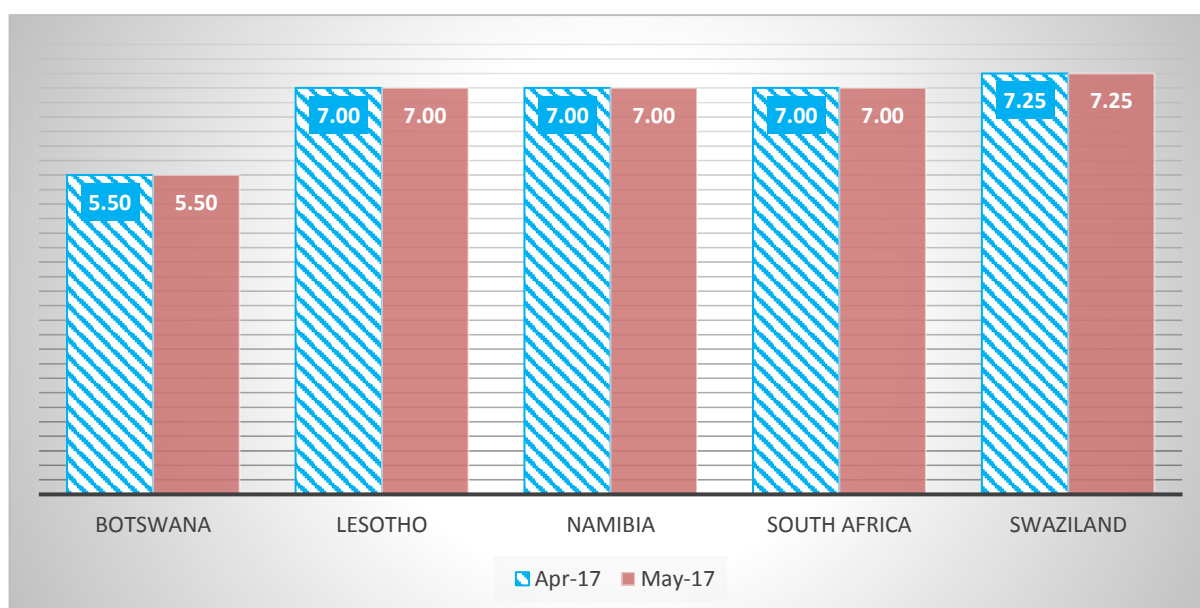


Source: Member States Statistics Offices; (BW-Botswana; LS –Lesotho; NA-Namibia; ZA-South Africa; SZ- Swaziland)

By the end of May 2017, monetary policy stance in Member States continued to remain 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 May 2017 and April 2017 in all Member States. During the month of May 2017, the highest prime lending rate was observed in Lesotho at 11.69 per cent, followed by Namibia at 10.75 per cent, Swaziland at 10.75 per cent, South Africa at 10.50 per cent, and Botswana at 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

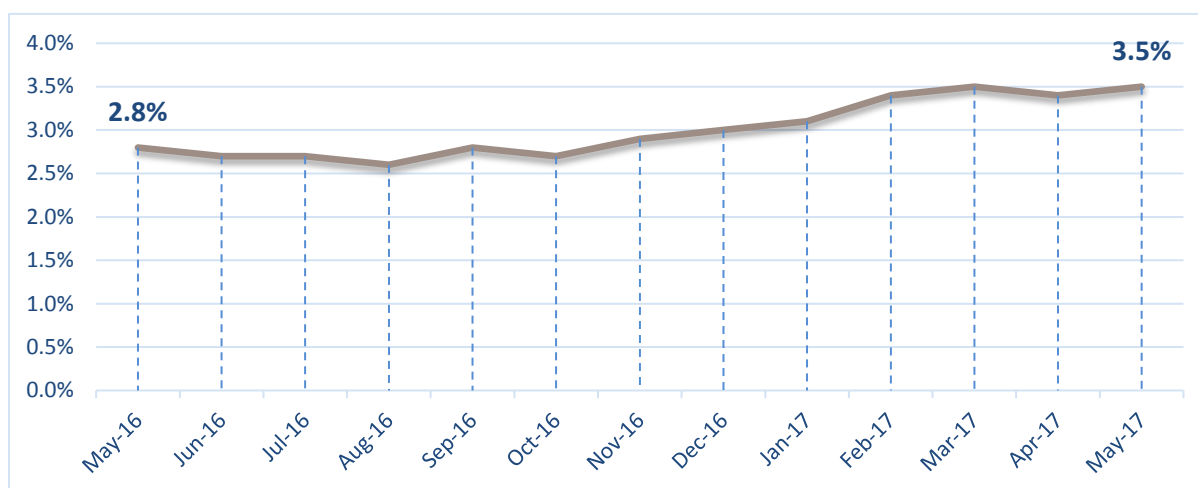


Source: Member States' Central Banks

In **Botswana**, the annual inflation rate increased by 3.5 per cent in May 2017 compared to 3.4 per cent in the preceding month, as reflected in **Chart 2**. The annual rate in May 2017 was higher than the 2.8 per cent recorded during the similar month in 2016. The increase in the annual inflation rate to 3.5 per cent between May 2017 and May 2016 was mainly reflected in the rising prices in *transport* (1.7 per cent compared to -3.1 per cent in May 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 4.1 per cent in May 2017 as opposed to 2.7 per cent during the corresponding month in 2016, while, *housing & utilities* recorded an increase of 6.8 per cent compared to 6.6 per cent in May 2016.

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

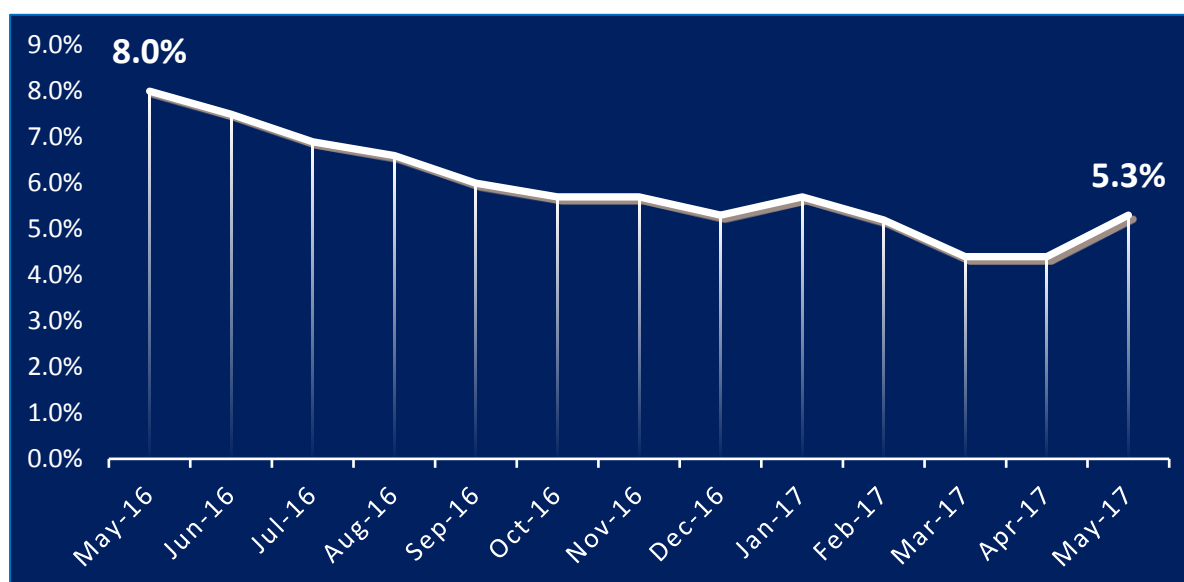
Chart 2: Botswana Annual Inflation Rates



Source: Statistics Botswana

In **Lesotho**, the annual inflation rate increased by 5.3 per cent in May 2017 compared to 4.4 per cent in the preceding month as reflected in **Chart 3**. A year earlier inflation rate was 8.0 per cent during the corresponding month. The deceleration in the annual inflation rate between May 2017 and May 2016 was mainly due to the decline in the cost of *food & non-alcoholic beverages* (6.1 per cent down from 14.7 per cent in May 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 3.2 per cent in May 2017, while the prices of the third main category, *housing & utilities* rose by 8.9 per cent. On average, prices increased by 0.3 per cent between May 2017 and April 2017.

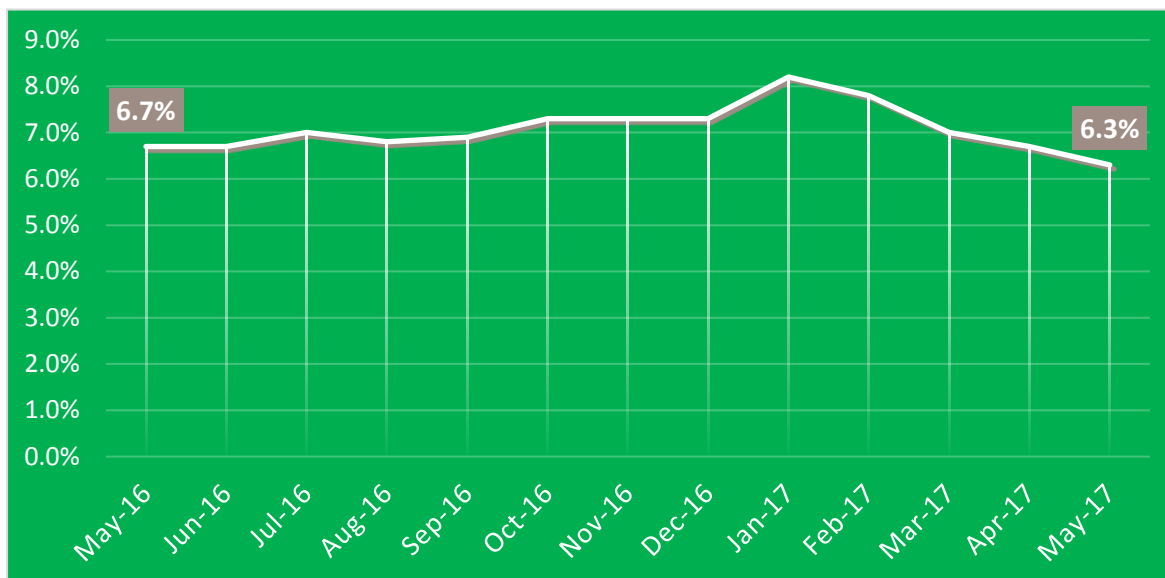
Chart 3: Lesotho Annual Inflation Rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate continued to ease recording increasing by 6.3 per cent in May 2017 compared to 6.7 per cent in the preceding month. A year earlier inflation rate was 6.7 per cent during the corresponding month as reflected in **Chart 4**. The deceleration in the annual inflation rate between May 2017 and May 2016 was mainly reflected in *food & non-alcoholic beverages* (3.7 per cent up from 12.2 per cent in May 2016) which accounts for 16.45 per cent of the overall inflation basket. The other main categories based on the basket weight, the *housing & utilities* and *transport* categories recorded an increase in prices of 9.8 per cent and 7.1 per cent, respectively in May 2017. On average, prices increased by 0.1 per cent between May 2017 and April 2017.

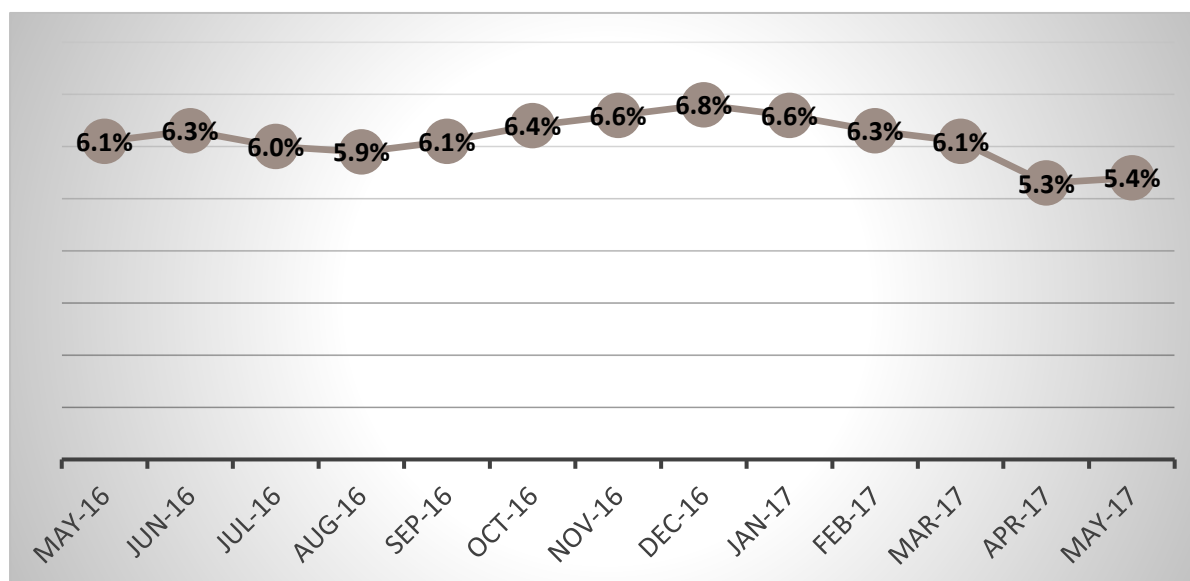
Chart 4: Namibia Annual Inflation Rates



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate increased by 5.3 per cent in May 2017 compared to 5.4 per cent recorded in the previous month as depicted in **Chart 5**. The annual rate in May 2017 was lower than the 6.1 per cent recorded during the similar month in 2016. The main contributors to the annual inflation rate in May 2017 were *housing & utilities (1.4 percentage points)* and *food & non-alcoholic beverages (1.2 percentage points)*. On average, prices increased by 0.3 per cent between May 2017 and April 2017. The annual inflation rate in May 2017 was within the target range of 3-6 per cent set out by the South African Reserve Bank.

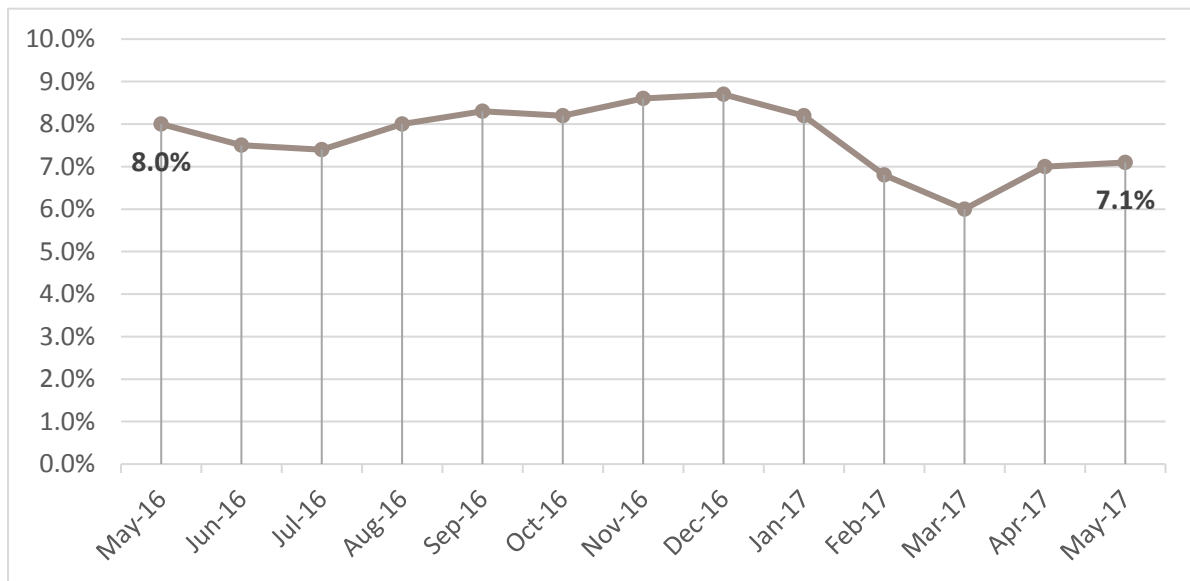
Chart 5: South Africa Annual Inflation Rates



Source: Statistics South Africa

In **Swaziland**, the annual inflation rate rose by 7.1 per cent in May 2017 compared to 7.0 per cent in the preceding month as indicated in **Chart 6**. Annual inflation rate in May 2017 was lower than the 8.0 per cent recorded during the similar month in 2016. The main contributor to the deceleration in prices between May 2017 and May 2016 was mainly the cost of *food & non-alcoholic beverages* (9.4 per cent compared to 14.7 per cent in May 2016) which accounts for 29.22 per cent of the overall inflation basket. The *transport* category which accounts for 29.22 per cent and 10.5 per cent of the overall inflation basket, respectively. The other main categories in the basket based on the weight, the *housing & utilities* and *transport* increased by 8.2 per cent and 3.3 per cent, respectively, in May 2017. On average, prices increased by 0.3 per cent between May 2017 and April 2017.

Chart 6: Swaziland Annual Inflation Rates

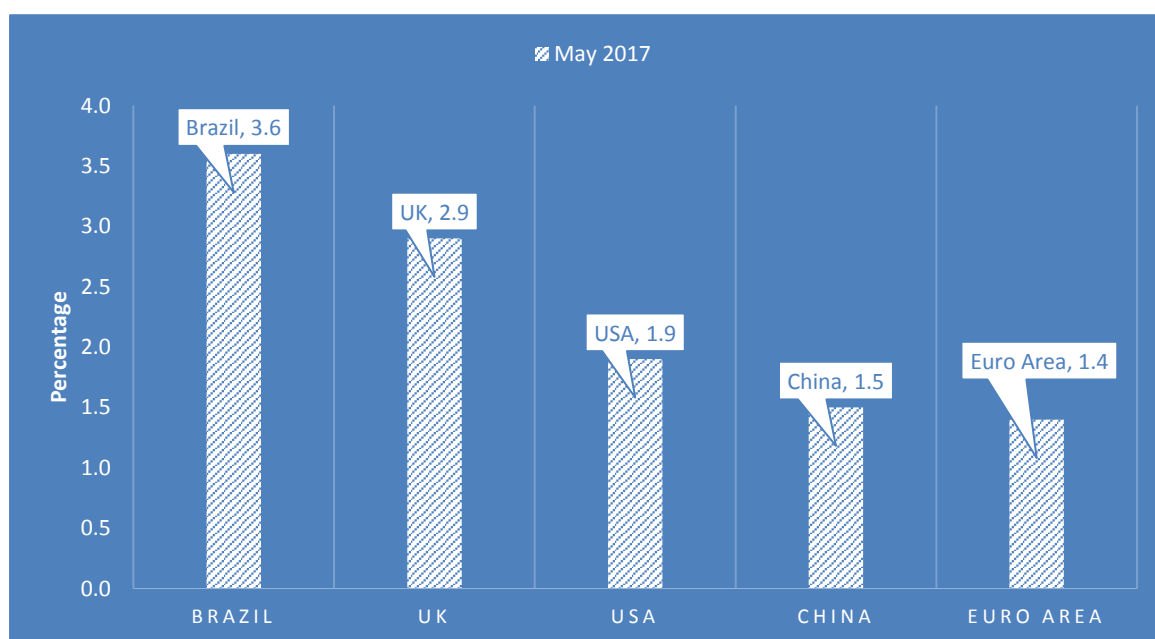


Source: Central Statistics Office

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in selected economies for the month of May 2017. In **Brazil** consumer prices continued to decelerate, recording a rate of 3.6 per cent in May 2017 compared to 4.1 per cent in the preceding month, and 9.3 per cent in May 2016. While in the **UK**, inflation rate rose by 2.9 per cent compared to 2.7 per cent in previous month and the rate was 0.3 per cent in May 2016. In the **USA**, inflation rate rose by 1.9 per cent in May 2017 compared to 2.2 per cent in April 2017, and 1.0 per cent in May 2016. In May 2017 consumer prices in **China** rose by 1.5 per cent compared 1.2 per cent in the preceding month while the rate was 2.0 per cent during a similar month in 2016. **Euro area** annual inflation was 1.4 per cent in May 2017, down from 1.9 per cent in April 2017, while the rate was -0.1 per cent in May 2016.

Chart 7: Annual Inflation Rates for Selected Economies



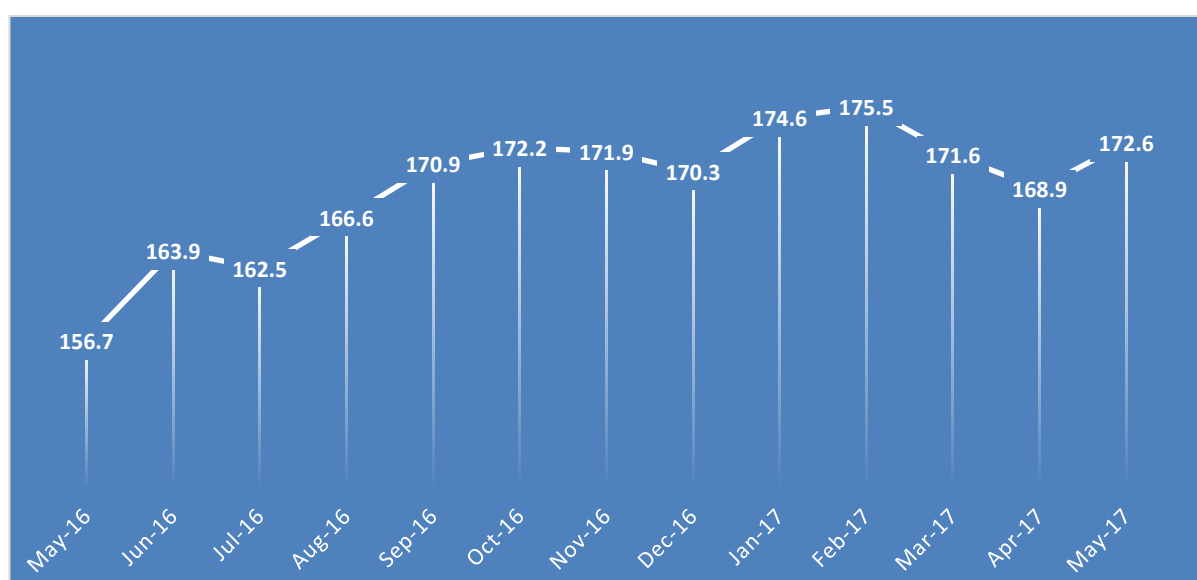
Source: inflation.eu

FAO Food Price Index

Chart 8 shows that the FAO Food Price Index² (FFPI) averaged at 172.6 points in May 2017, up by 2.2 per cent from April and nearly 10.0 per cent higher than its level in May 2016. The rebound in the value of the index followed a three months of consecutive declines. With the exception of sugar, all other commodity indices used in the calculation of the FFPI increased in May.

The highest increase was observed in the FAO Dairy Price Index which averaged at 193 points in May 2017, up by 9.5 points from April and as much as 51 per cent from May 2016. In spite of the increase, the index was still 30 per cent below its peak reached in February 2014. Quotations of all the dairy products that compose the index rose in May 2017.

Chart 8: FAO Food Price Index



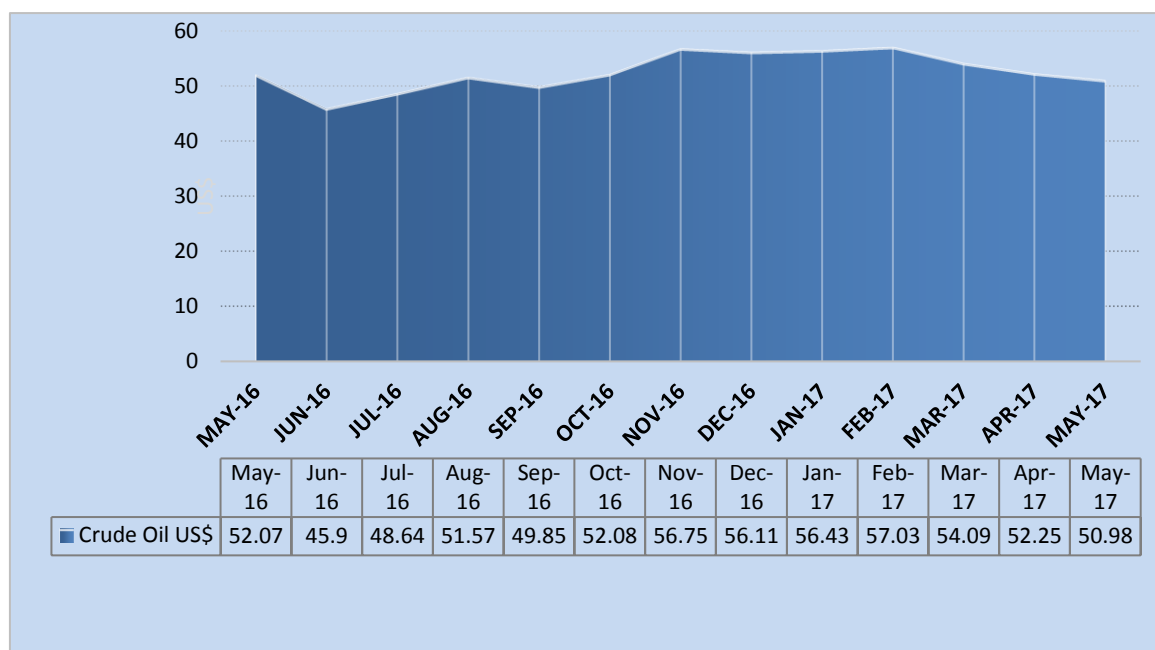
Source: Food and Agriculture Organization of the United Nations

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 USD50.98 per barrel at the end of May 2017, which was 2.4 per cent lower than at the end of April 2017. Year on year, the price level was slightly lower than the USD52.07 per barrel recorded at the end of May 2016 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual Inflation Rates by Main Categories (May 2017)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	4.1	6.1	3.7	6.9	9.4
Alcoholic beverages & tobacco	5.2	4.6	3.3	3.1	7.2
Clothing & footwear	3.3	3.2	3.4	3.9	7.4
Housing, water, electricity, gas & other fuels	6.8	8.9	9.8	5.7	8.2
Furnishings, household equipment &...	3.7	6.5	4.9	2.8	7.8
Health	1.3	0.4	5.4	6.9	0.6
Transport	1.7	0.1	7.1	5.2	3.3
Communications	0.2	0.0	4.5	-0.9	1.0
Recreation & Culture	2.3	4.1	5.1	3.8	5.4
Education	4.1	5.1	7.8	7.0	7.5
Hotels, cafés & restaurants	3.7	1.0	7.6	4.8	2.1
Miscellaneous goods & services	2.0	5.1	5.8	7.3	4.6
All Items	3.5	5.3	6.3	5.4	7.1

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