



SACU INFLATION REPORT

January 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.

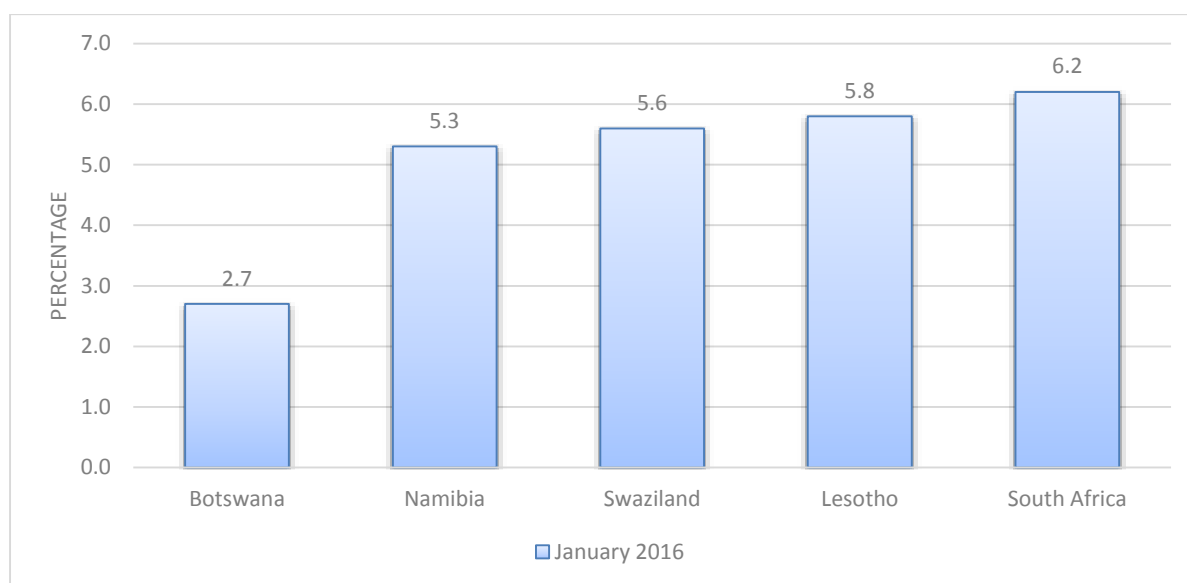
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI of the month under review to the previous month (month-on-month change) as well as to the same month in the previous year (year-on-year 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 January 2016 compared to the preceding month, it was observed that consumer prices increased in all the countries covered in the report with the exception of Botswana.

Inflation Rate in SACU Member States

During the month of January 2016, inflation rates increased in all Member States with exception of Botswana when compared to December 2015. The highest annual inflation rate among the Member States was registered in South Africa at 6.2 per cent followed by Lesotho at 5.8 per cent, Swaziland at 5.6 per cent, and Namibia at 5.3 per cent. While, Botswana continued to record the lowest inflation rate at 2.7 per cent. All Member States continued to record a single digit annual inflation rate during the month of January 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 eased to 2.7 per cent in January 2016 from 3.1 per cent registered in the preceding month. The annual rate in January 2016 was lower than the 3.6 per cent recorded during the similar month in 2015. The fall in the annual inflation rate between December 2015 and January 2016 was mainly due to the fall in prices of *food & non-alcoholic beverages* (1.2 per cent down from 2.3 per cent in January 2015) and *transport* category (-6.0 per cent from -0.8 per cent in January 2015) which accounts for 21.84 per cent and 18.98 per cent of the overall inflation basket, respectively. On average, prices rose by 0.4 per cent between December 2015 and January 2016. The annual inflation rate was below the inflation target range of 3 – 6 per cent set out by the Bank of Botswana. During the month of January 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 5.8 per cent in January 2016, up from 5.1 per cent in the preceding month. A year earlier inflation rate was 2.7 per cent during the corresponding month. The acceleration in annual inflation rate between January 2015 and January 2016 was mainly due to a rise in prices for *food & non-alcoholic beverages* (10.2 per cent up from 5.1 per cent in January 2015). On average, prices increased by 0.5 per cent between

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

December 2015 and January 2016. During the month of January 2016 the CBL rate stood at 6.25 per cent, while the prime lending rate stood at 10.69 per cent.

In **Namibia**, the annual inflation rate increased to 5.3 per cent in January 2016, from 3.7 per cent in the preceding month. A year earlier inflation rate was 4.5 per cent during the corresponding month. The acceleration in annual inflation rate between January 2015 and January 2016 was mainly reflected in *housing & utilities (7.6 per cent up from 3.6 per cent in January 2015)*. On average, prices increased by 2.4 per cent between December 2015 and January 2016. During the month of January 2016, the repo rate stood at 6.50 per cent, while the prime rate stood at 10.25 per cent.

In **South Africa**, the annual inflation rate was 6.2 per cent in January 2016, up from 5.2 per cent recorded in the previous month. The annual rate in January 2016 was higher than the 4.4 per cent recorded during the similar month in 2015. The main contributors to the annual inflation rate in January 2016 were *housing & utilities (1.6 percentage points)* and *food & non-alcoholic beverages (1.1 percentage points)*. On average, prices increased by 0.8 per cent between December 2015 and January 2016. The annual inflation rate was above the target range of 3-6 per cent set out by the South African Reserve Bank. Interest rate policy remained accommodative for growth with the MPC increasing the repo rate to 6.75 per cent from 6.25 percent, effective from 29 January 2016, while the prime rate increased to 10.25 per cent.

In **Swaziland**, the annual inflation rate increased to 5.6 per cent in January 2016 from 4.9 per cent in the previous month. Annual inflation rate in January 2016 was unchanged from the rate recorded during the similar month in 2015. The main driver in the annual inflation rate between January 2015 and January 2016 was mainly reflected in *food & non-alcoholic beverages (6.6 per cent compared to 4.7 per cent in January 2015)* and *housing & utilities (5.7 per cent compared to 2.6 per cent in January 2015)* which accounts for 29.22 and 29.15 per cent of the overall inflation basket, respectively. On average, prices increased by 0.6 per cent between December 2015 and January 2016. Interest rate policy remained accommodative for growth in January 2016 with the bank rate recorded at 5.75 per cent, and the prime rate at 9.25 per cent. On the 29th of January 2016, the Central Bank of Swaziland decided to increase the bank rate by 0.5 percentage points to 6.25 per cent.

Inflation Rate for Selected Economies

Euro area annual inflation rate was 0.3 per cent in January 2016, up from 0.2 per cent in December 2015. A year earlier the inflation rate was -0.6 per cent. The largest upward impacts to the annual inflation rate came from *restaurants & cafes* (0.10 percentage points), *tobacco* (0.06 percentage points) and *fruit* (0.06 percentage points), while *fuels for transport* (-0.28 percentage points), *heating oil* (-0.18 percentage points) and *gas* (-0.11 percentage points) had the biggest downward impacts. The annual rate recorded for January 2016 was below the European Central Bank inflation target of below but close to 2.0 percent.

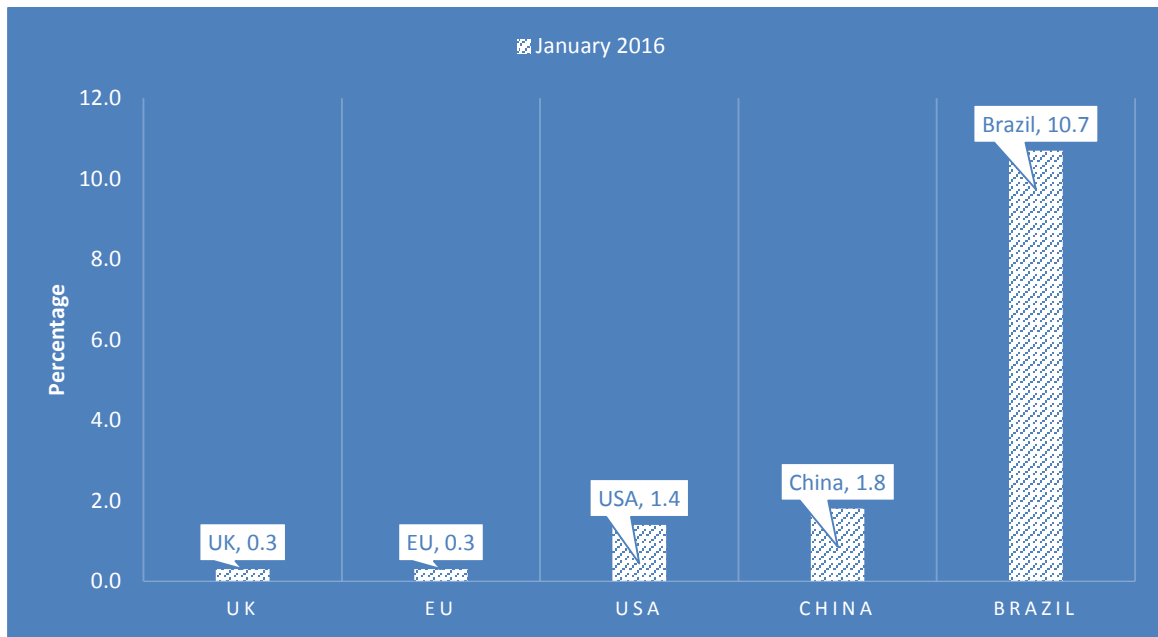
In the **UK**, the annual inflation rate increased by 0.3 per cent in January 2016, up from 0.2 per cent in December 2015. The rate was 0.3 per cent during a similar period a year earlier. The annual inflation rate for January 2016 continued to be below the Bank of England's inflation target of 2.0 percent.

In the **USA**, the world's largest economy, the annual inflation rate rose by 1.4 per cent in January 2016, up from 0.7 per cent in December 2015. The inflation 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 January 2016 from 2.1 per cent in the preceding month. The *food index* rose by 0.8 per cent in January 2016, unchanged from the preceding month. The *energy index* registered a decline of 6.5 per cent in January 2016 compared to a decline of 12.6 per cent in the preceding month. The inflation rate for January 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 10.7 per cent in January 2016 unchanged from the preceding month. The rate was 7.1 per cent during the similar period a year earlier. The annual rate recorded for January 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 1.8 per cent in January 2016, compared to 1.6 per cent in the preceding month. The rate was 0.8 per cent during the similar period a year earlier. The main components with the highest annual rates were *food* (3.6 per cent), and *health care* (2.9 per cent), while the lowest annual rates were observed on *transport & communication* (-1.6 per cent). The annual inflation rate for January 2016 continued to be below the Government's inflation target of 3.0 per cent.

Chart 2: Annual Inflation Rates for Selected Economies

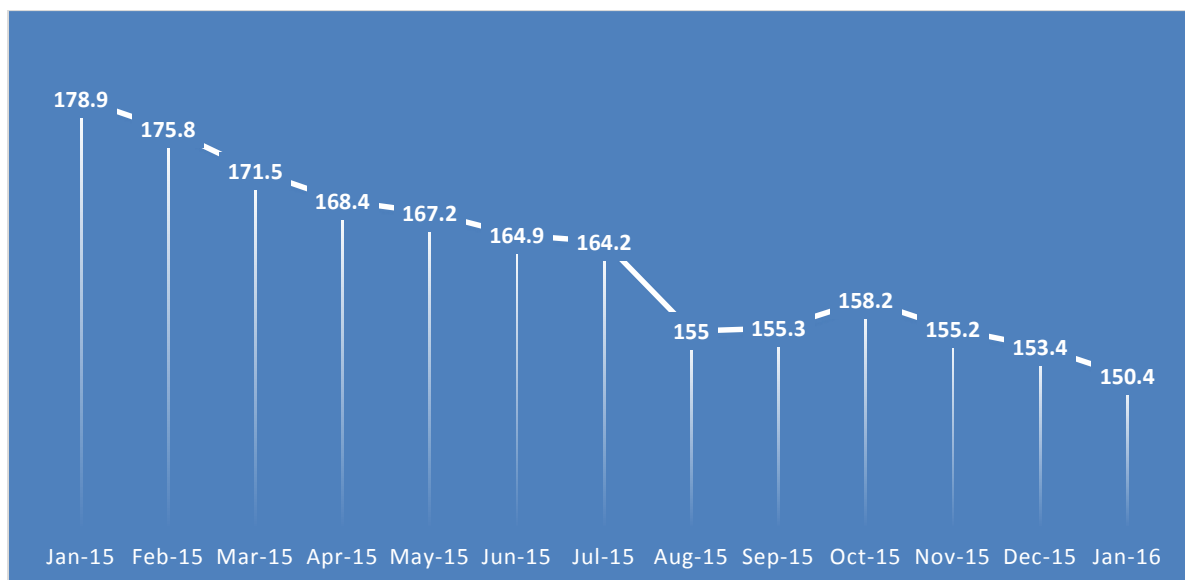


Source: inflation.eu

FAO Food Price Index

The FAO Food Price Index² averaged 150.4 points in January 2016, down by 3.0 points from its level in December 2015, this was reflected in all commodities with sugar and dairy products registering the steepest declines.

Chart 3: FAO Food Price Index



Source: Food and Agriculture Organization of the United Nations

The FAO Cereal Price Index averaged 149.1 points in January 2016, down by 2.5 points from December 2015, due to ample global supplies and a strong US dollar. The FAO Vegetable Oil Price Index averaged 139.1 points in January 2016, down by 2.4 points from December 2015, this was mainly reflected in soybean oil prices reflecting expectations of ample global soybean supplies.

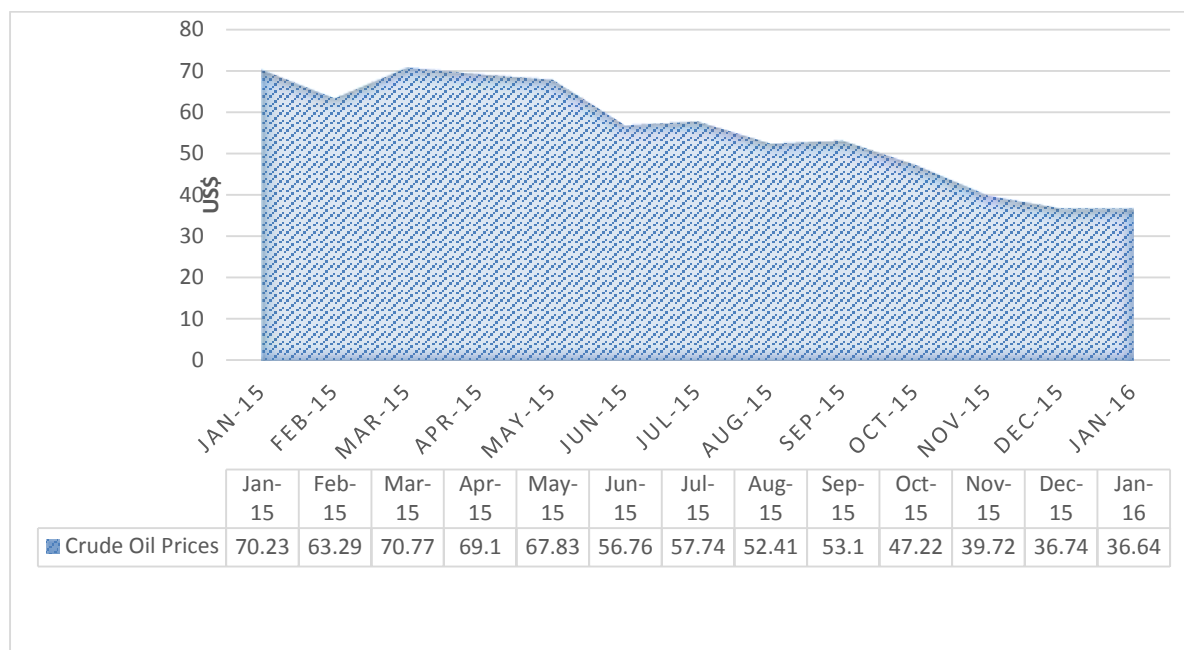
The FAO Dairy Price Index averaged 145.1 points in January 2016, down by 4.4 points from its level in December 2015. The decline stemmed from a large winter milk production in the EU. The FAO Meat Price Index averaged 148.3 points in January 2016, down by 1.7 points from December 2015. The decline was reflected in most categories with exception of pork which was stable. The FAO Sugar Price Index averaged 199.4 points in January 2016, down by 8.4 points from December 2015, making it the first decline after four months of steady rise. 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 USD36.64 per barrel at the end of January 2016, which was 0.3 percent lower than at the end of December 2015, and lower than the USD70.23 per barrel recorded at the end of January 2015 as highlighted in **Chart 4**.

Chart 4: Brent Crude Oil



Source: www.cnn.com

Appendix

Annual inflation rates by main categories (January 2016)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	1.2	10.2	6.1	6.9	6.6
Alcoholic beverages & tobacco	3.9	6.1	7.5	8.3	3.3
Clothing & footwear	7.9	4.4	1.4	4.4	4.5
Housing, water, electricity, gas & other fuels	9.7	-1.3	7.6	6.6	5.7
Furnishings, household equipment &...	4.4	4.6	3.3	3.4	4.5
Health	3.4	1.6	7.2	5.6	1.0
Transport	-6.0	0.9	0.9	5.5	1.6
Communications	0.5	0.0	-1.0	0.3	7.6
Recreation & Culture	6.5	2.3	5.5	6.0	4.7
Education	3.7	4.9	7.1	9.3	6.7
Hotels, cafés & restaurants	5.7	2.2	6.1	5.7	5.3
Miscellaneous goods & services	7.6	5.3	3.7	6.9	9.7
All Items	2.7	5.8	5.3	6.2	5.6

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