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**SACU**

**SOUTHERN AFRICAN CUSTOMS UNION**



## **SACU INFLATION REPORT**

**August 2018**

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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.

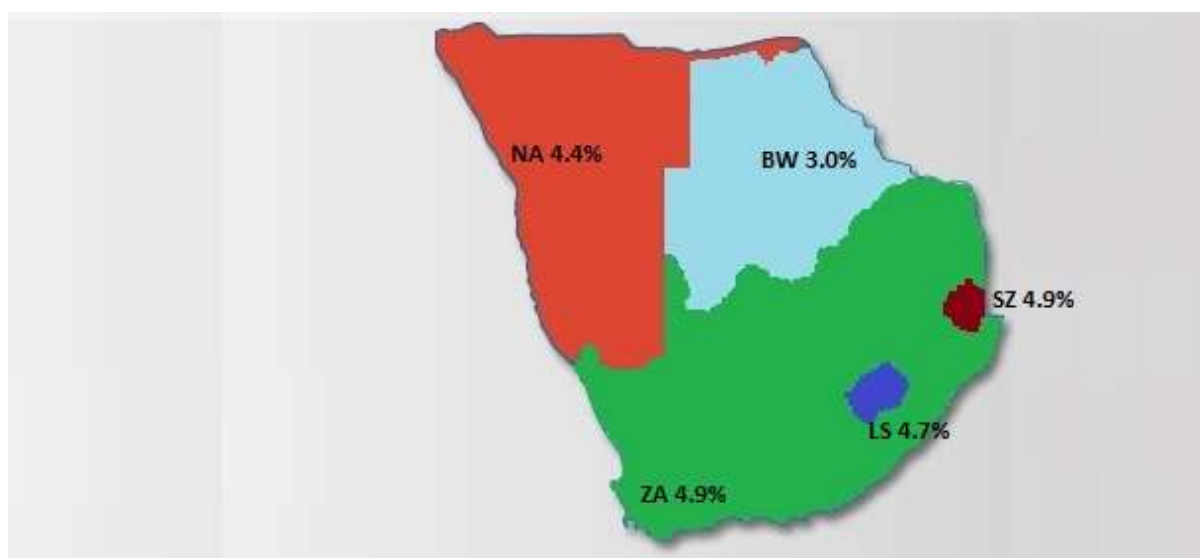
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the corresponding month in the previous year (year-on-year 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 August 2018 compared to the preceding month, it was observed that prices accelerated in Lesotho, while it decelerated in Botswana, Namibia and South Africa. Consumer prices remained unchanged in Eswatini during August 2018 compared to July 2018. Eswatini and South Africa recorded the highest change in consumer prices in August 2018 recording a rate of 5.1 percent each followed by Lesotho at 4.7 percent, Namibia (4.4 percent), and Botswana (3.0 percent). All Member States continued to record a single digit annual inflation rate during the month of August 2018.

## Inflation Rate in SACU Member States

Consumer prices advanced at a higher rate in August 2018 compared to the preceding month in Lesotho, while prices declined in Botswana, Namibia and South Africa. Consumer prices remained unchanged in Eswatini during August 2018 compared to July 2018. **Map I** shows that Eswatini and South Africa recorded the highest change in consumer prices in August 2018 recording a rate of 5.1 percent each followed by Lesotho at 4.7 percent, Namibia (4.4 percent), and Botswana (3.0 percent). All Member States continued to record a single digit annual inflation rate during the month of August 2018.

**Map I:** Annual Inflation Rates (%) for August 2018 in SACU Member States

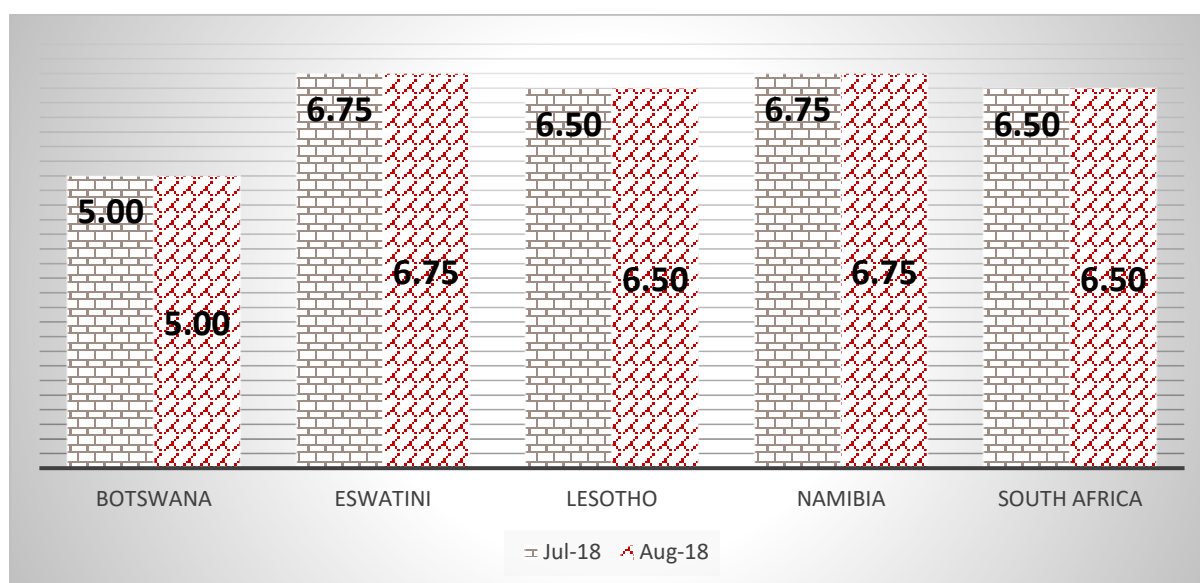


Source: Member States Statistics Offices; (BW-Botswana; LS –Lesotho; NA-Namibia; ZA-South Africa; SZ- Swaziland)

By the end of August 2018, monetary policy stance in Member States continued to remain accommodative with the repo rate / bank rate<sup>1</sup> ranging between 5.00 percent and 6.75 percent, as depicted in **Chart I**. Monetary stance was unaltered between August 2018 and July 2018 in all Member States. During the month of August 2018, the highest prime lending rate was observed in Lesotho at 11.2 percent, followed by Namibia at 10.50 percent, Eswatini at 10.25 percent, South Africa at 10.00 percent, and Botswana at 6.50 percent.

<sup>1</sup> Bank rate is the rate at which the Central Bank lends to Commercial Banks

**Chart I: Member States' Repo/Bank rates**

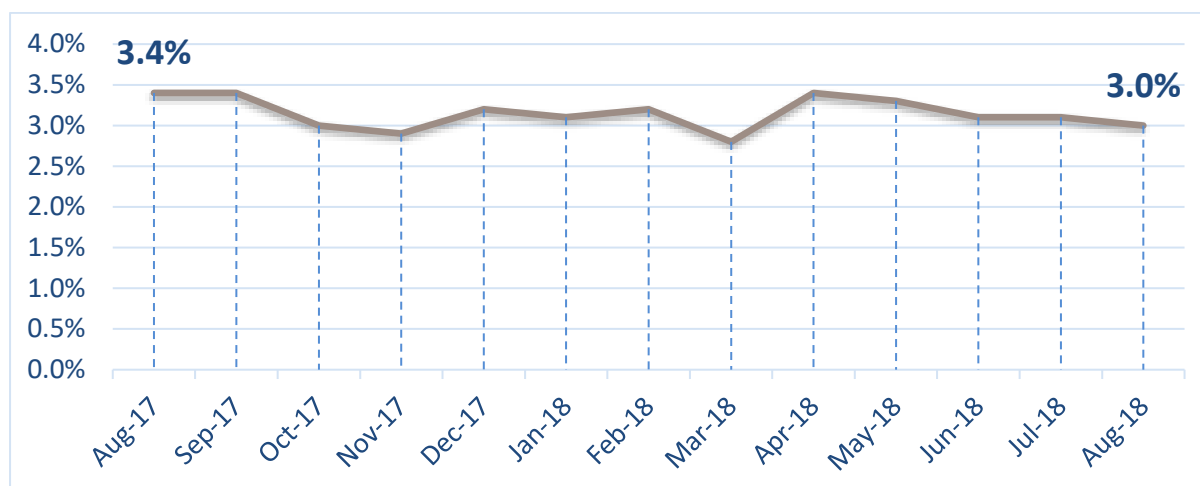


Source: Member States' Central Banks

In **Botswana**, the annual inflation rate decelerated to 3.0 percent in August 2018 compared to 3.1 percent in the preceding month, as reflected in **Chart 2**. The annual rate in August 2018 was lower than the 3.4 percent recorded during a similar month in 2017. The deceleration in the annual inflation rate in August 2018 when compared to August 2017 was mainly driven by the decline of prices in *food & non-alcoholic beverages* (-1.3 percent compared to 3.8 percent in August 2017) and *housing & utilities* (3.6 percent compared to 6.3 percent in August 2017) which accounts for 16.51 percent and 14.90 percent of the overall inflation basket, respectively. Inflation rates of the other main categories based on the basket weights shows that *transport* increased by 7.5 percent in August 2018 compared to an increase of 1.6 percent during the corresponding month in 2017.

On average, consumer prices remained stagnant between August 2018 and July 2018. The annual inflation rate recorded in August 2018 remained within the inflation target range of 3 – 6 percent set out by the Bank of Botswana.

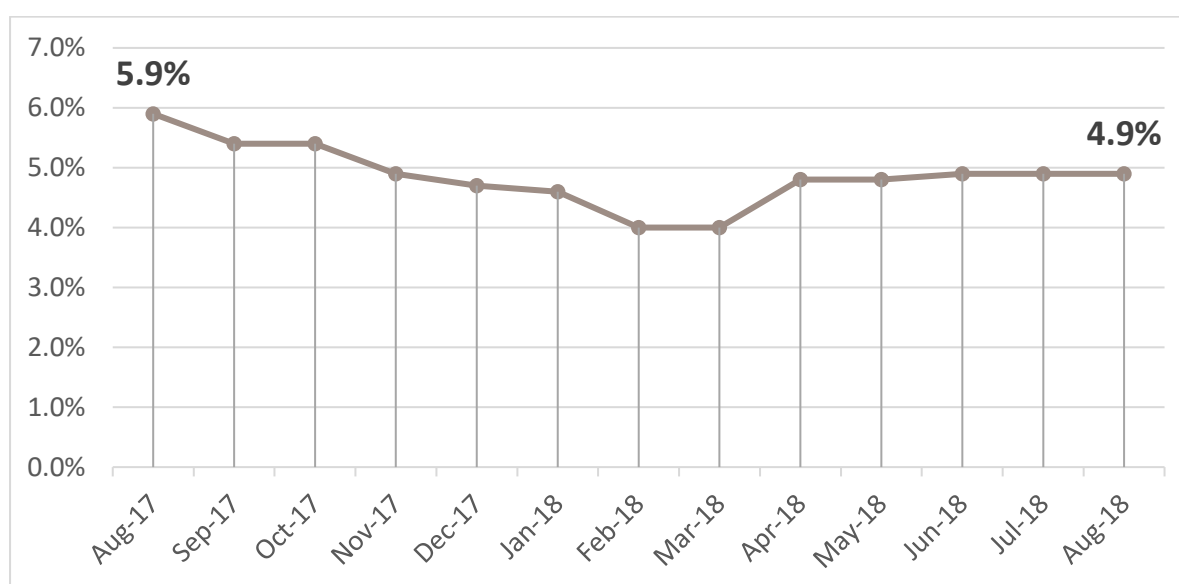
**Chart 2: Botswana Annual Inflation Rates**



Source: Statistics Botswana

In **Eswatini**, the annual inflation rate increased by 4.9 percent in August 2018 unchanged from the preceding month as indicated in **Chart 3**. Annual inflation rate in August 2018 was lower than the 5.9 percent recorded during a similar month in 2017. The main contributor to the deceleration in prices between August 2018 and August 2017 was mainly due to the decline in prices of *food & non-alcoholic beverages* (-1.1 percent down from 5.9 percent in August 2017) which accounts for 29.22 percent of the overall inflation basket. The other main categories in the basket based on the weight, the *housing & utilities* and *transport* increased by 13.9 percent and 4.5 percent, respectively, in August 2018. On average, prices increased by 0.1 percent between August 2018 and July 2018.

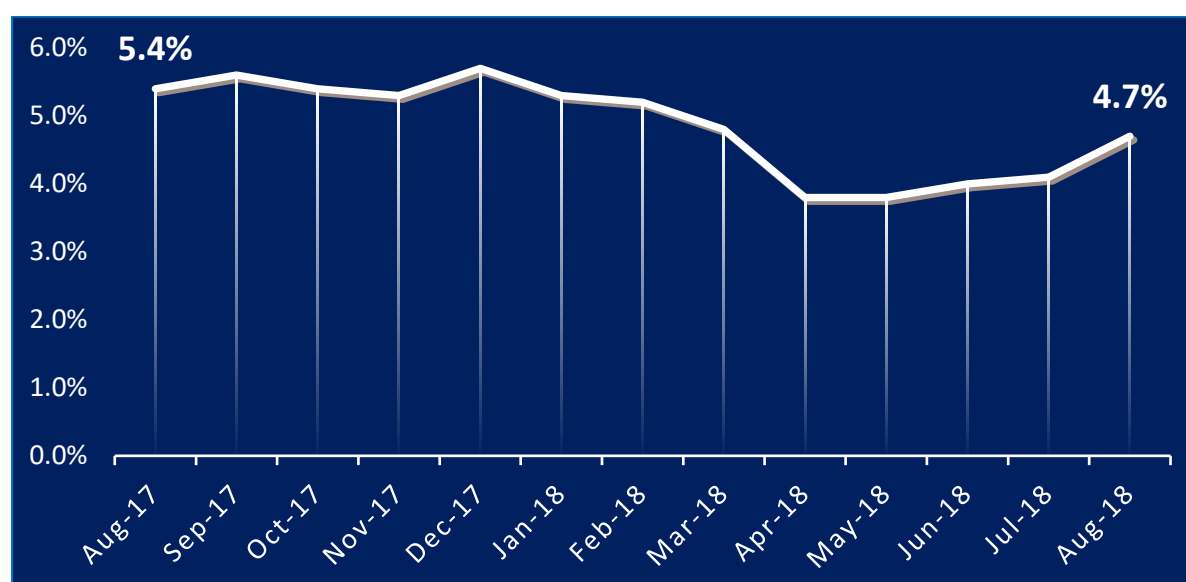
**Chart 3: Eswatini Annual Inflation Rates**



Source: Central Statistics Office

In **Lesotho**, the annual inflation rate increased by 4.7 percent in August 2018 compared to 4.1 percent in the preceding month as reflected in **Chart 4**. A year earlier inflation rate was 5.4 percent during the corresponding month. The main driver of the deceleration in annual inflation rate between August 2018 and August 2017 was mainly reflected in the decline in cost of *food & non-alcoholic* category (4.0 percent down from 7.6 percent in August 2017) and *clothing & footwear* category (2.3 percent down from 2.4 percent in August 2017) that accounts for 36.1 percent and 13.1 percent of the overall inflation basket, respectively. The other main category based on the basket weights, the *housing & utilities* category reflected that prices increased by 11.1 percent in August 2018. On average, prices increased by 0.5 percent between August 2018 and July 2018.

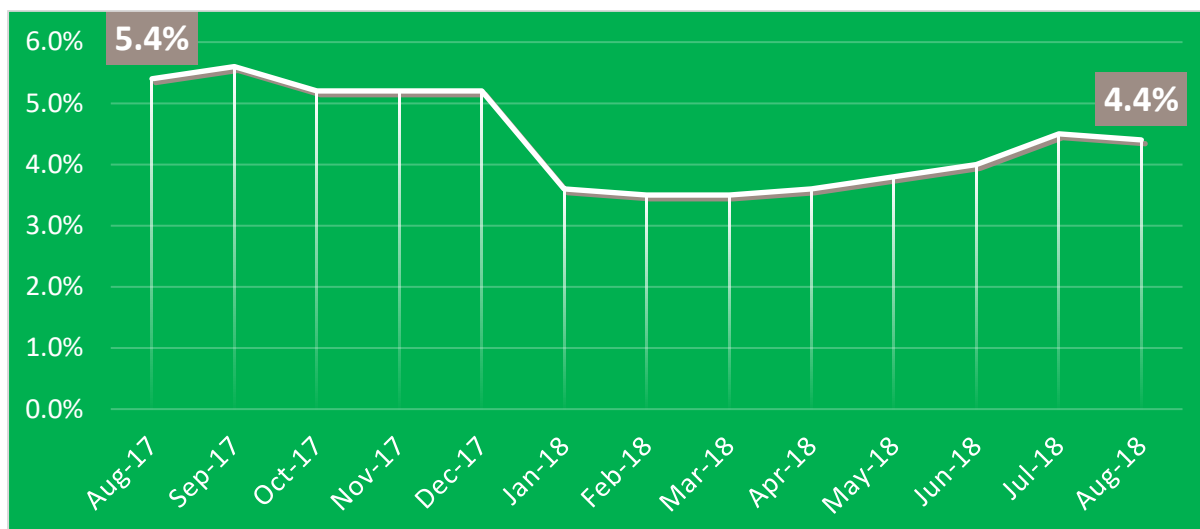
**Chart 4:** Lesotho Annual Inflation Rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate increased by 4.4 percent in August 2018 compared to 4.5 percent in the previous month. A year earlier inflation rate was 5.4 percent during the corresponding month as reflected in **Chart 5**. The deceleration in the annual inflation rate between August 2018 and August 2017 was mainly reflected in prices of *housing & utilities* (4.4 percent down from 8.3 percent in August 2017) which accounts for 28.36 percent of the overall inflation basket. The other main categories based on the basket weight, the *food & non-alcoholic beverages* and *transport* categories recorded increase in prices of 2.7 percent and 9.7 percent, respectively in August 2018. On average, prices remained stagnant between August 2018 and July 2018.

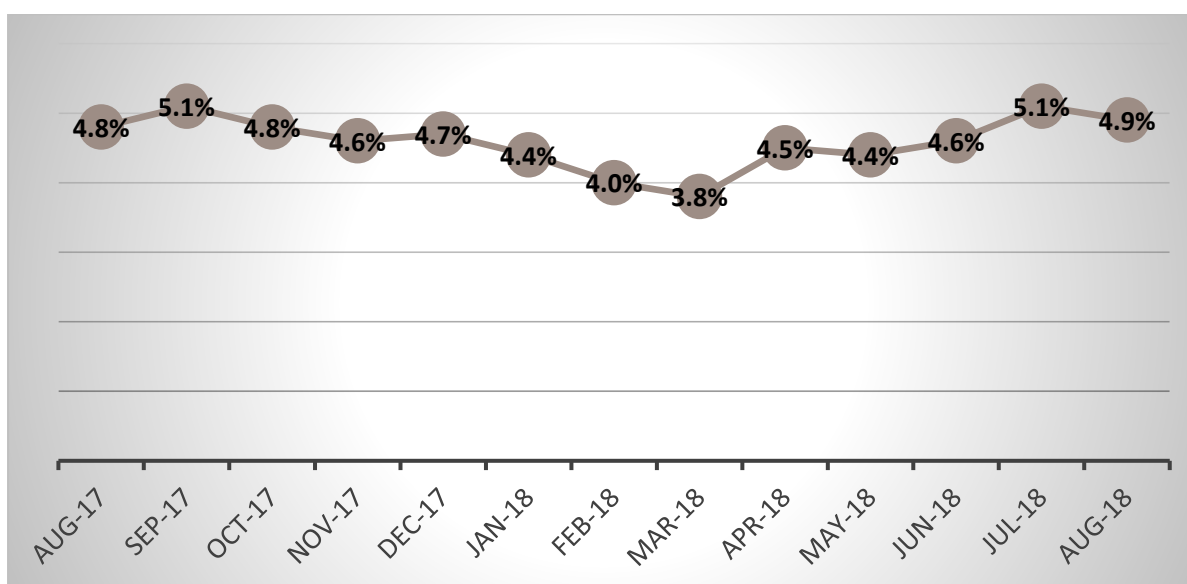
**Chart 5: Namibia Annual Inflation Rates**



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate increased by 4.9 percent in August 2018 compared to 5.1 percent recorded in the previous month as depicted in **Chart 6**. The annual rate in August 2018 was higher than the 4.8 percent recorded during the similar month in 2017. The main contributors to the annual inflation rate in August 2018 were *transport (1.3 percentage points)* followed by *housing & utilities (1.3 percentage points)* and *miscellaneous goods & services (0.9 percentage points)*. On average, prices contracted by 0.1 percent between August 2018 and July 2018. The annual inflation rate in August 2018 remained within the target range of 3-6 percent set out by the South African Reserve Bank.

**Chart 6: South Africa Annual Inflation Rates**

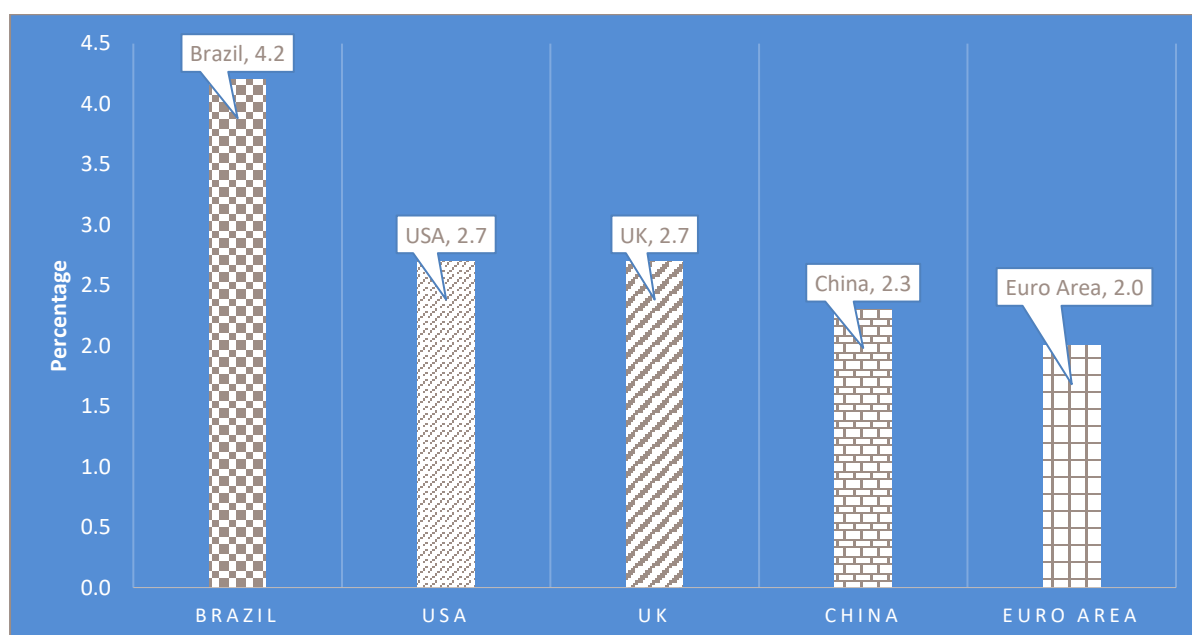


Source: Statistics South Africa

## Inflation Rate for Selected Economies

**Chart 7**, indicates inflation rates in selected economies for the month of August 2018. In **Brazil**, inflation rate rose by 4.2 percent in August 2018 compared to 4.5 percent in the previous month and the rate was 2.5 percent in August 2017. In the **USA**, inflation rate rose by 2.7 percent in August 2018 compared to 2.9 percent in the preceding month, and 1.9 percent in August 2017. While in the **UK** consumer prices rose by 2.7 percent in August 2018 compared to 2.5 percent in July 2018, while the rate was 2.9 percent in August 2017. In **China** consumer prices rose by 2.3 percent compared to 2.1 percent in the preceding month while the rate was 1.8 percent. In the **Euro area** annual inflation was 2.0 percent in August 2018 compared with 2.1 percent in July 2018, while the rate was 1.5 percent during a similar month in 2017.

**Chart 7: Annual Inflation Rates for Selected Economies (August 2018)**



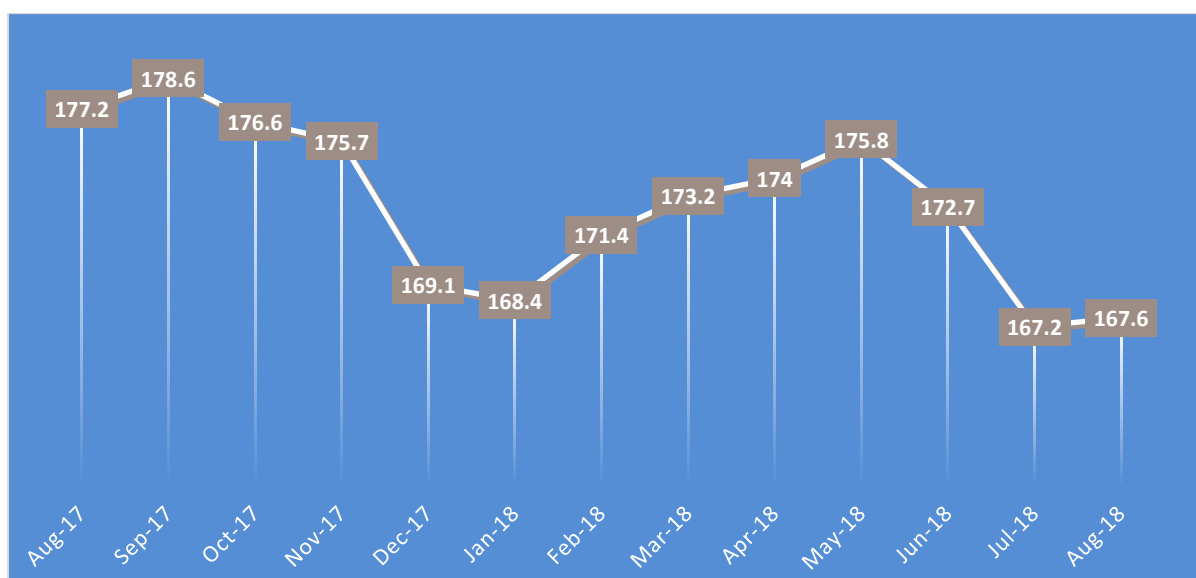
Source: [inflation.eu](http://inflation.eu)



## FAO Food Price Index

**Chart 8** shows that the FAO **Food Price Index**<sup>2</sup> (FFPI) averaged at 167.6 points in August 2018, up by 0.2 percent from July but down 5.4 percent from its level in the corresponding period last year. The **FAO Cereal Price Index** averaged at 168.4 points in August, representing a rebound of 4.0 percent over July and of 10 percent from August 2017, mainly due the increase in wheat prices. The **FAO Vegetable Oil Price Index** averaged at 138.2 points in August, down by 2.6 percent from July. The drop in August was mainly driven by falling values of palm, soy and sunflower oils. The **FAO Dairy Price Index** averaged at 196.2 points in August, down by 1.5 percent from the previous month, marking the third consecutive month of decline. Price quotations of butter, skim milk powder and whole milk powder fell for the second successive month, while those of cheese rebounded marginally from the dip in July. The **FAO Meat Price Index** averaged at 166.3 points in August, only slightly changed from July but 4.6 percent below its level in the same month last year. The increases in the price quotations of pig meat and ovine meat were offset by slight decreases in poultry and bovine meat quotations. The **FAO Sugar Price Index** averaged at 157.3 points in August, down by 5.4 percent from July. The decline in August was largely the result of the continued depreciation of the currencies of Brazil and India against the US dollar.

**Chart 8:** FAO Food Price Index



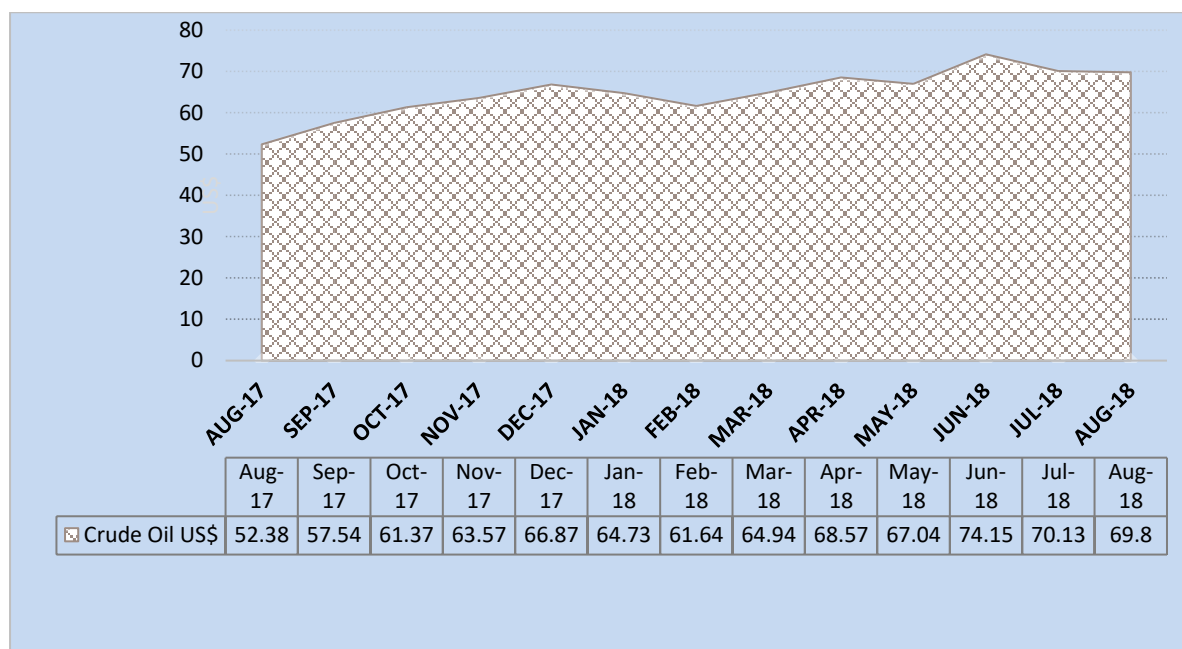
Source: Food and Agriculture Organization of the United Nations

<sup>2</sup> 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 USD69.80 per barrel at the end of August 2018, which was 0.5 percent lower than at the end of July 2018. Year-on-year, the price level was higher than the USD52.38 per barrel recorded at the end of August 2017 as highlighted in **Chart 8**.

**Chart 8:** Brent Crude Oil



Source: [www.cnbc.com](http://www.cnbc.com)

## Appendix

### Annual Inflation Rates by Main Categories (August 2018)

Main Categories	Botswana	Eswatini	Lesotho	Namibia	South Africa
Food & non-alcoholic beverages	-1.3	-1.1	4.0	2.7	3.5
Alcoholic beverages & tobacco	0.9	3.4	6.3	5.4	4.6
Clothing & footwear	1.7	-1.0	2.3	-5.2	1.9
Housing, water, electricity, gas & other fuels	3.6	13.9	11.1	4.4	5.3
Furnishings, household equipment &...	1.9	2.7	3.6	0.0	2.9
Health	0.8	1.0	0.9	5.1	5.2
Transport	7.5	4.5	10.3	9.7	9.5
Communications	-8.3	0.0	-0.8	-1.4	1.2
Recreation & Culture	1.9	3.9	4.1	3.4	0.3
Education	5.4	6.9	1.7	9.9	6.7
Hotels, cafés & restaurants	3.5	2.7	2.2	4.5	4.0
Miscellaneous goods & services	7.6	0.9	2.7	3.9	5.6
<b>All Items</b>	<b>3.0</b>	<b>4.9</b>	<b>4.7</b>	<b>4.4</b>	<b>4.9</b>

Source: SACU Member States Statistics Offices

### Consumer Price Index Basket Weights

Main Categories	Botswana	Eswatini	Lesotho	Namibia	South Africa
Food & non-alcoholic beverages	16.51	29.22	36.1	16.45	17.24
Alcoholic beverages & tobacco	7.83	0.39	3.3	12.59	5.82
Clothing & footwear	6.27	3.42	13.1	3.05	3.83
Housing, water, electricity, gas & other fuels	14.90	29.15	12.4	28.36	24.62
Furnishings, household equipment &...	6.39	4.75	8.5	5.47	4.35
Health	3.62	3.39	1.5	2.01	1.40
Transport	20.65	10.50	4.8	14.28	14.28
Communications	4.27	2.74	2.1	3.81	2.63
Recreation & Culture	2.92	1.07	5.7	3.55	5.16
Education	3.34	9.11	4.2	3.65	2.53
Hotels, cafés & restaurants	2.76	1.79	1.0	1.39	3.09
Miscellaneous goods & services	10.55	4.47	7.3	5.39	15.05
<b>All Items</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: SACU Member States Statistics Offices