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SACU INFLATION REPORT

January 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.

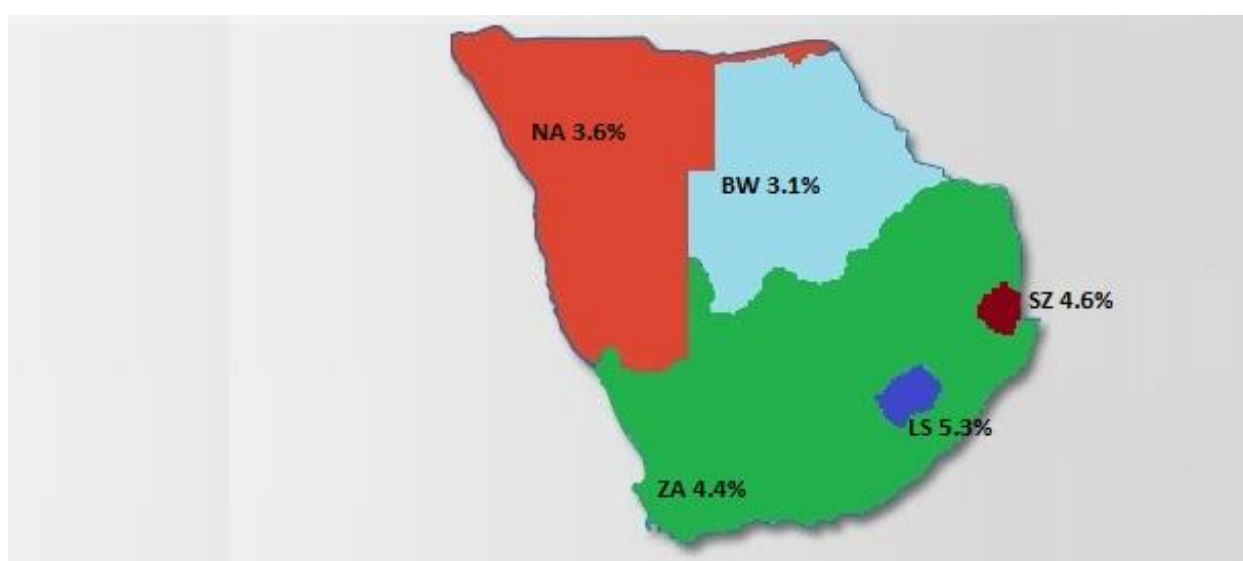
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the corresponding month in the previous year (year-on-year 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 January 2018 compared to the preceding month, it was observed that prices decelerated in all Member States. It was further observed that Lesotho recorded the highest change in consumer prices in January 2018 recording a rate of 5.3 per cent followed by Swaziland (4.6 per cent), South Africa (4.4 per cent), Namibia (3.6 per cent), and Botswana (3.1 per cent). All Member States continued to record a single digit annual inflation rate during the month of January 2018.

Inflation Rate in SACU Member States

The year 2018 started off with consumer prices advancing at a lower rate in January 2018 compared to December 2017 in all Member States. **Map I** shows that Lesotho continue to record the highest change in consumer prices in January 2018 recording a rate of 5.3 per cent followed by Swaziland (4.6 per cent), South Africa (4.4 per cent), Namibia (3.6 per cent), and Botswana (3.1 per cent). All Member States continued to record a single digit annual inflation rate during the month of January 2018.

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

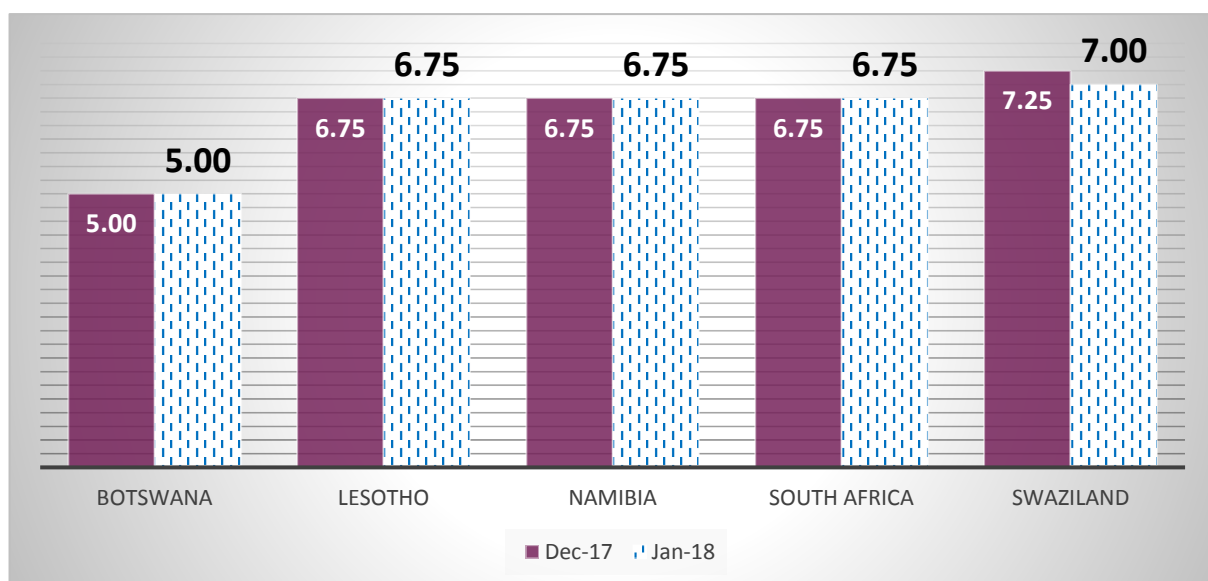


Source: Member States Statistics Offices; (BW-Botswana; LS –Lesotho; NA-Namibia; ZA-South Africa; SZ- Swaziland)

By the end of January 2018, monetary policy stance in Member States continued to remain accommodative with the repo rate / bank rate¹ ranging between 5.00 per cent and 7.00 per cent, as depicted in **Chart I**. Monetary stance was unaltered between January 2018 and December 2017 in all Member States with exception of Swaziland where the Monetary policy Consultative Committee lowered the discount rate by 0.25 basis point from 7.25 per cent to 7.00 per cent. During the month of January 2018, the highest prime lending rate was observed in Lesotho at 11.44 per cent, followed by Swaziland at 10.50 per cent, Namibia at 10.50 per cent, South Africa at 10.25 per cent, and Botswana at 6.50 per cent.

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

Chart I: Member States' Repo/Bank rates

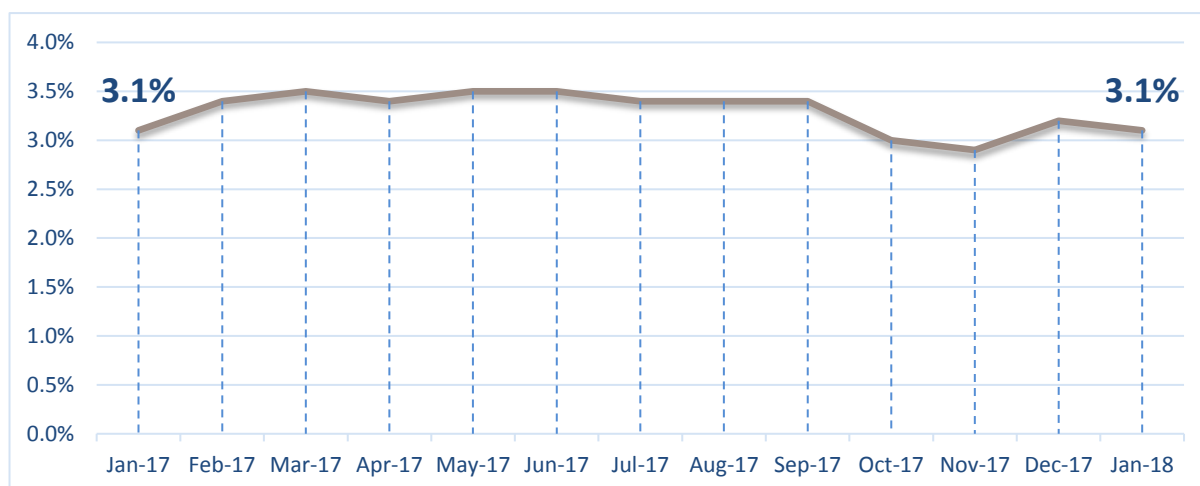


Source: Member States' Central Banks

In **Botswana**, the annual inflation rate increased by 3.1 per cent in January 2018 compared to 3.2 per cent in the preceding month, as reflected in **Chart 2**. The annual rate in January 2018 was unchanged at 3.1 per cent when compared to a similar month in 2017. The annual inflation rate in January 2018 compared to January 2017 was mainly driven by the rising prices in *transport* (5.0 per cent compared to -0.9 per cent in January 2017) which accounts for 20.65 per cent of the overall inflation basket. Inflation rates of the other main categories based on the basket weights shows that *food & non-alcoholic beverages* rose by 0.4 per cent in January 2018 as opposed to 4.4 per cent during the corresponding month in 2017, while, the *housing & utilities* recorded an increase of 5.8 per cent compared to 3.5 per cent in January 2017.

On average, consumer prices increased by 0.4 per cent between January 2018 and December 2017. The annual inflation rate recorded in January 2018 was within the inflation target range of 3 – 6 per cent set out by the Bank of Botswana.

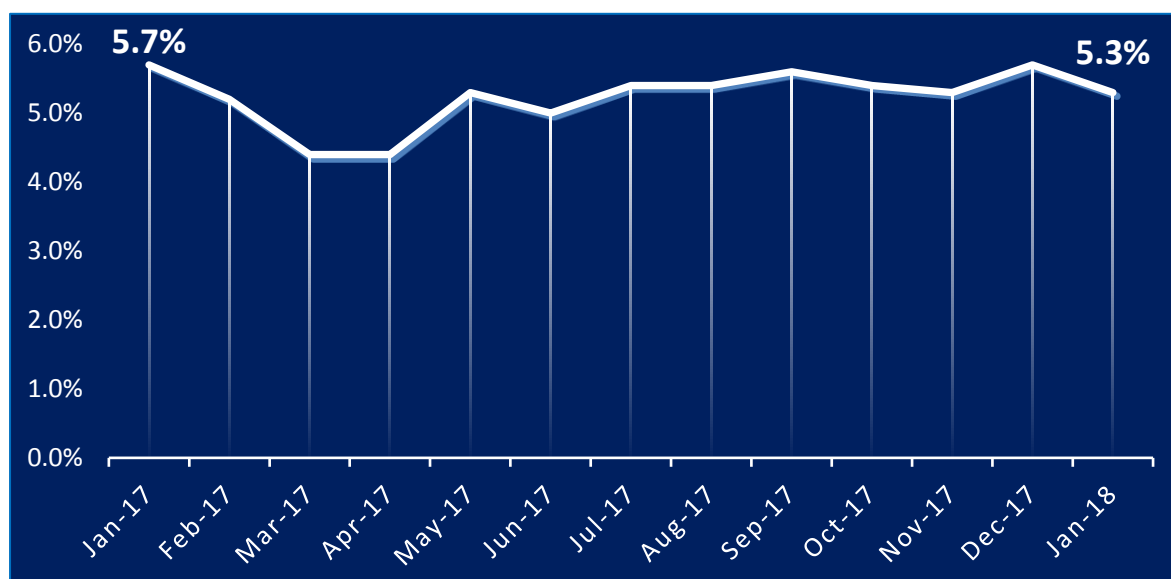
Chart 2: Botswana Annual Inflation Rates



Source: Statistics Botswana

In **Lesotho**, the annual inflation rate advanced by 5.3 per cent in January 2018 compared to 5.7 per cent in the preceding month as reflected in **Chart 3**. A year earlier inflation rate was 5.7 per cent during the corresponding month. The deceleration in the annual inflation rate between January 2018 and January 2017 was mainly due to the decline in the cost of *food & non-alcoholic beverages* category (7.2 per cent down from 8.5 per cent in January 2017) 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 1.8 per cent in January 2018, while the prices of the third main category, *housing & utilities* rose by 8.3 per cent. On average, prices increased by 0.5 per cent between January 2018 and December 2017.

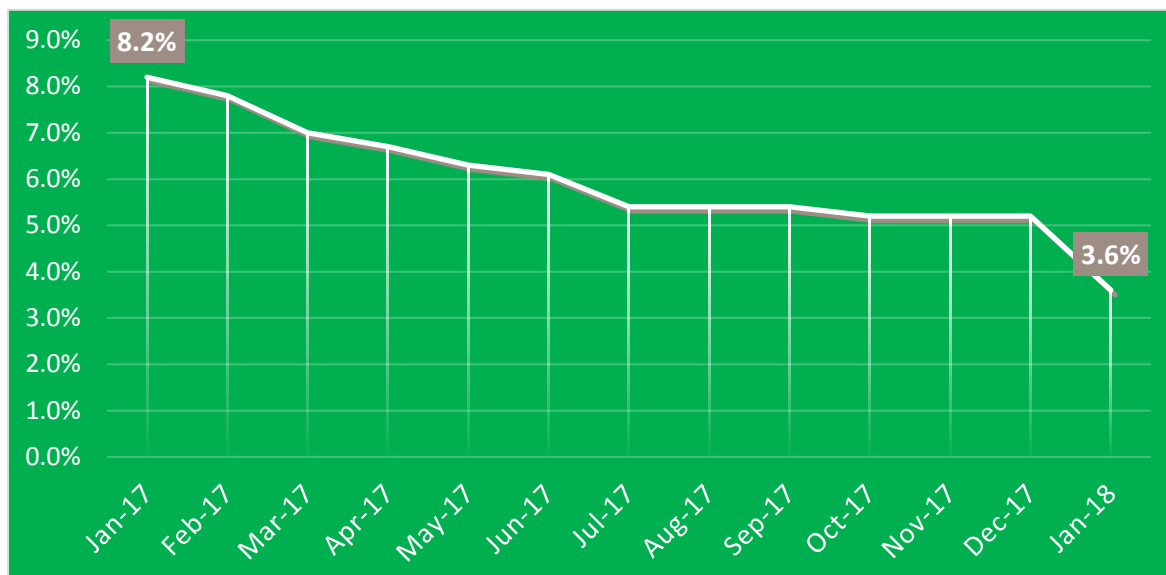
Chart 3: Lesotho Annual Inflation Rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate increased by 3.6 per cent in January 2018 compared to 5.2 per cent in the previous month, recording the lowest rate since November 2015. A year earlier inflation rate was 8.2 per cent during the corresponding month as reflected in **Chart 4**. The deceleration in the annual inflation rate between January 2018 and January 2017 was mainly reflected in *food & non-alcoholic beverages* (2.0 per cent down from 13.2 per cent in January 2017) 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 3.6 per cent and 6.3 per cent, respectively in January 2018. On average, prices increased by 1.6 per cent between January 2018 and December 2017.

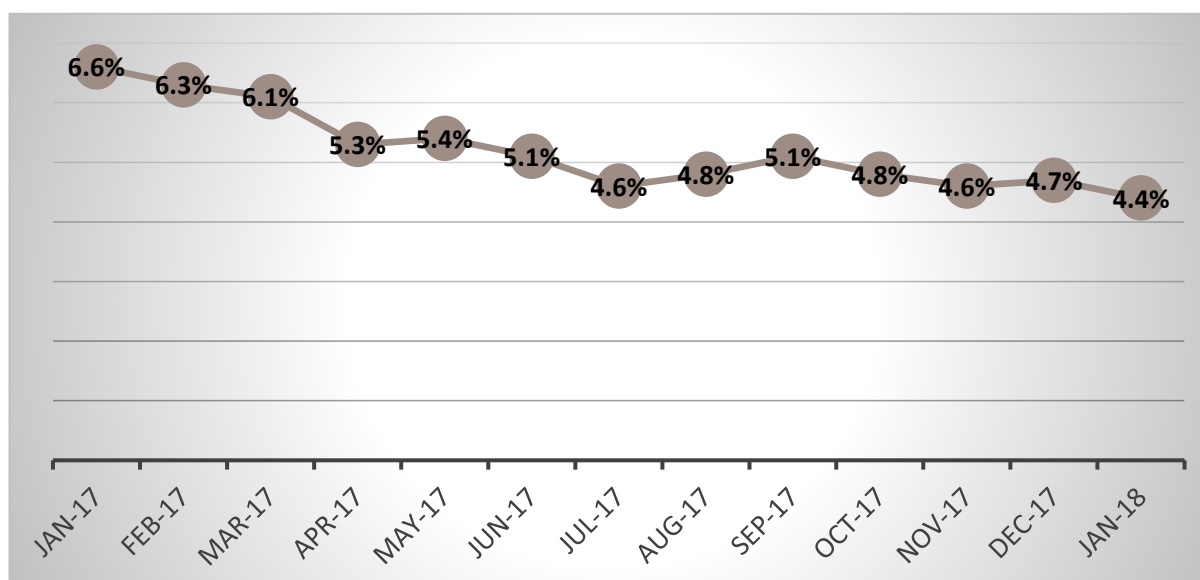
Chart 4: Namibia Annual Inflation Rates



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate increased by 4.4 per cent in January 2018 compared to 4.7 per cent recorded in the previous month as depicted in **Chart 5**. The annual rate in January 2018 was lower than the 6.6 per cent recorded during the similar month in 2017. The main contributors to the annual inflation rate in January 2018 were *housing & utilities (1.1 percentage points)* followed by *miscellaneous goods & services (1.1 percentage points)* and *food & non-alcoholic beverages (0.8 percentage points)*. On average, prices increased by 0.3 per cent between January 2018 and December 2017. The annual inflation rate in January 2018 remained within the target range of 3-6 per cent set out by the South African Reserve Bank.

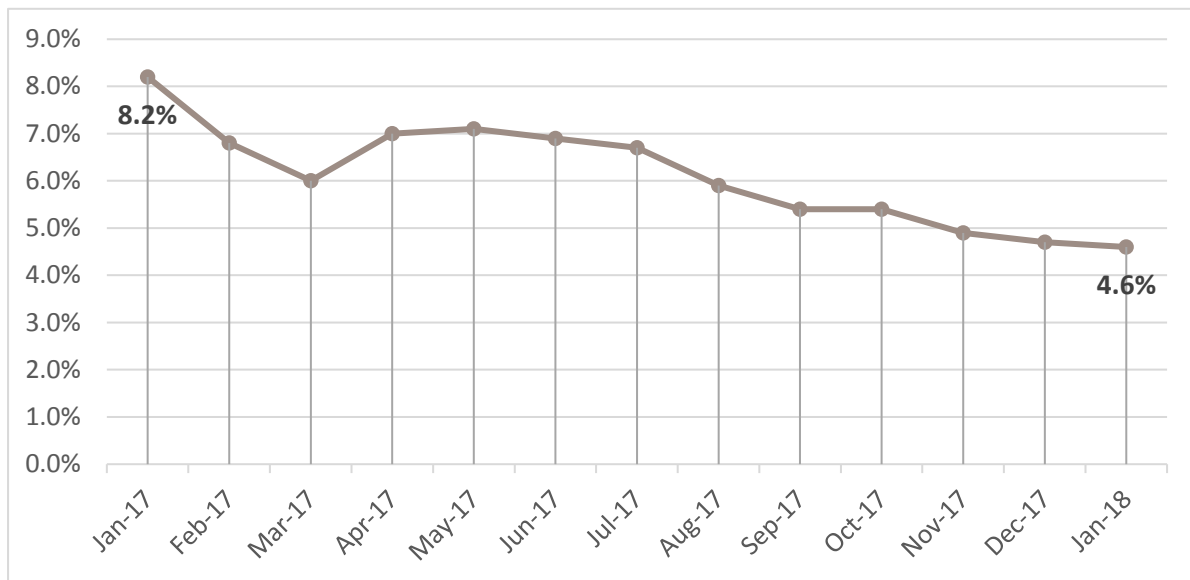
Chart 5: South Africa Annual Inflation Rates



Source: Statistics South Africa

In **Swaziland**, the annual inflation rate increased by 4.6 per cent in January 2018 compared to 4.7 per cent in the preceding month as indicated in **Chart 6**. Annual inflation rate in January 2018 was lower than the 8.2 per cent recorded during a similar month in 2017. The main contributor to the deceleration in prices between January 2018 and January 2017 was mainly the decline in prices of *food & non-alcoholic beverages* (2.5 per cent down from 17.5 per cent in January 2017) which accounts for 29.22 per cent of the overall inflation basket. The other main categories in the basket based on the weight, the *housing & utilities* and *transport* increased by 8.2 per cent and 5.7 per cent, respectively, in January 2018. On average, prices remained stagnant between January 2018 and December 2017.

Chart 6: Swaziland Annual Inflation Rates

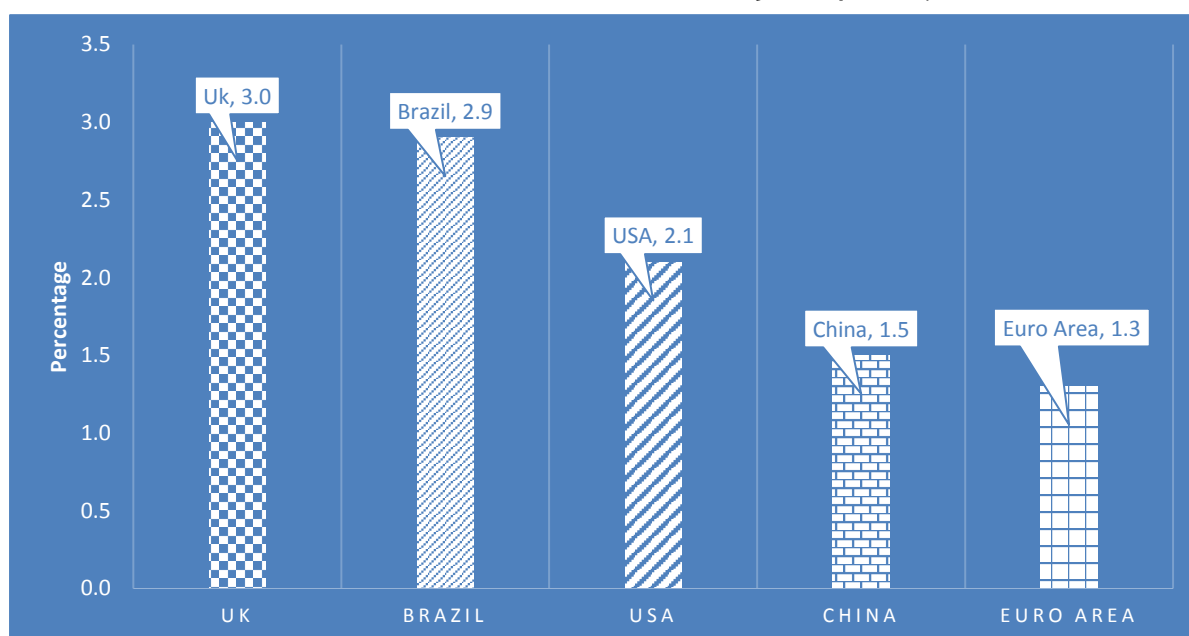


Source: Central Statistics Office

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in selected economies for the month of January 2018. In the **UK** consumer prices rose by 3.0 per cent in January 2018 unchanged from the preceding month, while the rate was 1.8 per cent in January 2017. While in **Brazil**, inflation rate rose by 2.9 per cent in January 2018 compared to 3.0 per cent in the previous month and the rate was 5.4 per cent in January 2017. In the **USA**, inflation rate rose by 2.1 per cent in January 2018 unchanged from the rate recorded in December 2017, and 2.5 per cent in January 2017. In January 2018 consumer prices in **China** rose by 1.5 per cent compared to 1.8 per cent in the preceding month while the rate was 2.5 per cent during a similar month in 2017. **Euro area** annual inflation was 1.3 per cent in January 2018 compared with 1.4 per cent in December 2017, while the rate was 1.8 per cent in January 2017.

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

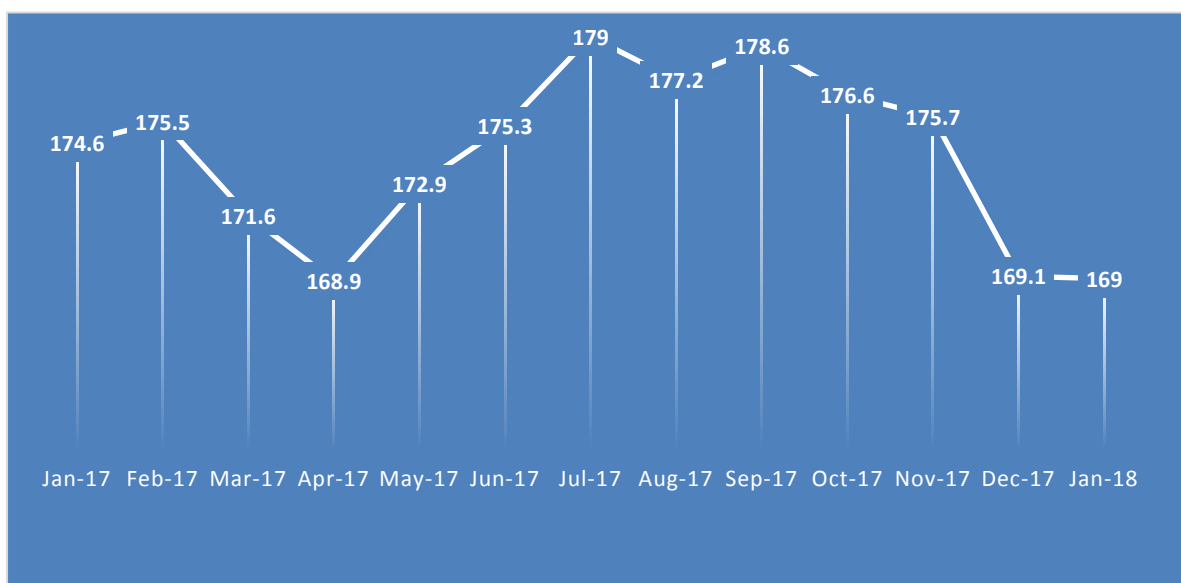


Source: inflation.eu

FAO Food Price Index

Chart 8 shows that the FAO Food Price Index² (FFPI) averaged at 169.0 points in January 2018, down by 0.1 per cent from December 2017, mainly due to the declines registered in the prices of dairy and meat.

Chart 8: FAO Food Price Index



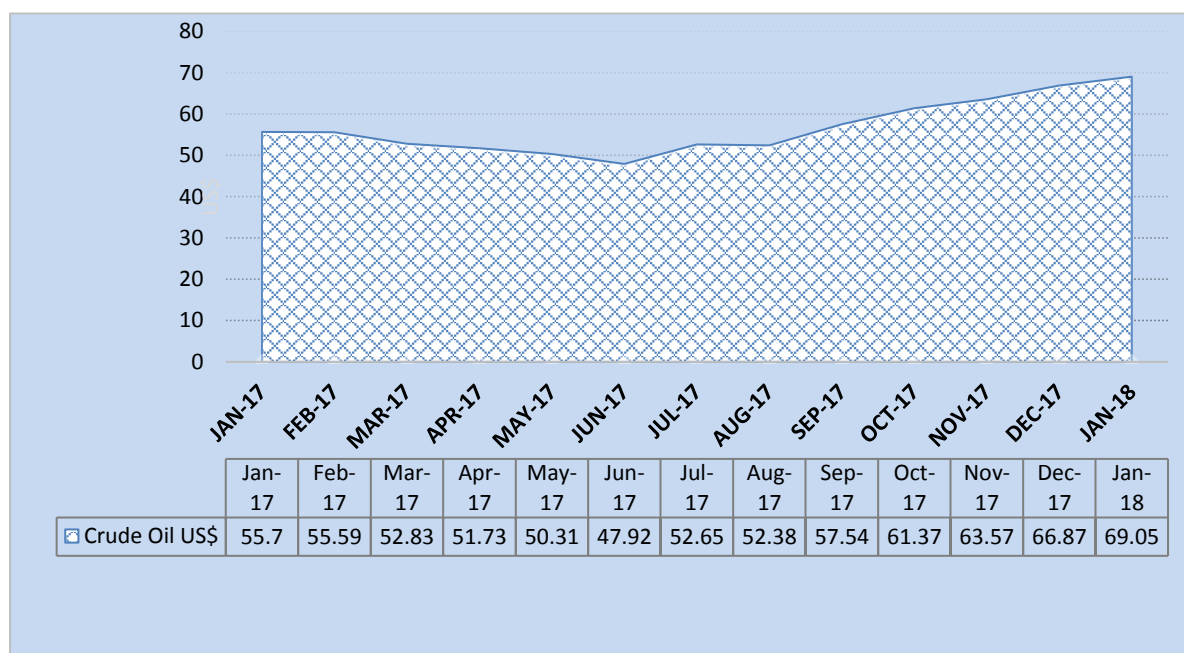
Source: Food and Agriculture Organization of the United Nations

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 USD69.05 per barrel at the end of January 2018, which was 3.3 per cent higher than at the end of December 2017. Year on year, the price level was higher than the USD55.70 per barrel recorded at the end of December 2016 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual Inflation Rates by Main Categories (January 2018)

Main Categories	Botswana	Lesotho	Namibia	South Africa	Swaziland
Food & non-alcoholic beverages	0.4	7.2	2.0	4.5	2.5
Alcoholic beverages & tobacco	2.4	6.6	4.2	5.3	6.3
Clothing & footwear	2.1	1.8	-3.3	1.7	-1.7
Housing, water, electricity, gas & other fuels	5.8	8.3	3.6	4.4	8.2
Furnishings, household equipment &...	2.2	5.5	-0.9	1.5	1.7
Health	1.4	0.2	6.2	6.0	1.0
Transport	5.0	-0.3	6.3	4.4	5.7
Communications	1.2	1.6	0.0	-1.6	-1.3
Recreation & Culture	1.9	5.8	2.6	0.7	4.9
Education	5.5	3.3	10.0	7.0	7.4
Hotels, cafés & restaurants	3.4	1.9	4.7	3.6	6.1
Miscellaneous goods & services	3.0	4.3	4.7	7.0	1.0
All Items	3.1	5.3	3.6	4.4	4.6

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>	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