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SACU INFLATION REPORT

September 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.

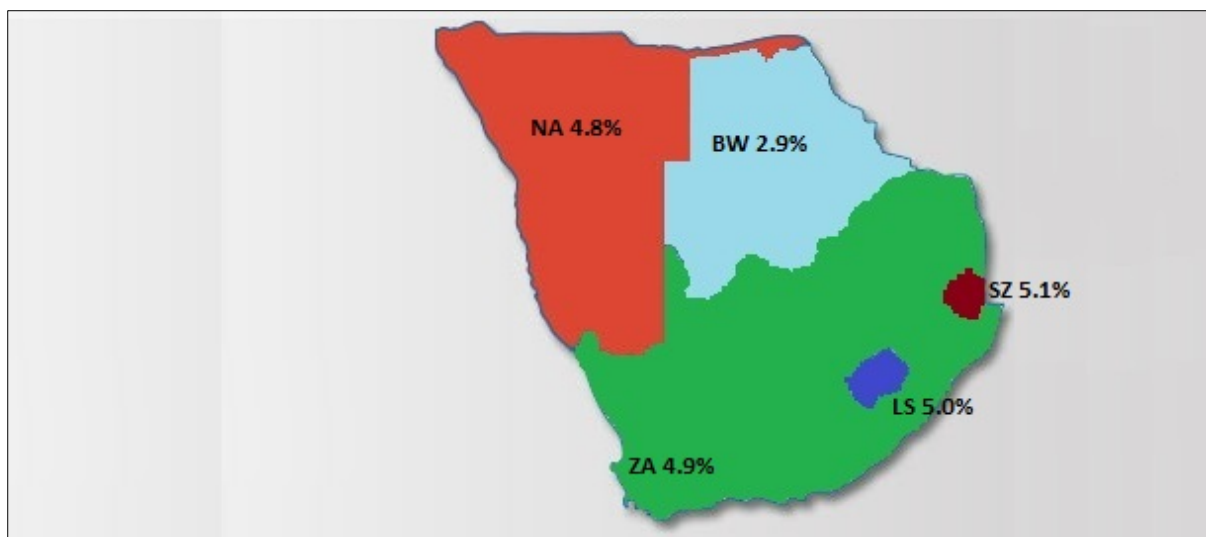
The Consumer Price Index (CPI) is used as the basis to calculate the rate of inflation as experienced by consumers. The inflation rate measures the change in the CPI for the month under review to the previous month (month-on-month change) as well as to the corresponding month in the previous year (year-on-year 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 September 2018 compared to the preceding month, it was observed that prices accelerated in Eswatini, Lesotho, and Namibia while prices continued to decline in Botswana. Consumer prices remained unchanged in South Africa during September 2018 compared to August 2018. Eswatini recorded the highest change in consumer prices in September 2018 recording a rate of 5.1 percent each followed by Lesotho at 5.0 percent, South Africa (4.9 percent), Namibia (4.8 percent), and Botswana (2.9 percent). All Member States continued to record a single digit annual inflation rate during the month of September 2018.

Inflation Rate in SACU Member States

Consumer prices advanced at a higher rate in September 2018 compared to the preceding month in Eswatini, Lesotho, and Namibia while prices continued to decline in Botswana. Consumer prices remained unchanged in South Africa during September 2018 compared to August 2018. **Map I** shows that Eswatini recorded the highest change in consumer prices in September 2018 recording a rate of 5.1 percent each followed by Lesotho at 5.0 percent, South Africa (4.9 percent), Namibia (4.8 percent), and Botswana (2.9 percent). All Member States continued to record a single digit annual inflation rate during the month of September 2018.

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

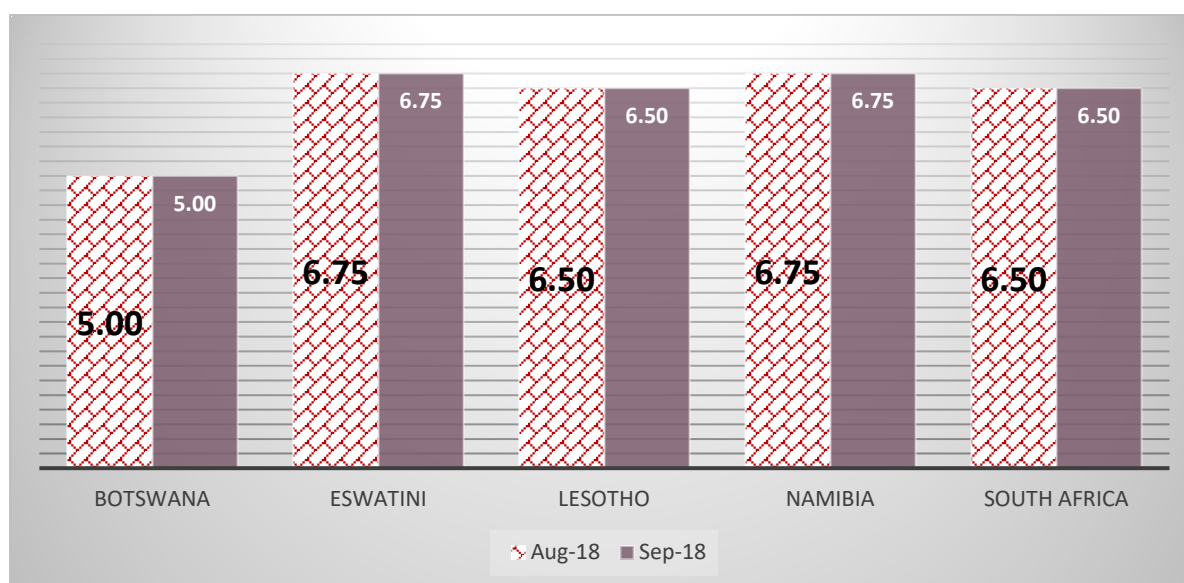


Source: Member States Statistics Offices; (BW-Botswana; LS –Lesotho; NA-Namibia; ZA-South Africa; SZ- Eswatini)

By the end of September 2018, monetary policy stance in Member States continued to remain accommodative with the repo rate / bank rate¹ ranging between 5.00 percent and 6.75 percent, as depicted in **Chart I**. Monetary stance was unaltered between September 2018 and August 2018 in all Member States. During the month of September 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.

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

Chart I: Member States' Repo/Bank rates

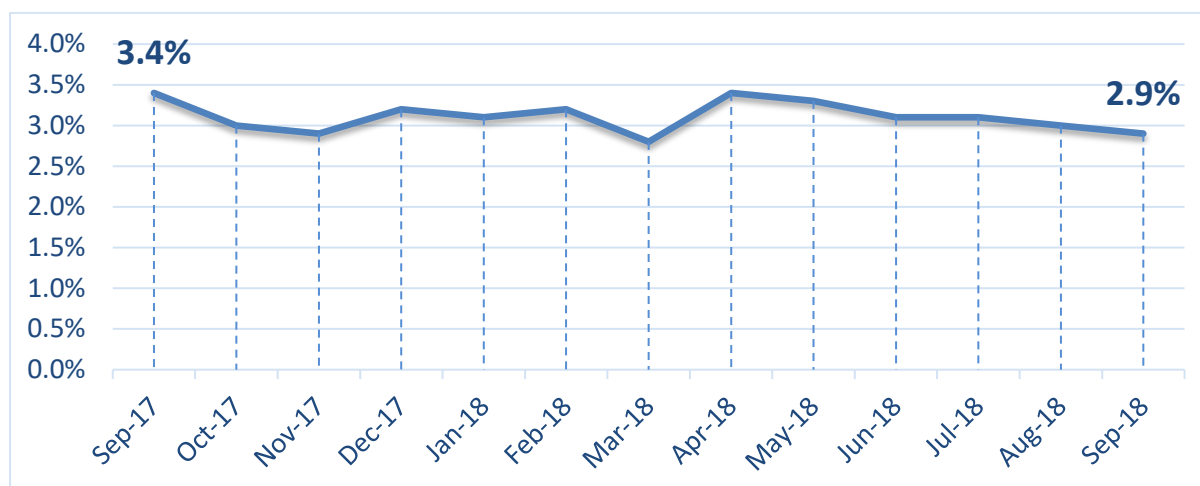


Source: Member States' Central Banks

In **Botswana**, the annual inflation rate continued to decelerate to 2.9 percent in September 2018 compared to 3.0 percent in the preceding month, as reflected in **Chart 2**. The annual rate in September 2018 was lower than the 3.4 percent recorded during a similar month in 2017. The deceleration in the annual inflation rate in September 2018 when compared to September 2017 was mainly driven by the decline of prices in *food & non-alcoholic beverages* (-0.9 percent compared to 2.8 percent in September 2017) and *housing & utilities* (3.4 percent compared to 5.8 percent in September 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 7.3 percent in September 2018 compared to an increase of 1.7 percent during the corresponding month in 2017.

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

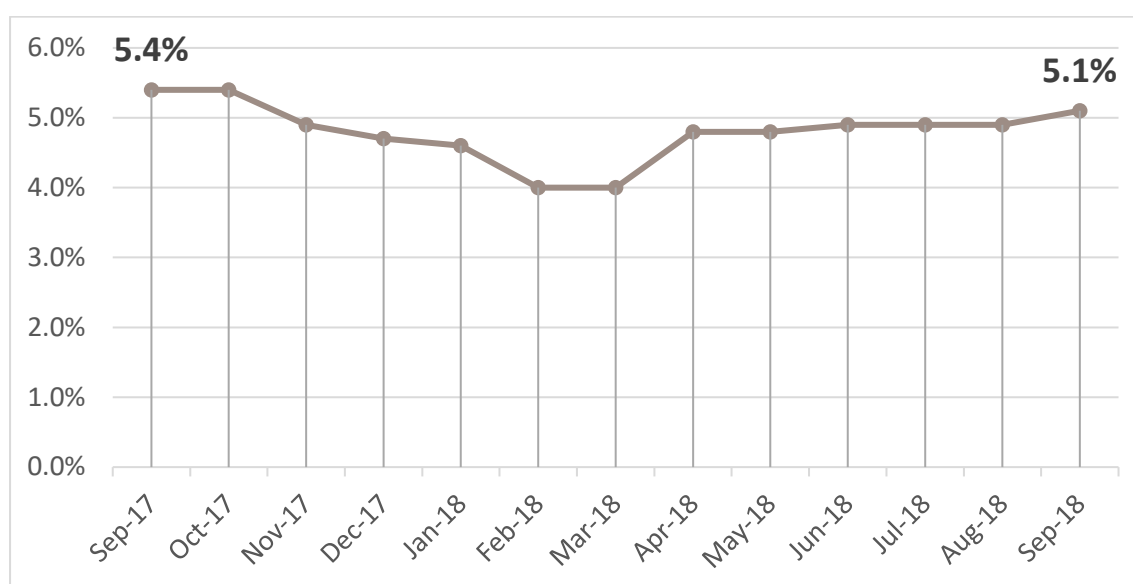
Chart 2: Botswana Annual Inflation Rates



Source: Statistics Botswana

In **Eswatini**, the annual inflation rate increased by 5.1 percent in September 2018 compared to 4.9 percent in the preceding month as indicated in **Chart 3**. Annual inflation rate in September 2018 was lower than the 5.4 percent recorded during a similar month in 2017. The main contributor to the deceleration in prices between September 2018 and September 2017 was mainly due to the decline in prices of *food & non-alcoholic beverages* (-0.7 percent down from 4.9 percent in September 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 4.8 percent, respectively, in September 2018. On average, prices increased by 0.2 percent between September 2018 and August 2018.

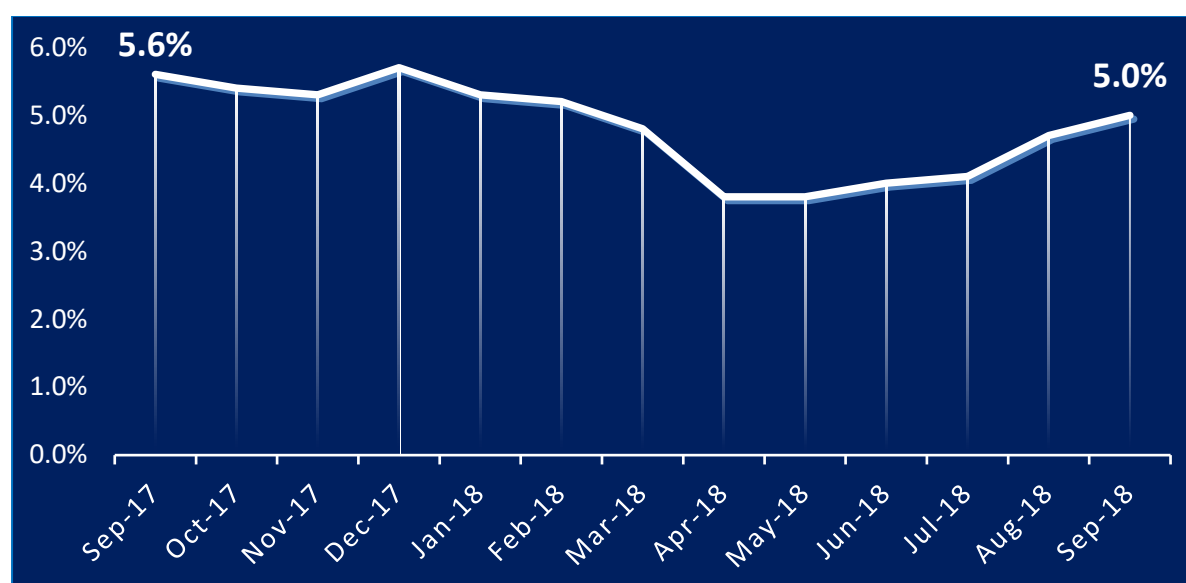
Chart 3: Eswatini Annual Inflation Rates



Source: Central Statistics Office

In **Lesotho**, the annual inflation rate increased by 5.0 percent in September 2018 compared to 4.7 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 September 2018 and September 2017 was mainly reflected in the decline in cost of *food & non-alcoholic* category (4.4 percent down from 7.5 percent in September 2017) that accounts for 36.1 percent of the overall inflation basket. The other main categories based on the basket weights, the *clothing & footwear* and *housing & utilities* categories reflected that prices increased by 2.3 percent and 12.4 percent, respectively in September 2018. On average, prices increased by 0.4 percent between September 2018 and August 2018.

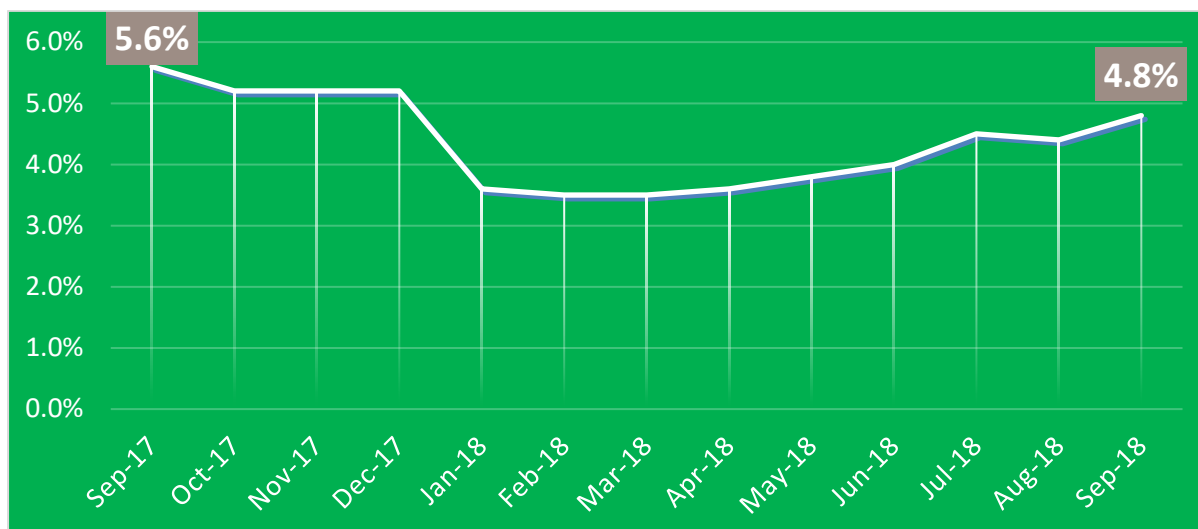
Chart 4: Lesotho Annual Inflation Rates



Source: Lesotho Bureau of Statistics

In **Namibia**, the annual inflation rate increased by 4.8 percent in September 2018 compared to 4.4 percent in the previous month. A year earlier inflation rate was 5.6 percent during the corresponding month as reflected in **Chart 5**. The deceleration in the annual inflation rate between September 2018 and September 2017 was mainly reflected in prices of *housing & utilities* (3.8 percent down from 8.9 percent in September 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 2.5 percent and 12.9 percent, respectively in September 2018. On average, prices increased by 0.8 percent between September 2018 and August 2018.

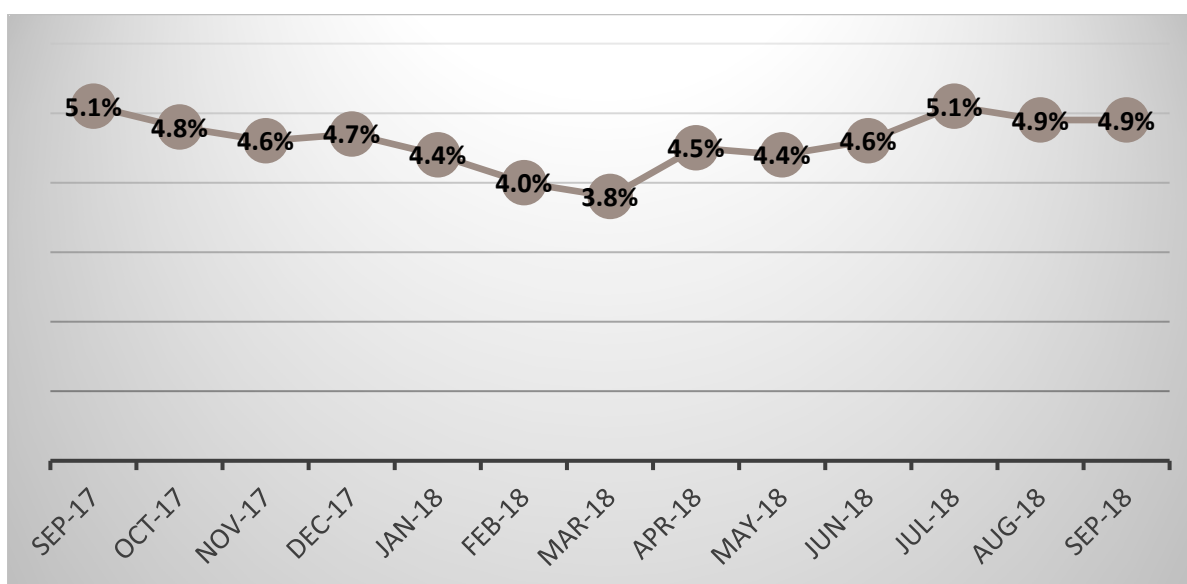
Chart 5: Namibia Annual Inflation Rates



Source: Namibia Statistics Agency

In **South Africa**, the annual inflation rate increased by 4.9 percent in September 2018 unchanged from the previous month as depicted in **Chart 6**. The annual rate in September 2018 was lower than the 5.1 percent recorded during the similar month in 2017. The main contributors to the annual inflation rate in September 2018 were *housing & utilities (1.3 percentage points)* followed by *transport (1.2 percentage points)* and *miscellaneous goods & services (0.9 percentage points)*. On average, prices increased by 0.5 percent between September 2018 and August 2018. The annual inflation rate in September 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

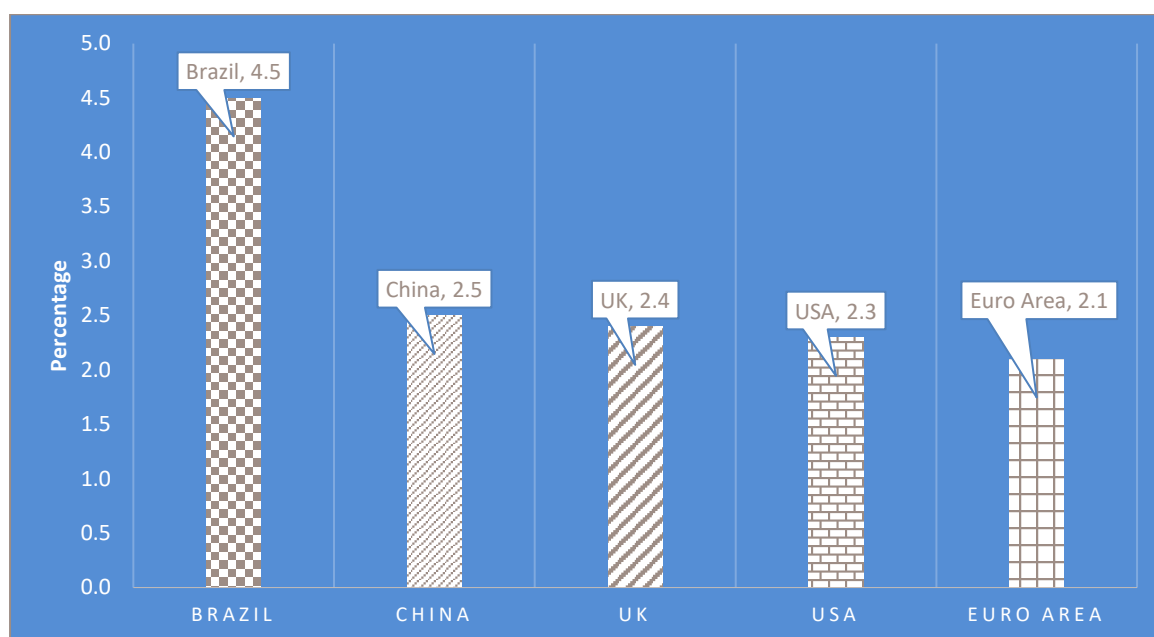


Source: Statistics South Africa

Inflation Rate for Selected Economies

Chart 7, indicates inflation rates in selected economies for the month of September 2018. In **Brazil**, inflation rate rose by 4.5 percent in September 2018 compared to 4.2 percent in the previous month and the rate was 2.5 percent in September 2017. In **China** consumer prices rose by 2.5 percent compared to 2.3 percent in the preceding month while the rate was 1.9 percent. While in the **UK** consumer prices rose by 2.4 percent in September 2018 compared to 2.7 percent in August 2018, while the rate was 3.0 percent in September 2017. In the **USA**, inflation rate rose by 2.3 percent in September 2018 compared to 2.7 percent in the preceding month, and 2.2 percent in September 2017. In the **Euro area** annual inflation was 2.1 percent in September 2018 compared with 2.0 percent in August 2018, while the rate was 1.5 percent during a similar month in 2017.

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



Source: *inflation.eu*

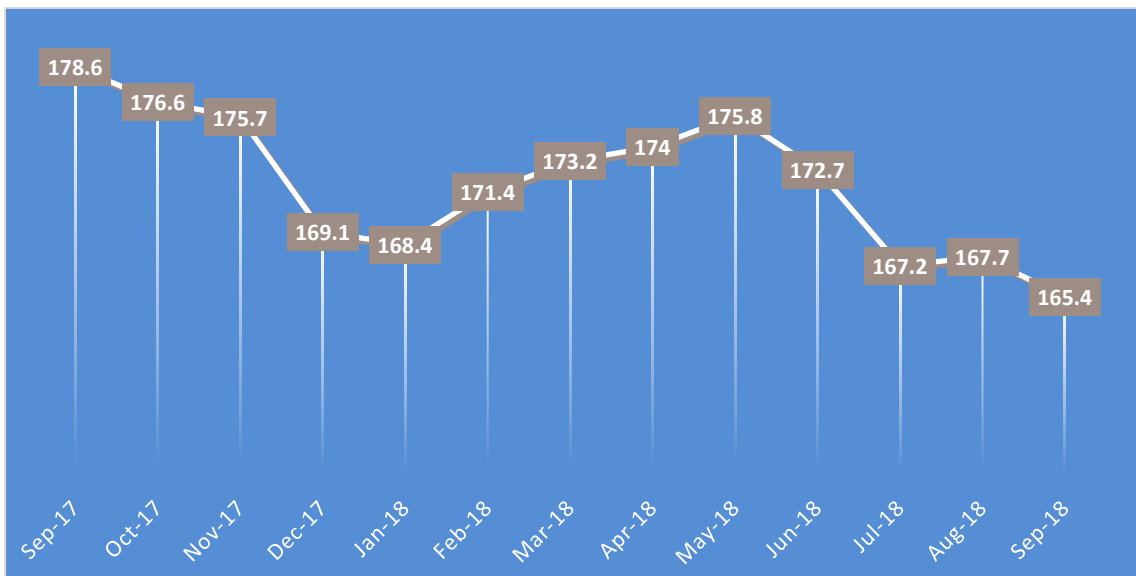
FAO Food Price Index

Chart 8 shows that the FAO **Food Price Index**² (FFPI) averaged at 165.4 points in September 2018, down by 1.4 percent from August 2018 and 7.4 percent below its level in the corresponding period last year. Only the sugar price index firmed in September, whereas the values of the other sub-indices, led by cereals, dropped from the previous month.

The **FAO Cereal Price Index** averaged at 164.0 points in September 2018, down by 2.8 percent from August 2018. The decline was mainly reflected in the maize export quotations, which fell by at by 4.0 percent from August, mostly on expectations ample supply prospects globally. The **FAO Vegetable Oil Price Index** averaged at 134.9 points in September 2018, down by 2.3 percent from August 2018. The decline was mainly due to prices weakened across the vegetable oil sector, with palm oil registering the most notable decline. The **FAO Dairy Price Index** averaged 191.5 points in September 2018, down by 2.4 percent from the previous month, continuing the downward trend for the fourth consecutive month. The **FAO Meat Price Index** averaged at 166.2 points in September 2018, down marginally from its revised value for August 2018. International prices of bovine and pig meat remained mostly stable, while those of ovine meat and poultry rose. The **FAO Sugar Price Index** averaged at 161.4 points in September 2018, up by 2.6 percent from August 2018. The increase in September was largely linked to the ongoing sugar harvesting operations in Brazil, the world's largest sugar producer and exporter. Drought conditions in Brazil during the critical growing season are seen to have had negative impacts on sugarcane yields, with harvested cane volumes falling below expectations.

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

Chart 8: FAO Food Price Index

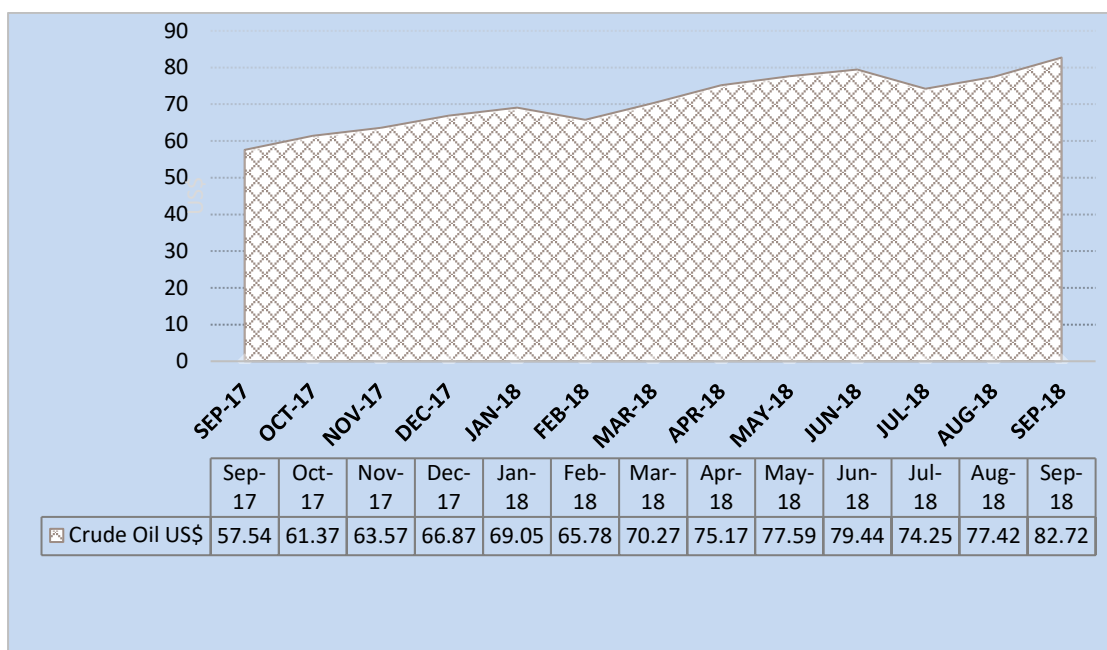


Source: Food and Agriculture Organization of the United Nations

Brent Crude Oil Prices

Brent crude oil price closed at USD82.72 per barrel at the end of September 2018, which was 6.8 percent higher than at the end of August 2018. Year-on-year, the price level was higher than the USD57.54 per barrel recorded at the end of September 2017 as highlighted in **Chart 8**.

Chart 8: Brent Crude Oil



Source: www.cnbc.com

Appendix

Annual Inflation Rates by Main Categories (September 2018)

Main Categories	Botswana	Eswatini	Lesotho	Namibia	South Africa
Food & non-alcoholic beverages	-0.9	-0.7	4.4	2.5	3.9
Alcoholic beverages & tobacco	0.8	2.9	6.3	5.6	4.2
Clothing & footwear	1.7	-0.5	2.3	-3.2	1.9
Housing, water, electricity, gas & other fuels	3.4	13.9	12.4	3.8	5.3
Furnishings, household equipment &...	2.2	3.3	3.3	0.3	3.0
Health	1.0	0.9	1.1	5.0	5.4
Transport	7.3	4.8	10.6	12.9	8.7
Communications	-9.1	0.0	0.0	-1.2	1.1
Recreation & Culture	1.9	3.5	4.4	5.0	0.5
Education	5.4	6.9	1.6	9.9	6.7
Hotels, cafés & restaurants	3.4	2.5	2.0	3.6	4.6
Miscellaneous goods & services	7.4	0.7	2.7	3.9	5.5
All Items	2.9	5.1	5.0	4.8	4.9

Source: SACU Member States Statistics Offices

Consumer Price Index Basket Weights

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

Source: SACU Member States Statistics Offices