



## CPI Update: Core inflation remains subdued

Out of the Ordinary®

**Investec**  
Group Economics

21<sup>st</sup> September 2011

Figure 1: Year/year inflation (%)

	Aug 2011	Jul 2011	Aug 2010	Investec Forecast	Consensus Estimate
CPI	5.3	5.3	3.5	5.5	5.5

Source: Stats SA, Investec

### Executive Summary

CPI inflation for August came out lower than expected, at 5.3% y/y (5.5% y/y expected), driven by higher food and petrol prices.

CPI inflation excluding food and non-alcoholic beverages, petrol and energy (core inflation) remained below the midpoint of the inflation target range, coming out at 3.8% y/y in August. The SARB will monitor it closely to gauge underlying demand driven inflationary pressures but with growth slowing, core inflation is unlikely to rise sharply in the coming months.

We expect CPI inflation to continue on its upward trajectory in coming months, breaching the upper end of the inflation target range in January, before moving below the target range throughout the forecast period. The depreciation of the rand remains the most significant risk to the inflation outlook. If it persists, inflation could be out of the target range sooner and for longer than expected.

Figure 2: CPI month/month inflation (%)

	Jul 2011	Aug 2011
Food and non-alcoholic beverages	0.1	0.1
Housing and utilities	0.7	0.0
Transport	0.0	0.1
Miscellaneous goods and services	0.1	0.0
Total	0.9	0.2

Source: Stats SA

### Analysis

**Food:** Domestic food price inflation has increased from around 1.1% y/y in July last year to 7.3% y/y currently, largely driven by processed food prices. The rise in processed food inflation is reflective of elevated input costs in the production process, mainly, electricity and wages. Notable price increases on the month came from fruits (4.9% m/m) and vegetables (0.5% m/m). The rise in domestic food inflation has not been as rapid as was feared, this could be due to rand strength for most of the year and SA's good maize harvest. There could still be upward price pressures in the domestic food prices related to the steep electricity price increases this year, despite the slowdown in domestic growth. Global food prices are showing signs of moderation after steep increases since late 2010, slowing to 17.5% y/y in September, compared with the 40% y/y increase earlier in the year. With global economic growth slowing, global food price inflation is likely to moderate further in the coming months.

**Transport:** The increase in transport inflation was driven by petrol and other running costs. The rise in the petrol category was due to the 17c/litre increase in the petrol price on the month and a further 9c/litre increase has been announced for September.

### Outlook

The outlook for inflation has deteriorated since the start of the year due to the rise in petrol, food and other administered prices. If these items are excluded, core inflation is still below the mid point of the inflation target range, showing that inflation is not driven by excessive demand but exogenous factors. With domestic demand slowing, core inflation could remain low for a protracted period, until demand gains traction.

We expect inflation to rise in the coming months driven mainly by petrol and food prices. The weakening rand exchange rate will exacerbate the rise in inflation. The global growth outlook has deteriorated markedly in the past few months, which does not bode well for SA's export growth and economic growth in general. The SARB is likely to have lowered its growth forecast on the back poor incoming data and the expectation that weak global growth will remain for some time. The tone of the statement will

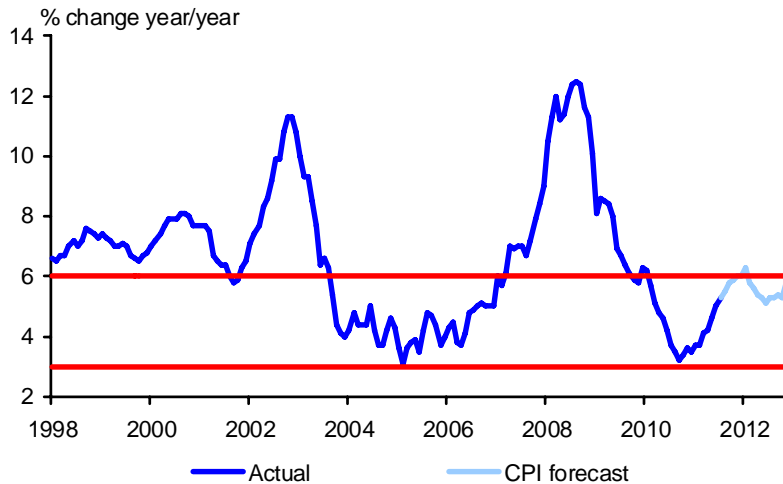


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give an indication of how concerned the SARB is about the growth outlook and could give insight on future changes in interest rates. We expect the SARB to leave interest rates unchanged tomorrow, with the first hike in interest rates only likely in 2012 at the earliest.

Figure 3: SA Consumer Inflation: History and Forecasts



Sources: Stats SA, Investec

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