

# Nedbank

## Economic commentary

29 April 2009

### CONSUMER INFLATION

#### *Inflation remains stickier than initially anticipated*

Latest (March 2009)

Overall: 8,5% y-o-y, 1,3% m-o-m (8,6% y-o-y in February 2008)

Nedbank forecast: 8,2% y-o-y

Market forecast: 8,4% y-o-y

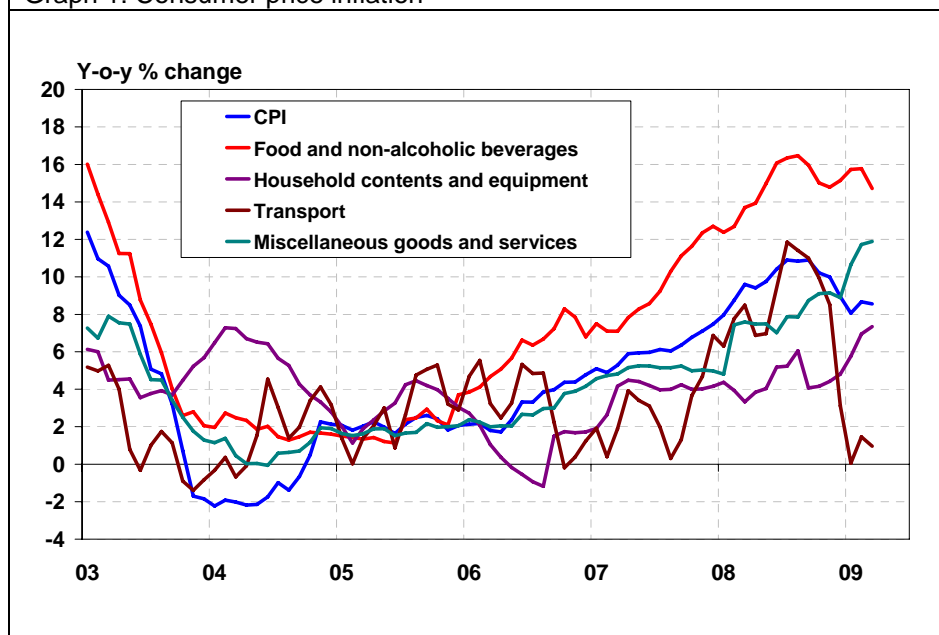
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Graph 1: Consumer price inflation



#### Comment

Consumer inflation fell by less than expected in March, partly reflecting the impact of the high survey month.

Both goods and services inflation remained sticky. Goods' prices increased notably in March, with prices of non-durable goods, which account for 33% of the CPI basket, rising by 2,0% m-o-m and by 11,8% y-o-y.

Food prices increased by 0,4% m-o-m, more than reversing the 0,1% m-o-m decline recorded in February, as prices of meat (0,8% m-o-m), milk, eggs and cheese (1,6% m-o-m) as well as fruit (2,7% m-o-m) rose during March. Food inflation, however, continued to ease, dropping to 14,9% y-o-y, reflecting the high base established in 2008.

On the services side, seasonal increases in education costs were the main contributors to the higher-than-expected inflation figure. Primary and secondary school fees increased by 11,9% m-o-m, while tertiary fees increased by 8,4% m-o-m, both exceeding the average 7% increase recorded in 2008.

The further increase in transport costs was due to another rise in private transport operation, which rose by 5,9% m-o-m following the 7,9% rise in February and after a series of notable monthly declines. Petrol prices, which were 7,0% m-o-m higher on the back of the 36 cents per litre hike in April, also contributed to higher transport inflation.

Increases in actual rentals for housing and owner's equivalent rent, which are surveyed quarterly, were in line with recent trends, rising by 1,1% m-o-m and 1,0% m-o-m respectively, and thus did not contribute significantly to housing costs.

## **Outlook**

Although inflation has proven to be stickier than we initially expected, we still forecast it to fall in the second half of this year, dropping to below 6% in the third quarter.

Changes in food prices will remain crucial to the direction of inflation in the next few months. February's marginal 0,1% decrease in food prices was more than offset by the 0,4% increase in March. Additionally, our monthly snap survey of prices points some price increases by the key retailers during April, suggesting that food inflation could remain sticky in the next few months.

Services inflation, which tends to be backward looking, may still rise this year reflecting last year's higher inflation. However, the contraction in demand for services in the fourth quarter suggests that insurers, hoteliers and restaurateurs may have to revise plans to increase prices much further this year.

The rand and energy prices will also remain key. The rand has firmed notably in recent weeks, and this will contribute to lower imported inflation. Petrol prices in particular would benefit from rand strength and steady international oil prices.

Overall, low international commodity prices and weak domestic demand conditions should contribute to falling inflation, with CPI expected to drop to within the SARB's target range in the third quarter of this year.

## **Implications**

Despite the mildly negative numbers on the short-term inflation outlook, we still expect the SARB to look beyond the next few months' inflation figures and continue to focus on the medium-term inflation outlook as well as the rapidly deteriorating prognosis for the domestic economy. The MPC is thus likely to continue easing in the short term to try and offset some of the effects of the global recession on the domestic economy.

We still expect another cut of 100 basis points at tomorrow's MPC meeting, which is likely to be followed by further cuts that will bring prime to around 10% by September from the current 13%.

	CPI								
	Weights	March 2009					February 2009		
		Base 2008	Month-on-month	Year-on-year		Average	Average	Month	Year
			%	%	%	m-o-m	y-o-y	%	%
		contrib			past 3 yrs	past 3 yrs			
<b>CPI for all urban areas</b>	100	1.3	1.3	8.6	1.2	7.81	1.2	8.7	
<b>Food and non-alcoholic beverages</b>	<b>15.68</b>	<b>0.5</b>	<b>0.1</b>	<b>14.7</b>	<b>0.8</b>	<b>11.83</b>	<b>0.2</b>	<b>15.8</b>	
Food	14.27	0.4	0.1	14.9	0.7	11.83	-0.1	15.8	
Bread and cereals	3.08	-0.2	0.0	19.9	1.4	17.18	-0.3	23.8	
Meat	4.59	0.8	0.0	10.8	-0.3	10.34	0.4	9.7	
Fish	0.66	-0.5	0.0	20.6	0.0	11.63	0.2	19.7	
Milk, eggs and cheese	1.79	1.6	0.0	12.3	1.7	13.67	-0.1	14.0	
Oils and fats	0.53	-2.8	0.0	11.8	2.3	21.64	-1.9	25.6	
Fruit	0.47	2.7	0.0	13.4	2.4	6.47	-0.6	8.9	
Vegetables	1.63	-1.5	0.0	18.6	0.3	12.97	-0.7	19.3	
Sugar, sweets and deserts	0.77	1.9	0.0	15.3	0.5	8.82	0.3	13.4	
Other	0.75	0.9	0.0	16.8	1.3	11.47	0.5	18.6	
Non-alcoholic beverages	1.41	1.2	0.0	13.3	1.9	8.81	3.0	15.5	
<b>Alcoholic beverages and tobacco</b>	<b>5.58</b>	<b>4.7</b>	<b>0.3</b>	<b>10.7</b>	<b>4.1</b>	<b>8.92</b>	<b>0.0</b>	<b>10.1</b>	
Alcoholic beverages	3.29	4.8	0.2	8.8	3.8	7.42	0.9	7.5	
Tobacco	2.29	4.5	0.1	13.5	4.6	11.01	1.2	14.1	
<b>Clothing and footwear</b>	<b>4.11</b>	<b>0.6</b>	<b>0.0</b>	<b>4.9</b>	<b>0.1</b>	<b>1.79</b>	<b>0.9</b>	<b>4.6</b>	
Clothing	2.9	0.6	0.0	5.4	0.1	1.87	1.0	5.1	
Footwear	1.21	0.5	0.0	3.8	-0.1	1.51	0.4	3.4	
<b>Housing and utilities</b>	<b>22.56</b>	<b>0.7</b>	<b>0.2</b>	<b>8.1</b>	<b>0.8</b>	<b>10.63</b>	<b>0.0</b>	<b>9.1</b>	
Actual rentals for housing	3.49	1.1	0.0	6.4	1.2	9.22	0.0	8.1	
Owners equivalent rent	12.21	1.0	0.1	0.0	1.1	0.00	0.0	0.0	
Maintenance and repairs	1.68	0.2	0.0	17.3	0.0	10.90	0.6	16.8	
Water and other services	3.31	0.0	0.0	0.0	0.0	0.00	0.0	0.0	
Electricity and other fuels	1.87	0.0	0.0	30.1	0.1	15.19	-0.2	30.3	
<b>Household contents and equipment</b>	<b>5.86</b>	<b>1.0</b>	<b>0.1</b>	<b>7.3</b>	<b>0.9</b>	<b>4.95</b>	<b>0.8</b>	<b>7.0</b>	
Furnishings, floor coverings and textiles	2.17	-0.3	0.0	1.9	-0.4	-1.21	0.5	1.3	
Appliances, tableware and equipment	1.05	1.4	0.0	14.7	1.1	6.17	2.5	14.6	
Supplies and services	2.64	1.8	0.0	9.0	1.8	8.07	0.4	8.7	
Domestic workers wages	1.99	0.9	0.0	6.2	1.5	7.45	0.0	6.5	
<b>Health</b>	<b>1.47</b>	<b>2.3</b>	<b>0.0</b>	<b>11.5</b>	<b>0.8</b>	<b>8.40</b>	<b>6.2</b>	<b>9.2</b>	
<b>Transport</b>	<b>18.8</b>	<b>1.2</b>	<b>0.2</b>	<b>1.0</b>	<b>1.4</b>	<b>3.78</b>	<b>1.8</b>	<b>1.5</b>	
Purchase of vehicles	11.25	0.2	0.0	2.1	0.1	-0.66	0.6	1.9	
Private transport operation	4.82	5.9	0.3	-9.1	5.2	8.68	7.9	-8.3	
Petrol	3.93	7.0	0.3	-14.8	6.3	9.65	10.5	-14.0	
Other running costs	0.89	2.7	0.0	14.8	1.9	10.02	1.1	14.2	
Public Transport	2.73	-0.7	0.0	13.8	0.0	5.80	-0.6	15.7	
<b>Communication</b>	<b>3.22</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.7</b>	<b>0.0</b>	<b>0.00</b>	<b>-0.1</b>	<b>0.7</b>	
<b>Recreation and culture</b>	<b>4.19</b>	<b>4.8</b>	<b>0.2</b>	<b>15.0</b>	<b>1.6</b>	<b>5.05</b>	<b>1.0</b>	<b>9.7</b>	
<b>Education</b>	<b>2.19</b>	<b>10.5</b>	<b>0.2</b>	<b>10.5</b>	<b>8.0</b>	<b>8.02</b>	<b>0.0</b>	<b>7.0</b>	
<b>Restaurants and hotels</b>	<b>2.78</b>	<b>1.9</b>	<b>0.1</b>	<b>13.5</b>			<b>0.9</b>	<b>13.4</b>	
<b>Miscellaneous goods and services</b>	<b>13.56</b>	<b>0.7</b>	<b>0.1</b>	<b>11.9</b>	<b>0.6</b>	<b>8.10</b>	<b>3.7</b>	<b>11.7</b>	
Personal Care	2.20	3.1	0.1	15.6	1.7	8.73	1.5	13.3	
Insurance	7.71	0.0	0.0	7.5	0.2	6.98	6.4	8.2	
Financial Services	1.27	2.2	0.0	19.6	0.7	11.92	0.0	17.1	
Other Services	2.38	0.0	0.0	19.4	0.0	8.07	0.0	19.4	

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