

Nedbank

Economic commentary

26 August 2009

CONSUMER INFLATION

Inflation eased further in July

Latest (July 2009)

Overall: 6,7% y-o-y, 1,1% m-o-m (6,9% y-o-y in June 2009)

Nedbank forecast: 6,7% y-o-y

Market forecast: 6,6% y-o-y

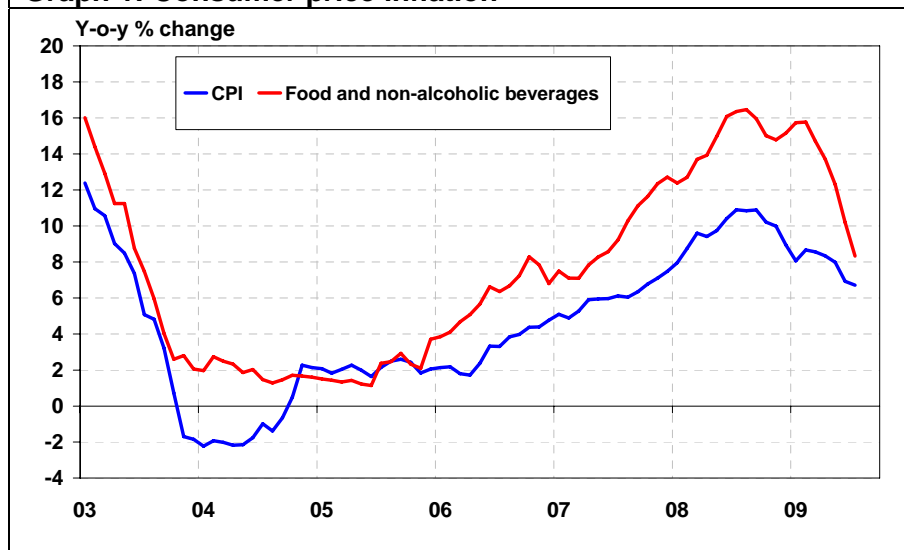
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Graph 1: Consumer price inflation



Comment

Consumer inflation rose at its slowest pace since September 2007, increasing by 6,7%, down from 6,9% in June. Administered price increases were the main reason behind the monthly increase. Higher insurance and financial services costs, which are surveyed quarterly, also contributed towards the monthly rise. The good news was that food prices fell over the month.

Electricity prices rose by 21,5% m-o-m, as a result of the Eskom tariff increase, taking the annual increase to 27,4%. Water and other services, which include rates and taxes, rose by 8,8% m-o-m, double the increase of 4,3% that was recorded in this category in July last year.

Food prices fell for the second consecutive month, declining by 0,6%, following a 0,4% fall in the previous month. As a result, food inflation eased to 7,6% from 9,9% in June.

Bread and cereals, meat, oils and fats as well as vegetables fell by 0,5%, 1,1%, 0,8% and 1,8% respectively.

Service inflation continued to put upward pressure on prices. Insurance costs rose by 10,5% y-o-y, up from 7,7% y-o-y in June. Financial service inflation eased, slowing to 17,8% in July from 20% in the previous month, although prices did rise by 1,2% over the month.

Outlook

Our preliminary forecast for August suggests that inflation will ease further to around 6,2%. Thereafter consumer inflation is expected to remain just above 6% until December. Extremely weak domestic demand combined with consistent rand strength could briefly push inflation below 6%. The impact will probably be particularly pronounced on durable goods inflation, which rose following the rand's decline late last year. Lower domestic agricultural prices and falling food prices at the manufacturing level should continue to exert downward pressure on food inflation. Rising international agricultural prices as well as higher input costs for retailers, other than food, may put some upward pressure on prices, but this is unlikely to change the overall downward trend.

The outlook may be complicated by the recent above-inflation wage round, which unless accompanied by increased productivity or retrenchments, will put upward pressure on firms' costs. However, extremely weak domestic demand will probably limit the extent to which these cost increases can be passed on to the consumer. Services inflation, which tends to be backward looking, could also partially offset lower goods inflation.

Implication

Today's inflation figure helps to confirm our view that the inflation outlook is improving and will probably give the SARB the scope it needs to cut rates one last time in this cycle. History suggests that there are often longer pauses near the bottom of the cycle, as indicators send conflicting signals. As a result, we anticipate that the Reserve Bank will hold off cutting rates in September. By October, the inflation outlook would have improved further, but growth prospects should still look extremely weak. One last cut of 50 basis points is therefore still possible, bringing the prime lending rate down to 10% before year-end.

	CPI							
	Weights	July 2009					June 2009	
		Base 2008	Month-on-month %	% contrib	Year-on-year %	Average m-o-m past 3 yrs	Average y-o-y past 3 yrs	Month %
CPI for all urban areas	100	1.1	1.12	6.7	1.1	7.91	0.4	6.9
Food and non-alcoholic beverages	15.68	-0.4	-0.06	8.3	0.7	11.30	-0.3	10.2
Food	14.27	-0.6	-0.09	7.6	0.7	11.30	-0.4	9.9
Bread and cereals	3.08	-0.5	-0.01	3.7	0.9	16.54	-0.1	6.0
Meat	4.59	-1.1	-0.05	6.2	0.2	8.81	-0.2	8.6
Fish	0.66	1.0	0.01	11.4	0.9	10.16	-0.1	11.4
Milk, eggs and cheese	1.79	0.3	0.00	11.4	1.5	14.14	0.3	13.1
Oils and fats	0.53	-0.8	0.00	-9.1	0.8	20.30	-0.9	-7.2
Fruit	0.47	0.1	0.00	10.0	0.4	9.16	-6.5	10.1
Vegetables	1.63	-1.8	-0.03	14.4	0.4	11.14	-0.7	17.2
Sugar, sweets and deserts	0.77	0.0	0.00	12.0	0.9	9.60	0.2	14.9
Other	0.75	0.3	0.00	13.1	1.5	11.85	0.1	15.7
Non-alcoholic beverages	1.41	1.7	0.02	14.8	1.0	9.85	0.0	13.6
Alcoholic beverages and tobacco	5.58	1.1	0.06	11.5	0.7	9.37	0.0	10.5
Alcoholic beverages	3.29	0.2	0.01	8.5	0.3	7.48	-0.1	8.6
Tobacco	2.29	2.4	0.06	16.0	1.2	12.04	0.1	13.3
Clothing and footwear	4.11	0.5	0.02	5.3	-0.1	3.42	0.3	4.9
Clothing	2.9	0.6	0.02	5.5	-0.1	3.59	0.2	5.1
Footwear	1.21	0.4	0.00	4.6	-0.1	2.99	0.3	4.2
Housing and utilities	22.56	3.3	0.74	8.2	2.9	10.50	1.0	7.3
Actual rentals for housing	3.49	0.0	0.00	5.6	0.3	8.33	1.8	5.6
Owners equivalent rent	12.21	0.0	0.00	0.0	0.0	0.00	1.4	0.0
Maintenance and repairs	1.68	0.8	0.01	13.1	3.6	9.34	0.4	13.5
Water and other services	3.31	8.8	0.29	0.0	4.4	0.00	0.0	0.0
Electricity and other fuels	1.87	21.5	0.40	27.4	17.7	19.45	-0.2	28.6
Household contents and equipment	5.86	-0.2	-0.01	6.7	0.0	5.30	0.9	7.0
Furnishings, floor coverings and textiles	2.17	-0.5	-0.01	0.4	-0.5	-1.36	-0.5	0.2
Appliances, tableware and equipment	1.05	-0.9	-0.01	13.3	0.2	6.32	0.3	15.9
Supplies and services	2.64	0.3	0.01	9.1	0.2	8.98	2.2	9.0
Domestic workers wages	1.99	0.0	0.00	6.4	0.0	8.46	2.9	6.4
Health	1.47	0.1	0.00	10.9	0.2	8.56	-0.1	11.4
Transport	18.8	0.7	0.13	-3.4	0.9	3.46	0.5	-2.2
Purchase of vehicles	11.25	-0.5	-0.05	3.0	0.0	0.22	0.1	3.9
Private transport operation	4.82	4.2	0.20	-20.0	3.2	9.21	1.7	-18.5
Petrol	3.93	5.2	0.20	-26.3	3.7	9.58	2.2	-25.0
Other running costs	0.89	0.7	0.01	12.2	0.9	10.37	0.2	13.2
Public Transport	2.73	0.1	0.00	3.3	0.5	6.20	0.8	4.7
Communication	3.22	-0.1	0.00	0.6	-0.2	-0.01	-0.3	0.6
Recreation and culture	4.19	0.5	0.02	13.7	0.3	5.63	-0.4	13.4
Education	2.19	0.0	0.00	10.5	0.0	8.02	0.0	10.5
Restaurants and hotels	2.78	0.3	0.01	10.4			0.5	12.0
Miscellaneous goods and services	13.56	1.8	0.24	12.8	0.9	8.61	0.2	11.8
Personal Care	2.20	0.2	0.00	15.7	0.1	9.18	0.1	15.6
Insurance	7.71	3.1	0.24	10.5	1.2	7.83	0.1	7.7
Financial Services	1.27	1.2	0.02	17.8	1.4	11.68	0.4	20.0
Other Services	2.38	0.0	0.00	15.1	0.7	7.66	0.0	17.2

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