

Nedbank

Economic commentary

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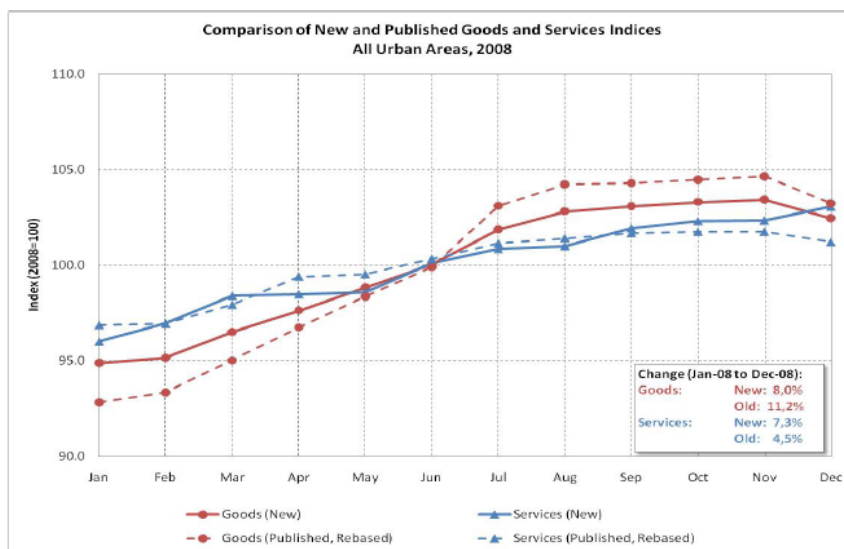
CONSUMER INFLATION

The CPI new basket parallel survey

Comment

During 2008 Statistics South Africa conducted a parallel price survey, collecting data for the new CPI basket. The results of this and the differences between the calculations using the old and new baskets were released today, providing a better indication of the outlook for inflation. Although the gap between the old CPI and the new CPI measures have narrowed - as we suggested might be the case, due to the reduced impact of lower fuel prices - consumer inflation is still expected to ease quite sharply when the January figures are released later this month.

We estimate that the new target CPI inflation figure will fall to around 7,4% in January as a result of these changes as well as further declines in the petrol prices and an expected easing in food prices.



StatsSA

StatsSA highlighted a number of differences between the old and the new series. Services inflation, which now has a bigger weight in the new basket, is growing at a faster pace. This is mainly as a result of stronger growth in owner's equivalent rent (OER), when compared with mortgage costs. Inflation in the new restaurants and hotels category as well as in the miscellaneous category, which includes insurers, is above 10%.

Goods inflation, which includes food and fuel, is expected to be lower due to the reduced weighting of these two categories. However, as a result of the lower weightings for food and fuel, the pace of declines going forward will be slower. Fuel prices have fallen sharply over the past few months, while food prices are

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expected to decline over the coming months.

Implications

Today's release of the parallel inflation survey did not contain any major surprises but rather confirms most analysts' expectations of a fall in consumer inflation to below 8% in January 2009. It also helps to bolster the case for a more aggressive rate cut at the 4 and 5 February Monetary Policy Committee (MPC) meeting. Given the lag between loosening monetary policy and the impact on the real economy, the Reserve Bank will probably opt to cut rates by 100 basis points in both February and April before reverting to 50 basis-point cuts in later meetings. The prime lending rate is now expected to end 2009 at 11%.

Major Category Changes	CPIX	new CPI
	Weights (100)	
Food and non alcoholic beverages	26.92	15.68
Alcoholic beverages and tobacco products	1.35	5,58
Housing and utilities	15.85	22.56
Transport	15.30	18.8

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