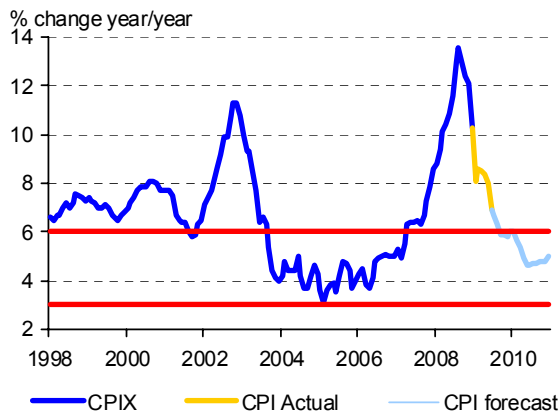




**Figure 1: SA consumer inflation: history and forecasts**



**Figure 2: Year/year inflation (%)**

	Jun 2009	May 2009	Jun 2008	Investec Forecast	Consensus Estimate
CPI	6.9	8.0	11.6*	7.2	7.2

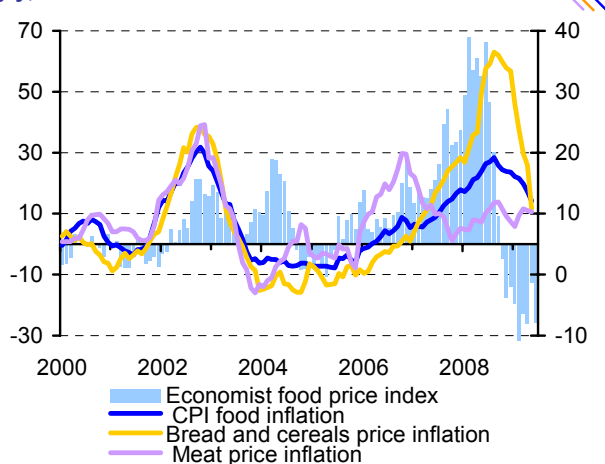
Note: \*2008 CPIX

**Figure 3: CPI month/month inflation (%)**

	Jun 2009	May 2009
Food & non-alcoholic beverages		0.1
Household contents & services	0.1	
Housing and utilities	0.2	
Transport	0.1	0.1
Residual		0.2
<b>Total</b>	<b>0.4</b>	<b>0.4</b>

CPI: Consumer Price Index.

**Figure 4: Change in domestic and international food prices, y/y, %**



Source: Statistics SA

**Executive summary:**

- Annual CPI inflation for June came in well below consensus estimates at 6.9% y/y, recording a huge fall from May's 8.0% y/y (consensus estimate was 7.2% y/y);
- June's inflation outcome will lower the inflation trajectory over the forecast period, resulting in CPI inflation regaining target by year end due to the effects of recessionary pricing;
- CPI inflation in the month was driven by the scheduled surveys for housing utilities (rent) and household contents (domestic workers wages), with food making a negative contribution to the total;
- Moderation in food price inflation was due to falling prices of unprocessed food on the month, in line with price trends in agricultural foods. Agricultural food prices have been on a downward path since last year, and further price easing in unprocessed food, and hence total food inflation is expected in coming months;
- We continue to believe that a sharp contraction in the economy in Q2.09, high job losses and a lower inflation trajectory will prompt the SARB to lower interest rates at the August MPC meeting. This will boost consumer and business confidence, a leading component of any economic recovery. We forecast a Q2.09 GDP outcome of -4.2%, if not closer to Q1.09's outcome.

**Analysis:**

**Food and non-alcoholic beverages:** Food price pressures are easing in line with domestic agricultural and international trends. We expect food price inflation to continue falling supported by lower production costs, the appreciated rand exchange rate and base effects from last year. Food price deflation in other categories besides oil and fats is likely by year end, as is continued steep food price disinflation.

**Housing and utilities:** Housing and utility prices increased by 7.3% y/y due to the quarterly surveys of actual rent and owners equivalent rent. Actual rent increased by 1.8% m/m and owners equivalent rent by 1.4% m/m (both below last year's increases of about 2.0% m/m), indicative of generalised weakness in the economy. Some upward pressure came from the maintenance and repairs category.

**Household contents and services:** Domestic workers' wages increased by 2.9% m/m, similar to the previous year but are likely to come under pressure as the recession affects employers' finances. In the year to June, 79 000 domestic workers were retrenched according to Statistics SA and domestic workers wage disinflation (on an annual basis) will continue.

**Transport:** Price pressures came mainly from the announced 15c/litre petrol price increase, contributing 0.1% to the monthly total. A 40c/litre price increase has been announced for July which will exert some upward pressure, but in August downward relief will come from the potential 30c/litre decline in petrol prices.

**Outlook**

June's lower than expected CPI inflation outcome entrenches the likelihood that inflation will enter target in the next nine months. The speed with which food inflation eases is key to the speed of moderation in CPI inflation. The SARB is likely to show an improved inflation prognosis, although the precise extent of electricity tariff increases on CPI inflation remains uncertain. The SARB will also be concerned by wage demands and settlements above 10.0%, as this could hamper the ability to anchor CPI inflation within the target band (3%-6%). We still expect a 50bp cut in interest rate at the August MPC meeting.



## SA Economic Research CPI Update



### Disclaimer

The information and materials presented in this report are provided to you for information purposes only and are not to be considered as an offer or solicitation of an offer to sell, buy or subscribe to any financial instruments. This report is intended for use by professional and business investors only. This report may not be reproduced in whole or in part or otherwise, without the consent of Investec.

The information and opinions expressed in this report have been compiled from sources believed to be reliable, but neither Investec, nor any of its directors, officers, or employees accepts liability for any loss arising from the use hereof or makes any representation as to its accuracy and completeness.

Investec, and any company or individual connected to it including its directors and employees may to the extent permitted by law, have a position or interest in any investment or service recommended in this report. Investec may, to the extent permitted by law, act upon or use the information or opinions presented herein, or research or analysis on which they are based before the material is published.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by Investec and are subject to change.

Investec is not agreeing to nor required to update research commentary and data. Therefore, information may not reflect events occurring after the date of publication. The value of any securities or financial instruments mentioned in this report can fall as well as rise. Foreign currency denominated securities and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. Certain transactions, including those involving futures and options, can give rise to substantial risk and are not suitable for all investors.

Investec may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them.

To our readers in Australia this does not constitute and is not intended to constitute financial product advice for the purposes of the Corporations Act.

To our readers in the United Kingdom: This report has been issued and approved by Investec Bank (UK) Limited, a firm regulated by the Financial Services Authority Limited and is not for distribution in the United Kingdom to private customers as defined by the rules of the Financial Services Authority Limited.

To our readers in the Republic of Ireland, this report is issued in the Republic of Ireland by Investec Bank (UK) Limited (Irish Branch), a firm regulated by the Financial Services Authority.

This report is disseminated in South Africa by Investec Bank Limited, a firm regulated by the South African Reserve Bank and in Switzerland by Investec Bank (Switzerland) AG.

This report is not intended for use or distribution in the United States or for use by any citizen or resident of the United States.