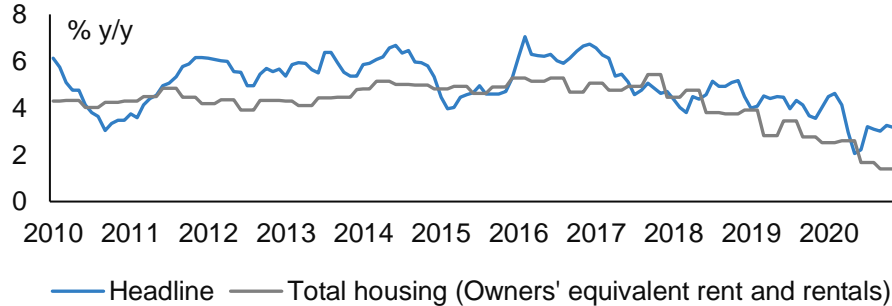




CPI Update: Fuel price cuts and modest growth in housing rentals had a slight dampening effect on headline CPI in December

20th January 2020

Figure 1: Headline and housing consumer inflation



Sources: SARB, Investec

- CPI inflation slowed marginally to 3.1% y/y, in December from 3.2% y/y in November.
- Lower fuel prices continued to have a dampening effect on headline CPI, dropping by -11.7% y/y in December from -10.4% y/y in November. This contributed to the -0.2% deduction to headline CPI from the transport component.
- December is a measurement month for rentals which continued to register slower rates of growth, reflective of the more subdued property market. Specifically, actual rentals inflation eased to 1.2% y/y in December from 1.4% y/y previously while owners' equivalent rent moderated to 1.1% y/y from a prior 1.4% y/y. Consequently, housing and utilities inflation slowed to 2.7% y/y in December from a prior 2.9% y/y.
- Food price inflation increased to 6.2% y/y in December from 5.9% y/y in. Notably, within the food basket, grain price inflation increased to 5.0% y/y from 4.2% y/y while meat price inflation rose to 7.3% y/y from 6.6% y/y. Meat prices have been normalising from low inflation, and in some instances actual price drops, the prior year while grain prices have been affected by upward pressure from export demand and the effects of a previously weaker currency. This year, according to Agbiz, favourable weather prospects and farmers' intentions to increase plantings suggest a larger harvest in 2021. While this may have a dampening on food price inflation this year, it is still too early to tell.
- Core CPI inflation remained steady at 3.3% y/y in December with both goods and services inflation rates unchanged at 2.6% y/y and 3.7% y/y, respectively.
- CPI inflation averaged 3.3% y/y in 2020 compared to 4.1% y/y in 2019. Drivers behind this moderation in CPI inflation included the substantial drop in fuel prices, relatively contained food price increases, relatively weak demand and fairly limited pass-through effects of currency weakness.

Figure 2: Contribution of different groups to the annual change, y/y in the CPI

| | November 2020 | December 2020 |
|----------------------------------|---------------|---------------|
| Food and non-alcoholic beverages | 1.0 | 1.0 |
| Alcoholic beverages and tobacco | 0.2 | 0.2 |
| Housing and utilities | 0.7 | 0.7 |
| Household contents and services | 0.1 | 0.1 |
| Health | 0.1 | 0.1 |
| Transport | -0.2 | -0.2 |
| Recreation and culture | 0.1 | 0.1 |
| Education | 0.2 | 0.2 |
| Miscellaneous goods and services | 1.1 | 1.1 |
| Residual | -0.1 | -0.2 |
| All items | 3.2 | 3.1 |

Source: Stats SA



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