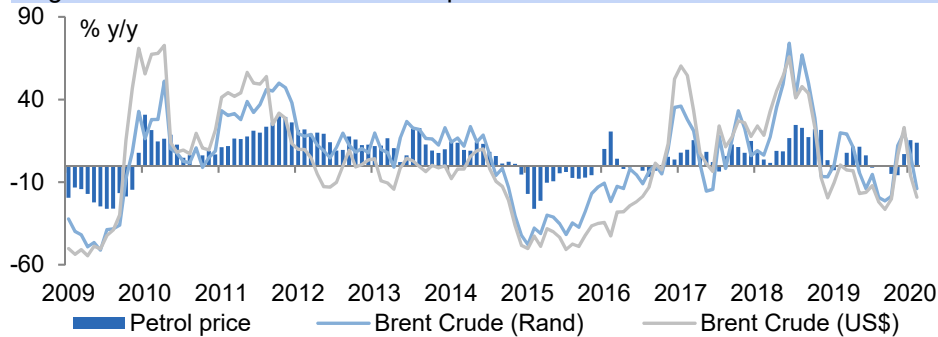




## CPI Update: CPI increased by 4.5% y/y in January versus 4.0% y/y previously on fuel price inflation dynamics

19<sup>th</sup> February 2020

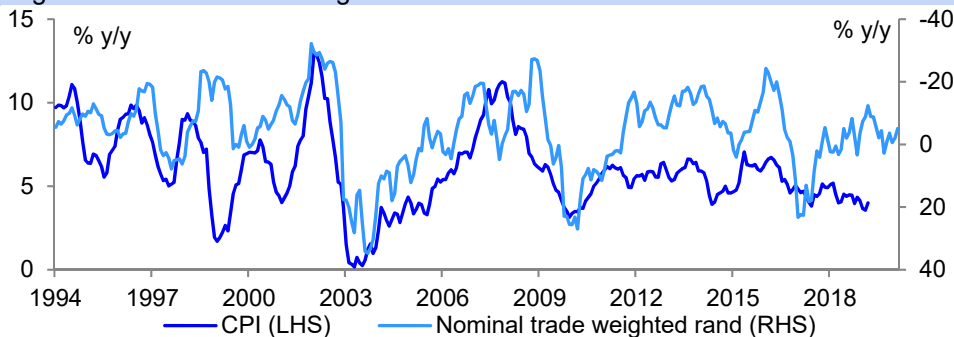
Figure 1: Petrol and Brent crude oil prices



Sources: Department of Energy, Bloomberg, Investec

- CPI inflation came out at 4.5% y/y in January compared to 4.0% y/y in December.
- The increase can be chiefly ascribed to statistical base effects in the fuel price component. This relates to the influence of the fuel price changes in January 2019 on the changes in this year's annual fuel price inflation rate.
- Specifically, January 2019 saw sizeable petrol and diesel price cuts of 123c/litre and 154c/litre respectively, translating to a fuel price decline of 10.2% m/m. The fuel price decrease in January 2020 was comparatively much smaller, at 0.3% m/m, translating to double digit year on year growth, of 13.7% y/y in January versus 2.4% y/y in December.
- Consequently, the annual contribution from the transport category to headline CPI inflation increased to 0.9% in January from 0.5% previously (see figure 3). The inflation rates moderated in all of the remaining components (purchase of vehicles, other running costs, public transport) of the transport category.
- Upward base effects in the fuel price will be a theme throughout Q1.20 thereby elevating headline CPI.
- Food price inflation dipped to 3.7% y/y in January from 3.8% y/y in December. The contribution of the food and non-alcoholic beverages category to headline CPI inflation lowered to 0.6% from 0.7% previously, with non-alcoholic beverage inflation also slowing in January.
- Food price growth is expected to remain contained on slower maize and meat price inflation in coming months. Favourable weather conditions and improved production prospects should dampen maize price inflation whilst meat price inflation is expected to remain low on "restricted exports following another outbreak of the foot-and-mouth disease in the country", according to Agbiz.
- Underlying inflation, or core, (measured by CPI excluding food and non-alcoholic beverages, fuel and energy) remained at multi-year lows in January, at a rate of 3.7% y/y versus a prior 3.8% y/y and versus the most recent peak of 5.9% y/y in December 2016. Core inflation should remain modest as subdued conditions in the property market and the broader economy are expected to persist.

Figure 2: Nominal trade weighted rand versus CPI inflation



Source: Stats SA, IRESS, Investec



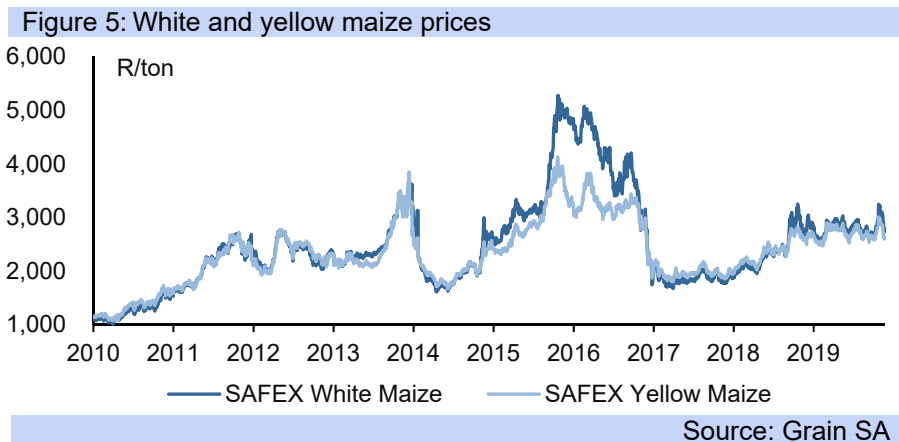
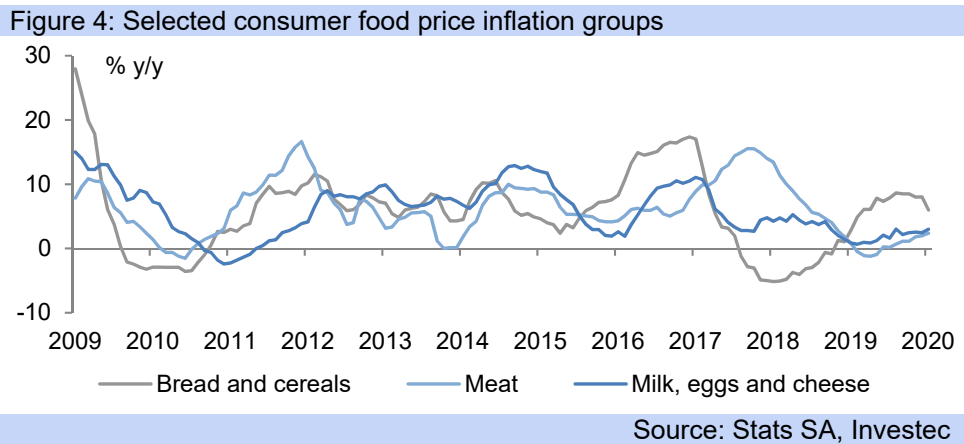
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**Figure 3: Contribution of different groups to the annual change, y/y in the CPI**

	December 2019	January 2020
Food and non-alcoholic beverages	0.7	0.6
Alcoholic beverages and tobacco	0.3	0.3
Clothing and footwear	0.1	0.1
Housing and utilities	1.1	1.2
Household contents and services	0.1	0.1
Health	0.1	0.1
Transport	0.5	0.9
Recreation and culture	0.1	0.0
Education	0.2	0.2
Restaurants and hotels	0.1	0.1
Miscellaneous goods and services	0.8	0.9
Residual	-0.1	0.0
<b>All items</b>	<b>4.0</b>	<b>4.5</b>

Source: Stats SA





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