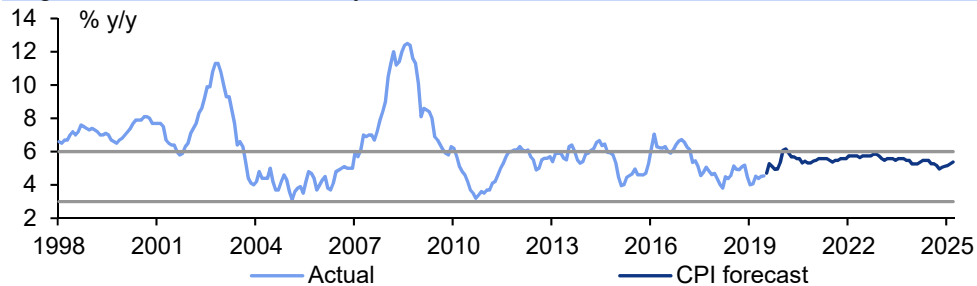




## CPI Update: Rate of CPI inflation remained unchanged at 4.5% y/y in June

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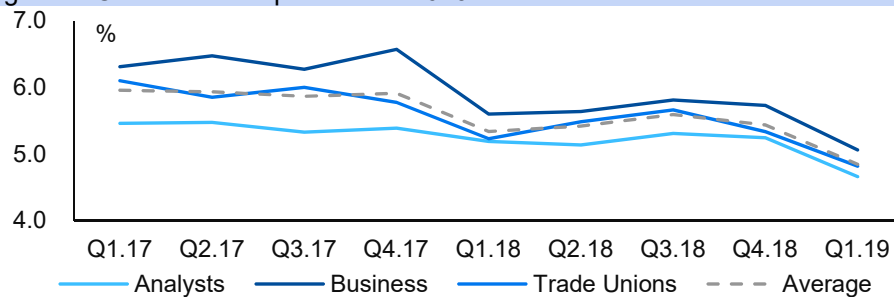
Figure 1: CPI inflation: history and forecasts



Source: Stats SA, Investec

- In June, CPI inflation increased at the same rate of 4.5% y/y as in May.
- The effect on headline June CPI inflation from higher contributions from the food and non-alcoholic beverages, alcoholic beverages and tobacco and housing and utilities categories were partially offset by a lower contribution from the transport category (see figure 3).
- In particular, food and non-alcoholic beverages, which comprise 17.24% of the CPI basket registered an uptick in inflation to 3.7% y/y from 3.2% y/y in May, yielding a contribution of 0.6% versus a prior 0.5%.
- Within this category, food price inflation rose to 3.2% y/y from 2.8% y/y previously. Meat prices rose, albeit at a muted pace of 0.3% y/y, after four months of deflation. Grain related food product price inflation exerted some upward pressure, with bread and cereals inflation remaining elevated at 7.3% y/y in June versus 7.8% y/y in May, whilst milk, eggs and cheese inflation lifted to 2.1% y/y from a prior 1.2% y/y.
- Food price inflation is projected to be relatively modest in 2019 with meat price inflation expected to normalise and grain price inflation should be contained by a sufficient 2019 maize harvest as well as existing maize inventories for domestic consumption.
- The higher contribution from the housing and utilities category in June of 1.2% versus a prior 1.1% stemmed mainly from a quickened pace of rental inflation. The rate of inflation was boosted by a low statistical base (June 2018).
- Inflation in the transport category slowed to 5.5% y/y in June from 7.1% y/y in May, mainly on account of a slower rate of increase in the fuel price of 7.1% y/y versus a prior 11.6% y/y.
- In June, core inflation lifted to 4.3% y/y from a prior 4.1% y/y, partially reflecting the lift in rental inflation.
- We expect CPI inflation to average 4.6% y/y this year, well within the SARB's 3-6% target range. Slowing wage growth, the moderation of inflation expectations to multiyear lows and sluggish economic growth point to an absence of meaningful upside inflationary pressures.
- At its July MPC meeting, the SARB assessed the risks to the inflation outlook to be "largely balanced" but that the rand remained an upside risk. The rand remains vulnerable to global financial conditions and market sentiment and domestically, to a possible credit rating downgrade.

Figure 2: CPI inflation expectations: 2019



Source: BER



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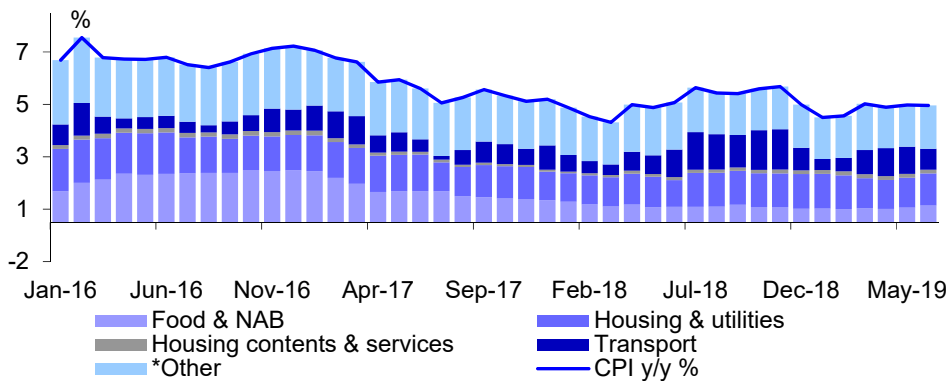
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**Figure 3: Contribution of different groups to the annual change, y/y in the CPI**

	May 2019	June 2019
Food and non-alcoholic beverages	0.5	0.6
Alcoholic beverages and tobacco	0.3	0.4
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	1.0	0.8
Education	0.2	0.2
Restaurants and hotels	0.1	0.1
Miscellaneous goods and services	0.9	0.9
Residual	0.1	0.0
<b>All items</b>	<b>4.5</b>	<b>4.5</b>

Source: Stats SA

**Figure 4: Contributions to annual CPI inflation**



\*Other: Miscellaneous goods&services; alcohol&tobacco; clothing; health; communication;

Source: Stats SA, Investec



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