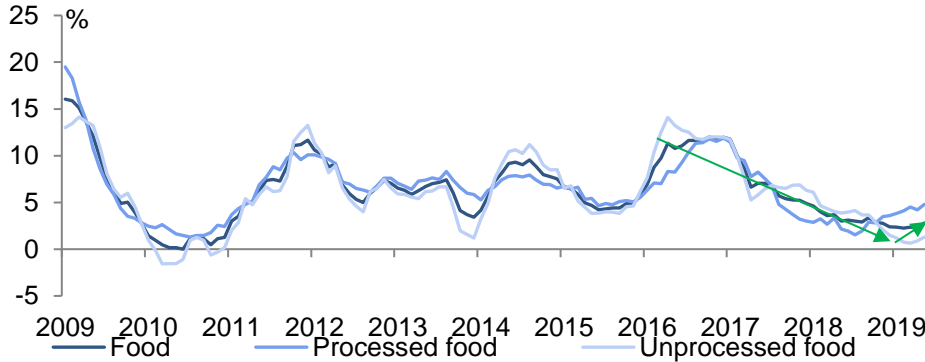




CPI update: inflation remains around the midpoint of the target, which could persist until July as large petrol, diesel price cuts build

19th June 2019

Figure 1: CPI - Food vs processed and unprocessed price inflation



Source: Stats SA

- May 2019's CPI inflation rate came out at 4.5% y/y (April 4.4% y/y), on consensus. However, the 0.1% m/m contribution from the rise in petrol prices (54c/litre) will not repeat in the June CPI inflation print. CPI inflation is likely to average around 4.5% y/y for Q2.19, with potentially similar for July.
- In June only a 9c/litre increase in the petrol price occurred, but July is currently factoring in a cut of 90c/litre, and around a 70c/litre cut in the diesel price as oil prices have dropped materially, towards US\$60/bbl from US\$73/bbl a month ago. Should these fuel price cuts occur in South Africa in July, they will exert substantial downwards price pressure on CPI inflation in that month (July).
- However, in July electricity and water price increases are also reflected in the index, and will place marked upwards price pressure on CPI inflation, with water tariffs typically rising by double digits y/y and the substantial hike in the electricity price this year will also contribute to push up the CPI.
- The current subdued nature of CPI inflation should not be misinterpreted to read that inflation is balanced in a favourable way in SA. Instead, state controlled prices such as water, electricity and property rates and taxes have been escalating rapidly (partly due to the poor financial situation of a number of SOEs), but consumer demand is weak, with unemployment high. Retailers have seen margins cut, as they battle to pass rising costs onto the consumer, with poor economic conditions also limiting salary and wage increases and disinflation (falling inflation) a factor.
- A more modest inflation outcome for July than previously anticipated, should the petrol price fall by around 90c/litre, if not more, would quell some of the upwards price pressure from the electricity and water tariffs due in July, resulting in a likely lower CPI inflation outcome for this year than initially expected.
- We expect CPI inflation to average around 4.6% y/y in 2019, from 4.8% y/y previously, should the currently indicated July fuel cuts transpire. This represents a change in our CPI inflation forecast for 2019.
- Indeed, CPI inflation is being bolstered by the high-administered price inflation rate, of 8.2% y/y. Excluding administered prices, CPI inflation would be 3.7% y/y. Core inflation was unchanged in May at 4.1% y/y, with durable and semi-durable goods price inflation low, at 1.9% y/y and 1.7% y/y respectively, indicating the weakness of consumer demand.

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

	Apr 2019	May 2019
Transport	0.4	0.1
Residual	0.2	0.2
Total	0.6	0.3

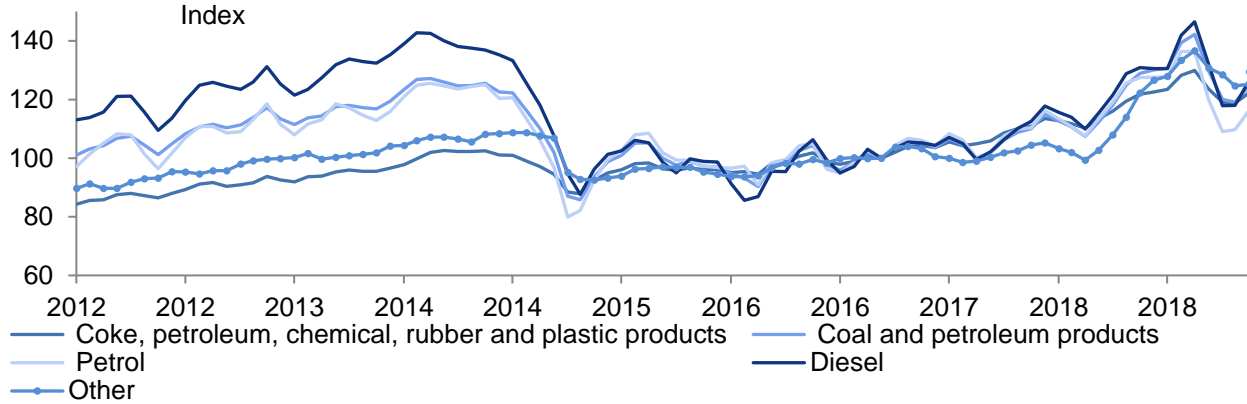
Source: Stats SA



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Figure 3: Produce Price Index – Coke, petroleum, chemical, rubber and plastic products



Source: Stats SA

- Returning to the month of May 2019, a small 0.2% m/m increase was recorded from the residual item, a catch all for fractional price changes too small to be reflected in the categories.
- Food price inflation lifted slightly, to 2.8% y/y from 2.3% y/y, with processed food price inflation at 4.8% y/y and unprocessed at 1.3% y/y. Meat price deflation moderated to -0.9% y/y from -1.2% y/y, while the bread and cereals category rose to 7.8% y/y from 6.1% y/y.
- Agbiz notes that “(r)ecent rainfall in the Western Cape bodes well for winter crops. ... farmers might be able to achieve the intended area of 513 450 hectares of wheat, 118 500 hectares of barley, and 80 000 hectares of canola across South Africa, which ... is higher than the area planted in 2018/19 season (with the exception of barley).” This could assist in keeping unprocessed food price inflation moderate.
- Worries over weakening global growth on the back of amplified global trade tensions have moderated oil prices, and recent rand strength is aiding the likely descent of fuel prices.
- The expected, upward trajectory in CPI inflation this year is likely not to be as steep, if it occurs at all, as many previously forecast, including the SARB. We expect a 25bp cut in interest rates as early as in July this year, as the SARB is likely to cut early instead of delaying until Q1.20 as its QPM projects.

Figure 4: Contribution of different groups to the monthly change, y/y in the CPI

	Apr 2019	May 2019
Food and non-alcoholic beverages	0.5	0.5
Alcoholic beverages and tobacco	0.3	0.3
Clothing and footwear	0.1	0.1
Housing and utilities	1.1	1.1
Household contents and services	0.1	0.1
Health	0.1	0.1
Transport	1.1	1.0
Education	0.2	0.2
Restaurants and hotels	0.1	0.1
Miscellaneous goods and services	0.9	0.9
Residual	-0.1	0.1
Total	4.4	4.5

Source: Stats SA

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