

# Nedbank

## Economic commentary

27 May 2009

### CONSUMER INFLATION

#### *Inflation remains sticky*

##### Latest (April 2009)

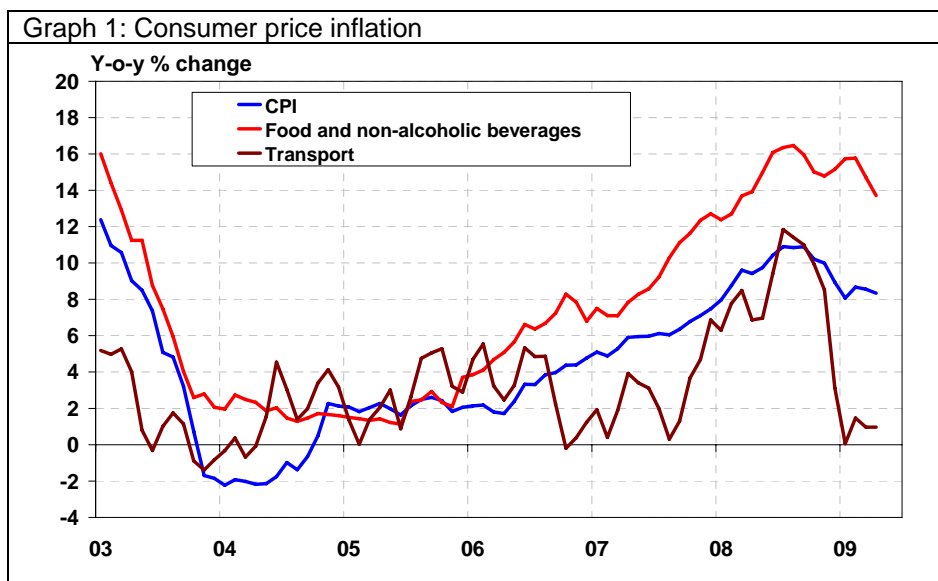
Overall: 8,4% y-o-y, 0,5% m-o-m (8,5% y-o-y in March 2009)  
Nedbank forecast: 8,6% y-o-y  
Market forecast: 8,3% y-o-y

#### Research

##### Group Economic Unit

Carmen Altenkirch  
011 295 9878  
Carmenal@nedbank.co.za

Dennis Dykes  
011 295 6435  
Dennisd@nedbank.co.za



#### Comment

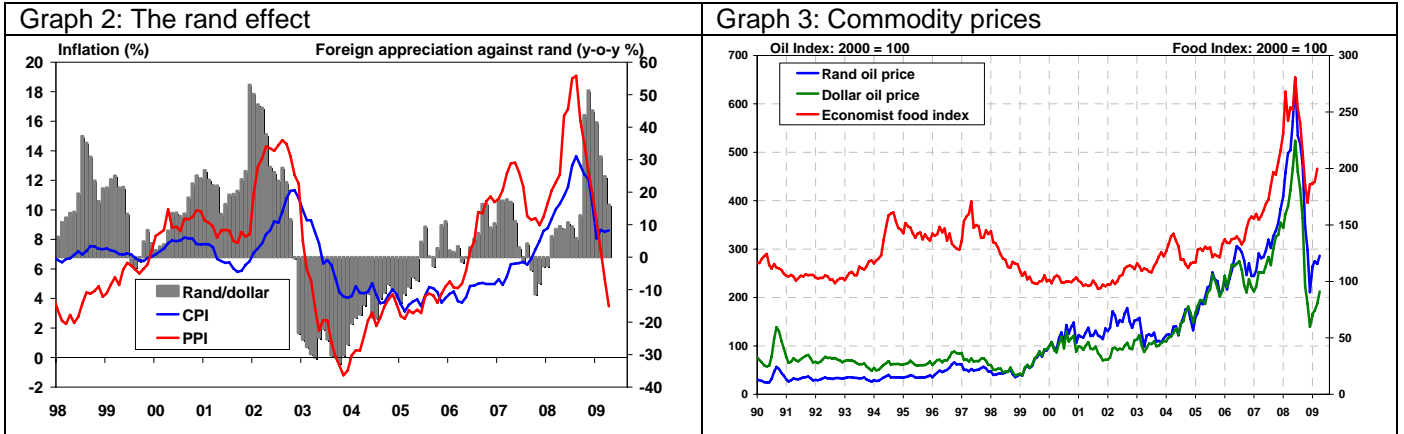
Consumer inflation is proving to be extremely sticky, hovering above 8% since the new inflation basket was introduced in January. CPI fell less than expected in April, mainly due to increases in food and fuel prices as well as higher car prices.

International food prices have begun to tick up again, which probably goes some way to explain the increase in food prices recorded over the past two months. Food prices increased by 0,4% m-o-m, following an increase of a similar magnitude in the previous month. The increase is mainly due to higher prices for breads and cereal (0,4% m-o-m) as well as fruit and vegetables, which rose by 2,6% and 1% respectively. Food inflation, however, continued to ease, dropping to 13,7% y-o-y, reflecting the high base established in 2008.

Oil prices also picked up over the past two months, due to a weaker dollar and optimism about future economic prospects. As a result, domestic fuel prices rose by 36c/l in April, contributing 0,2 percentage points to the monthly figure.

The price of vehicles, which makes up 11,3% of the total basket, rose by 0,6% m-o-m, taking the annual increase to 3,1% from 2,1% in the previous month. This reflects the impact of the rand's sharp decline late last year, which manufacturers are passing on to the consumer despite the collapse in demand for new vehicles.

**Outlook**



Inflation is proving to be much stickier than we would have assumed given the reduction in commodity prices late last year and the sharp contraction in domestic demand. Services inflation, which tends to be backward looking, seems to be the main culprit behind persistent inflation. However, the continued contraction in the service industry and the broader economy will probably force many companies to put planned price increases on hold.

Price pressures in the housing rental market, which makes up 15,7% of the total basket, appear to have dissipated. A number of rental agents across the country have noted that landlords are struggling to get the usual 10% annual increase in rent, due to a reduction in demand for rental accommodation, combined with many households being under significant financial strain.

The rand's recent appreciation to around R/\$8,20 from over R/\$10 at the start of the year, is also good news for the inflation outlook, although it is still not back to pre-financial crisis levels. The prices of durable goods have risen largely due to the rapid depreciation of the rand late last year. However, the strong rand and the need to boost sales could see retailers deciding to cut prices. The extent of the recent increase in oil and food prices will also be muted by the rand's rally. However, should international commodity prices continue to rise, which does seem unlikely given still weak international demand, this could keep inflation above the target for longer.

Inflation is expected to ease to 7,8% next month, mainly due to base effects and a modest decline in the fuel price. Overall weak domestic and global demand conditions should contribute towards falling inflation, with CPI expected to drop to within the SARB's target range in the third quarter of this year. Later in the year, inflation is expected to bounce back out of the target range, but this relates mainly to base effects.

**Implications**

At the recent Monetary Policy Forum the Governor again reiterated the fact that monetary policy is set over the medium term and sticky short-term inflation, while unfortunate, will have little impact on monetary policy decisions. Rather the SARB will look beyond the next few months' inflation figures and continue to focus on the medium-term inflation outlook as well as the severe contraction in domestic economic activity.

With the extent and duration of the global and local downturn remaining uncertain, the Monetary Policy Committee will continue to cut interest rates in order to provide the domestic economy with some support against the global recession. We therefore still forecast more interest rate cuts in the coming months, with the prime rate falling to 11% at this week's meeting and to around 10% by September.

	CPI							
	Weights Base 2008	April 2009					March 2009	
		Month-on-month		Year-on-year	Average	Average	Month	Year
		%	% contrib	%	m-o-m past 3 yrs	y-o-y past 3 yrs	%	%
<b>CPI for all urban areas</b>	100	0.5	0.5	8.3	0.7	7.88	1.3	8.6
<b>Food and non-alcoholic beverages</b>	<b>15.68</b>	<b>0.5</b>	<b>0.1</b>	<b>13.7</b>	<b>1.0</b>	<b>11.82</b>	<b>0.5</b>	<b>14.7</b>
Food	14.27	0.4	0.1	13.7	1.0		0.4	14.9
Bread and cereals	3.08	-0.3	0.0	17.9	0.8	16.91	-0.2	19.9
Meat	4.59	-0.1	0.0	10.4	0.4	9.66	0.8	10.8
Fish	0.66	0.2	0.0	16.2	1.8	11.00	-0.5	20.6
Milk, eggs and cheese	1.79	1.6	0.0	12.2	1.7	13.87	1.6	12.3
Oils and fats	0.53	-3.1	0.0	1.0	2.1	21.27	-2.8	11.8
Fruit	0.47	2.6	0.0	12.2	1.5	9.82	2.7	13.4
Vegetables	1.63	1.0	0.0	17.9	2.0	12.76	-1.5	18.6
Sugar, sweets and deserts	0.77	2.2	0.0	16.4	1.4	9.82	1.9	15.3
Other	0.75	1.3	0.0	17.3	0.9	12.04	0.9	16.8
Non-alcoholic beverages	1.41	1.4	0.0	14.2	0.8	9.15	1.2	13.3
<b>Alcoholic beverages and tobacco</b>	<b>5.58</b>	<b>0.7</b>	<b>0.0</b>	<b>10.9</b>	<b>0.7</b>	<b>9.02</b>	<b>5.6</b>	<b>10.7</b>
Alcoholic beverages	3.29	0.8	0.0	9.1	0.9	7.52	4.8	8.8
Tobacco	2.29	0.4	0.0	13.5	0.4	11.06	4.5	13.5
<b>Clothing and footwear</b>	<b>4.11</b>	<b>0.4</b>	<b>0.0</b>	<b>5.1</b>	<b>0.1</b>	<b>2.13</b>	<b>0.6</b>	<b>4.9</b>
Clothing	2.9	0.4	0.0	5.6	0.1	2.23	0.6	5.4
Footwear	1.21	0.4	0.0	4.0	0.1	1.80	0.5	3.8
<b>Housing and utilities</b>	<b>22.56</b>	<b>0.1</b>	<b>0.0</b>	<b>8.1</b>	<b>0.2</b>	<b>10.61</b>	<b>0.7</b>	<b>8.1</b>
Actual rentals for housing	3.49	0.0	0.0	6.4	0.1	9.13	1.1	6.4
Owners equivalent rent	12.21	0.0	0.0	0.0	0.0	0.00	1.0	0.0
Maintenance and repairs	1.68	0.7	0.0	16.9	0.6	11.16	0.2	17.3
Water and other services	3.31	0.0	0.0	0.0	0.0	0.00	0.0	0.0
Electricity and other fuels	1.87	-0.1	0.0	29.4	0.2	15.07	0.0	30.1
<b>Household contents and equipment</b>	<b>5.86</b>	<b>0.1</b>	<b>0.0</b>	<b>6.8</b>	<b>0.3</b>	<b>5.05</b>	<b>1.0</b>	<b>7.3</b>
Furnishings, floor coverings and textiles	2.17	-0.3	0.0	0.1	0.3	-1.21	-0.3	1.9
Appliances, tableware and equipment	1.05	0.7	0.0	16.6	0.0	6.62	1.4	14.7
Supplies and services	2.64	0.2	0.0	8.6	0.3	8.17	1.8	9.0
Domestic workers wages	1.99	0.0	0.0	6.2	0.0	7.45	0.9	6.2
<b>Health</b>	<b>1.47</b>	<b>0.6</b>	<b>0.0</b>	<b>12.2</b>	<b>0.4</b>	<b>8.59</b>	<b>2.3</b>	<b>11.5</b>
<b>Transport</b>	<b>18.8</b>	<b>1.3</b>	<b>0.2</b>	<b>1.0</b>	<b>1.8</b>	<b>3.92</b>	<b>1.2</b>	<b>1.0</b>
Purchase of vehicles	11.25	0.6	0.1	3.1	0.1	-0.41	0.2	2.1
Private transport operation	4.82	4.2	0.2	-11.5	6.2	9.41	5.9	-9.1
Petrol	3.93	4.9	0.2	-17.4	7.9	10.29	7.0	-14.8
Other running costs	0.89	1.8	0.0	14.5	1.5	10.31	2.7	14.8
Public Transport	2.73	-0.1	0.0	15.0	-0.4	5.86	-0.7	13.8
<b>Communication</b>	<b>3.22</b>	<b>-0.1</b>	<b>0.0</b>	<b>1.0</b>	<b>-0.2</b>	<b>0.05</b>	<b>-0.1</b>	<b>0.7</b>
<b>Recreation and culture</b>	<b>4.19</b>	<b>1.1</b>	<b>0.0</b>	<b>14.9</b>	<b>0.9</b>	<b>5.38</b>	<b>4.8</b>	<b>15.0</b>
<b>Education</b>	<b>2.19</b>	<b>0.0</b>	<b>0.0</b>	<b>10.5</b>	<b>0.0</b>	<b>8.02</b>	<b>10.5</b>	<b>10.5</b>
<b>Restaurants and hotels</b>	<b>2.78</b>	<b>0.6</b>	<b>0.0</b>	<b>13.5</b>			<b>1.9</b>	<b>13.5</b>
<b>Miscellaneous goods and services</b>	<b>13.56</b>	<b>0.2</b>	<b>0.0</b>	<b>11.6</b>	<b>0.4</b>	<b>8.08</b>	<b>0.7</b>	<b>11.9</b>
Personal Care	2.20	0.9	0.0	15.7	0.8	8.91	3.1	15.6
Insurance	7.71	0.0	0.0	7.5	0.1	6.97	0.0	7.5
Financial Services	1.27	0.0	0.0	19.6	0.0	11.92	2.2	19.6
Other Services	2.38	0.0	0.0	17.2	0.7	7.93	0.0	19.4

#### Nedbank Head Office

NEDBANK GROUP ECONOMIC UNIT  
135 Rivonia Road Sandown 2196  
PO Box 1144 Johannesburg 2000  
Tel +27 (0)11 295 6363  
Fax +27 (0)11 294 6363  
Email [EstelleO@nedbank.co.za](mailto:EstelleO@nedbank.co.za)

Regular economic analysis is available on the Nedbank Group's internet site, <http://www.nedbankgroup.co.za>

Copyright Nedbank Limited 1997, updated 2008. Nedbank Limited, 135 Rivonia Road, Sandown, 2196. The information furnished in this report (the 'report'), which information may include opinions, estimates, indicative rates, terms, price quotations and projections, reflects the existing judgement of the author(s) and current market conditions, which judgement and conditions are subject to change without notice, modification or amendment. This report does not necessarily reflect the opinion of Nedbank Limited ('Nedbank'). The information herein has been obtained from various sources, the accuracy and/or completeness of which Nedbank does not guarantee. Nedbank recommends that independent tax, accounting, legal and financial advice be sought should any party seek to place any reliance on the information contained herein. This report has been prepared for general dissemination and information purposes only and may not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. Any additional information relative to any financial instruments and/or financial products reviewed in this report is available on request. All rights reserved. Any unauthorised use or disclosure of this report is prohibited.