

Economic Data Update – Consumer Price Inflation

Consumer inflation increased to 3.3% in October 2020, beating market expectations of 3.0%

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Highlights

- Annual headline CPI increased to 3.3% year on year in October 2020 from 3.0% year on year in September 2020, higher than Bloomberg consensus expectations of 3.0%.
- Core inflation increased slightly to 3.4% year on year in October 2020 from 3.3% year on year in the previous month on the back of further easing in lockdown measures.
- In our view, the inflation rate will remain well below the SARB's 4.5% midpoint in 2020 and we do not expect any monetary policy changes in the medium term.

Annual headline CPI inflation rose to 3.3% year on year in October 2020, beating the Bloomberg consensus forecasts

The growth in annual consumer price inflation (CPI) rose by 3.3% year on year (y/y) in October 2020 from 3.0% y/y in September 2020, higher than market expectations of 3.0% and driven by the sharp increase in food prices. The main contributors to the headline were food and non-alcoholic beverages, housing and utilities, as well as miscellaneous goods and services categories, which increased to 5.4% y/y, 2.8% y/y and 6.7% y/y in September 2020 respectively. Collectively, these categories added 2.7 percentage points to the total. On a monthly basis, CPI edged slightly higher to 0.3% in October 2020 from 0.2% in the previous month.

Core inflation increased slightly to 3.4% y/y in the month, from 3.3% y/y in September 2020. This was boosted by the further lifting in lockdown restrictions which prompted more economic activity, while consumers continued to purchase more durable goods. The annual inflation rate for goods rose marginally to 2.6% y/y in October 2020, from a steady 2.1% y/y in the previous month, while the annual inflation rate for services held steady at 3.8% y/y in October 2020.

In September 2020, lockdown measures were eased further from level 2 to level 1, resulting in more goods and services being available for consumption and broadening the CPI basket as some banned products could now be traded. While some improvement is seen in consumer confidence, demand remains subdued. At its November 2020 Monetary Policy Committee meeting, the SARB forecast CPI to average 3.2% in 2020 and 3.9% in 2021, which is slightly revised lower than at the previous forecast, but remained unchanged at 4.4% for 2022. Meanwhile, the central bank's core inflation forecast is lower at 3.3% in 2020, 3.4% in 2021 and stable at 4.0% in 2022.

The overall risks to the inflation outlook appear to be on the downside in the near term, and balanced over the medium term, as global producer price inflation and oil prices remain low, while local food price inflation is expected to remain contained with no demand-side pressure expectations. However, electricity and other administered prices remain a concern. Our view is that inflation will remain well below the SARB's 4.5% midpoint in 2020 and 2021, and as a result we do not expect any change in policy rates in the medium term.

Figure 1. Headline consumer inflation reached a seven-month high in October 2020

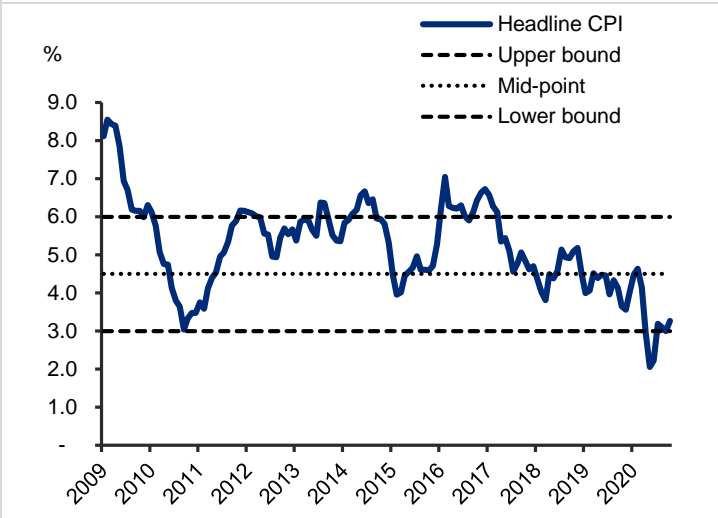
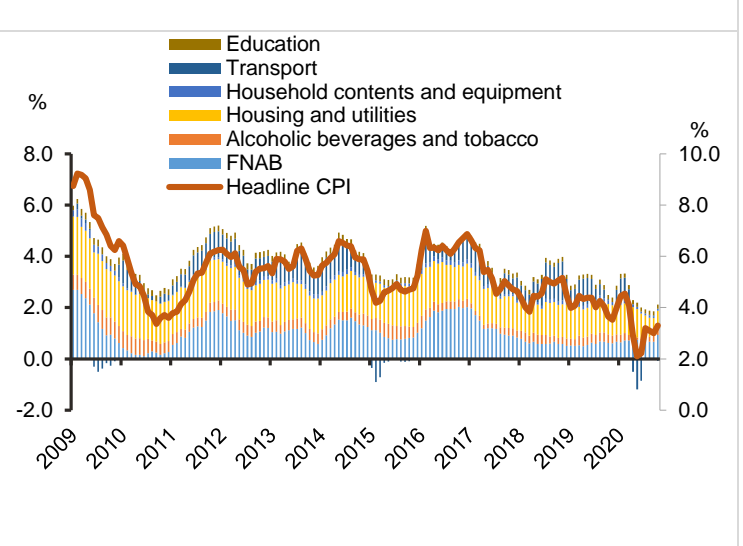


Figure 2. Main contributors to headline inflation



Sources: Statistics South Africa and Alexander Forbes Investments

Figure 3. Core inflation rose slightly in October 2020

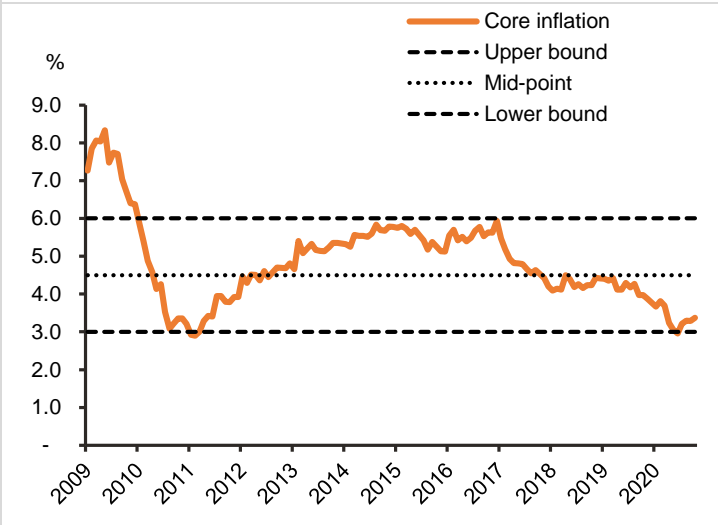
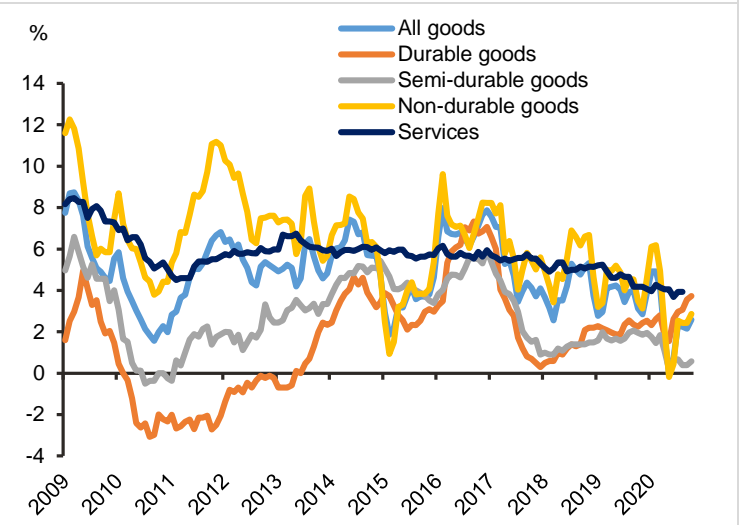


Figure 4. Main contributors to core inflation



Sources: Statistics South Africa and Alexander Forbes Investments

Table 1: Consumer price inflation sector breakdown

	Headline CPI	Food and non-alcoholic beverages	Alcoholic beverages and tobacco	Clothing and footwear	Housing and utilities	Household contents and equipment	Health	Transport	Communication	Recreation and culture	Education	Restaurants and hotels	Miscellaneous goods and services
Weights: Base = 2016	100	17.24	5.82	3.83	24.62	4.35	1.4	14.28	2.63	5.16	2.53	3.09	15.05
October contribution	3.3%	0.9%	0.3%	0.0%	0.7%	0.1%	0.1%	-0.1%	0.0%	0.1%	0.2%	-0.1%	1.1%
Month-on-month % change	0.3%	1.4%	0.4%	0.1%	0.0%	0.1%	0.1%	-0.3%	-0.1%	0.4%	0.0%	0.3%	0.1%
3 months	0.2%	0.4%	0.5%	0.1%	0.1%	0.1%	0.0%	0.1%	-0.1%	0.2%	0.0%	-0.1%	0.0%
6 months	0.9%	1.2%	1.6%	0.0%	1.0%	0.3%	0.1%	1.9%	-0.1%	0.8%	0.0%	-0.1%	0.3%
9 months	2.0%	2.6%	3.1%	-0.1%	1.8%	1.0%	3.0%	-0.6%	-0.3%	1.2%	4.8%	-0.4%	4.5%
year to date	0.8%	1.0%	1.3%	0.0%	0.9%	0.2%	0.1%	1.6%	0.0%	0.6%	0.0%	-0.1%	0.3%
1 year	3.3%	5.4%	4.5%	0.2%	2.8%	1.9%	4.1%	-0.5%	-0.4%	1.8%	6.4%	-0.3%	6.7%
2 years	3.5%	4.5%	5.1%	1.2%	3.8%	2.4%	4.4%	-0.1%	-0.2%	1.4%	6.5%	1.4%	6.2%
3 years	4.0%	4.1%	4.8%	1.5%	4.3%	2.6%	4.6%	3.3%	0.3%	1.2%	6.6%	2.3%	5.9%
5 years	4.6%	5.8%	4.9%	2.3%	4.7%	2.7%	5.1%	3.9%	-0.1%	2.3%	6.3%	3.4%	6.5%
7 years	4.6%	5.7%	5.3%	2.7%	4.9%	2.8%	5.2%	3.2%	-0.2%	2.4%	6.8%	3.7%	6.6%
8 years	4.8%	6.0%	5.5%	3.1%	5.1%	2.7%	5.3%	3.4%	-0.5%	2.5%	7.1%	4.4%	6.6%
10 years	4.9%	5.7%	5.8%	3.2%	5.1%	2.8%	5.3%	3.7%	-0.1%	2.5%	7.3%	4.8%	6.7%

Sources: Statistics South Africa and Alexander Forbes Investments

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