# Overview of recent developments in inflation and indicators of inflation expectations according to the SARB's latest publication of the Monetary Policy Review in May 2010.

## 1.1 Recent developments in inflation

CPI inflation moved to within the inflation target range of 3 to 6 per cent for the first time since April 2007 when a rate of 5,9 per cent was recorded in October 2009. After breaching the upper limit of the inflation target range for technical reasons in December 2009 and January 2010, inflation has moved back to within the range since February 2010. The CPI inflation rate was 6,3 per cent in December 2009 and 6,2 per cent in January 2010, followed by 5,7 per cent in February and 5,1 per cent in March. The April figure came in at 4,8 percent, which was lower than the expected 5 percent of the economist.

Figure 1 Consumer price inflation: Targeted inflation*


* CPIX for metropolitan and other urban areas until the end of 2008; CPI for all urban areas thereafter

Source: Statistics South Africa

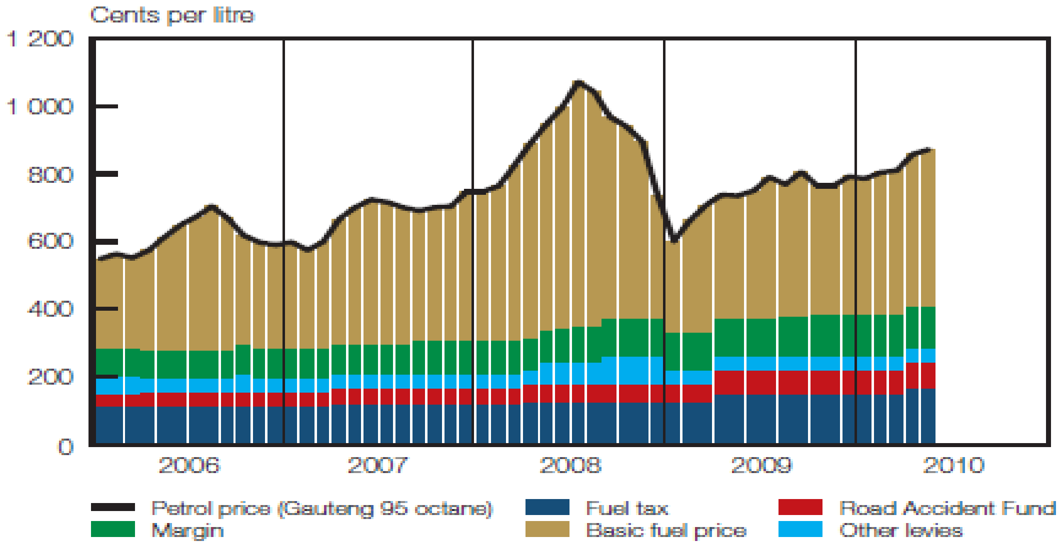
### 1.1.1 Main contributors to inflation

The main contributors to CPI inflation in the period since September 2009 have been the housing and utilities, and miscellaneous goods and services categories. Housing and utilities contribution increased during this period, reflecting mainly electricity and other fuel price changes.

However, the main reason for the decline in the overall CPI inflation rate was the contribution of the food and non-alcoholic beverages category which slowed down dramatically from September 2009, when CPI inflation was 6,1 percent.

However, upward pressure emerged from the contribution of the transport category which increased was largely due to higher petrol prices which occurred during the period of March to April 2010. In May there was another increase, but the decrease of 27 cents in June may bring some relief for consumers.

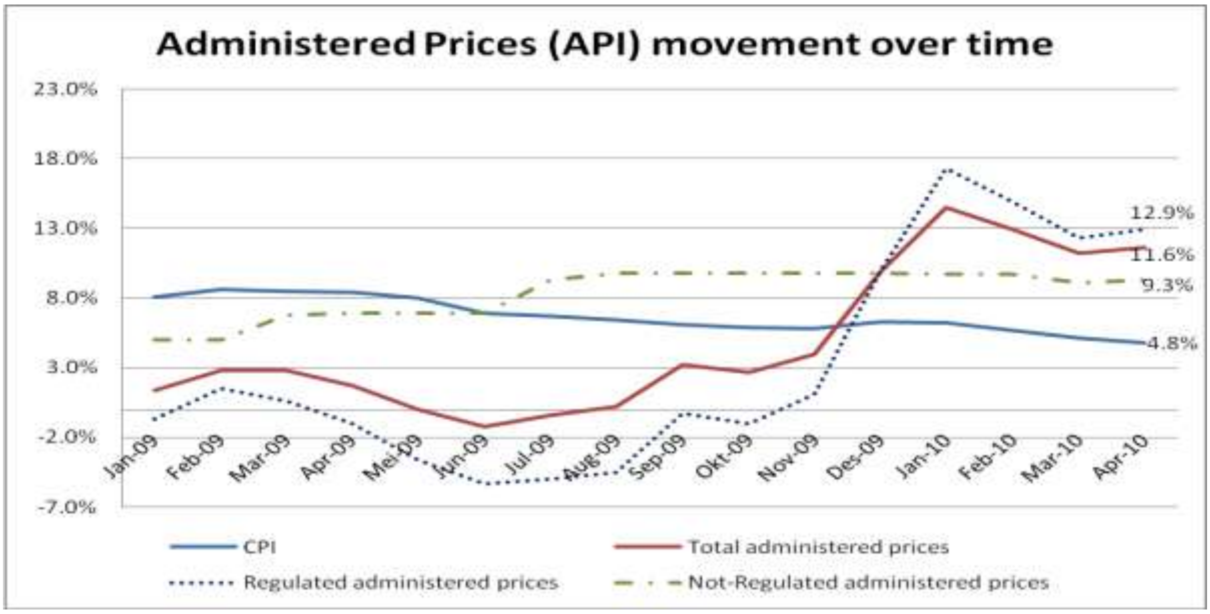
Figure 4 South African petrol price




Source: Department of Minerals and Energy

The increase in the petrol price as shown on the previous graph that has impacted on the CPI has, in turn, been influenced by developments in the international price of crude oil. Crude oil prices have risen since the lows experienced in December 2008, and the domestic petrol price has tracked these increases. After recording a 23-month low of R6,01 per litre in January 2009, the price of 95 octane unleaded petrol in Gauteng Province increased to R8,72 cents per litre in May 2010.

### 1.1.2 Administered prices




Source: StatsSA

| Month | CPI | Total administered prices | Regula ted administered prices | Not-Regulated administered prices |
|---|---|---|---|---|
| Jan-09 | 8.1% | 1.4% | -0.7% | 5.0% |
| Feb-09 | 8.6% | 2.8% | 1.5% | 5.0% |
| Mar-09 | 8.5% | 2.8% | 0.6% | 6.8% |
| Apr-09 | 8.4% | 1.7% | -1.0% | 6.9% |
| Mei-09 | 8.0% | 0.0% | -3.6% | 6.9% |
| Jun-09 | 6.9% | -1.2% | -5.3% | 6.9% |
| Jul-09 | 6.7% | -0.4% | -5.0% | 9.3% |
| Aug-09 | 6.4% | 0.2% | -4.5% | 9.8% |
| Sep-09 | 6.1% | 3.2% | -0.3% | 9.8% |
| Okt-09 | 5.9% | 2.7% | -1.0% | 9.8% |
| Nov-09 | **5.8%** | **4.0%** | **1.1%** | **9.8%** |
| Des-09 | **6.3%** | **9.9%** | **10.0%** | **9.8%** |
| Jan-10 | **6.2%** | **14.5%** | **17.3%** | **9.7%** |
| Feb-10 | **5.7%** | **12.9%** | **14.9%** | **9.7%** |
| Mar-10 | **5.1%** | **11.2%** | **12.3%** | **9.1%** |
| Apr-10 | **4.8%** | **11.6%** | **12.9%** | **9.3%** |

Source: StatsSA

The inflation rate for **administered prices** rose significantly from 3,2 per cent in September 2009 to 12,9 per cent in February 2010, before slowing down to 11,2 per cent in March , but has since rose to **11,6 percent** in April 2010.

The inflation rate for the **regulated component of administered prices** rose from -0,3 per cent in September 2009 to 14,9 per cent in February 2010 and then moderated to 12,3 per cent in March, largely due to petrol price inflation falling at a slower pace from September 2009 and rising from December 2009. However, in April it rose again to 12,9 percent largely due to petrol price inflation increasing at a faster rate.

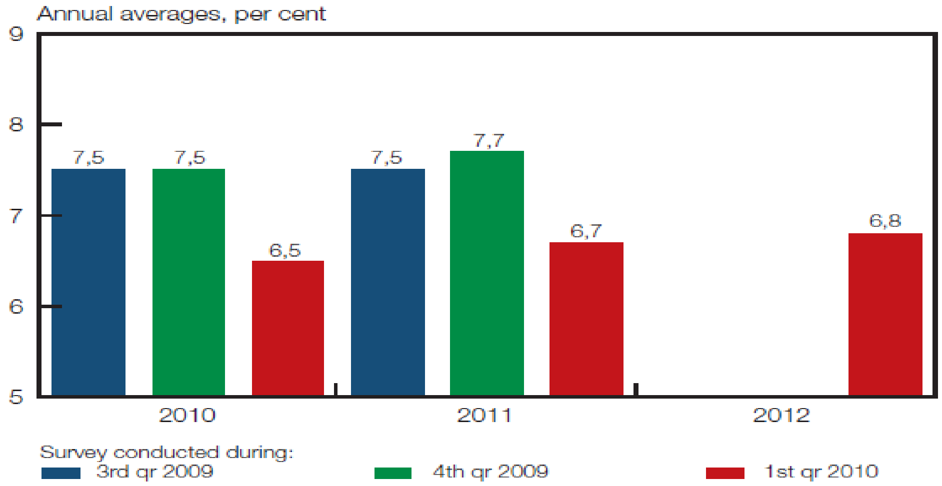
The inflation rate for the **unregulated component of administered prices** remained almost constant over most of the period, slowing down marginally from 9,8 per cent in September to 9,1 per cent in March. However, in April it rose to 9,3 percent again.

## 1.2. Inflation expectations by the BER, Reuters and SARB

### 1.2.1. Bureau for Economic Research (BER)

Estimates of inflation expectations for the forecast period from 2010 to 2012 obtained from the BER survey conducted during the first quarter of 2010 show that average annual CPI inflation is expected to decline over the forecast years, although it is expected to remain above the inflation target range of 3 to 6 per cent. Inflation expectations in the first quarter of 2010 are lower at all time horizons than those surveyed in the preceding quarter. **As depicted in Figure 24, average CPI inflation expectations for 2010 are 6,5 per cent**, followed by 6,7 per cent for 2011 and 6,8 per cent for 2012. The inflation expectations of business and trade unions were above the inflation target range, while those of financial analysts were either at the upper level of, or within, the range. **Analyst expectation for inflation during the first quarter of 2010 was an average of 5,5% for 2010.See table below graph.**

Figure 24 BER surveys of headline CPI inflation expectations




Source: Bureau for Economic Research, Stellenbosch University

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INFLATION EXPECTATION SURVEY RESULTS – 2010Q1

| Survey conducted during | 2009Q4 | | | | 2010Q1 | | | |
|---|---|---|---|---|---|---|---|---|
| | Analysts | Business people | Trade union officials | Average | Analysts | Business people | Trade union officials | Average |
| Headline CPI inflation during the year | | | | | | | | |
| 2010 | 5.7 | 8.6 | 8.2 | 7.5 | 5.5 | 7.1 | 7.0 | 6.5 |
| 2011 | 5.9 | 8.7 | 8.5 | 7.7 | 5.9 | 7.2 | 6.9 | 6.7 |
| 2012 | | | | | 6.0 | 7.3 | 6.9 | 6.8 |

### 1.2.2 Reuters

The April 2010 Reuters survey of long-term forecasts for the South African economy, which surveys a group of financial market analysts, **reports that targeted CPI inflation is expected to be consistent with the official target range of 3 to 6 per cent from 2010 until the end of the forecast period in 2012** . **It is expected that CPI inflation will average 5,3 per cent in 2010** and 5,8 per cent in 2011, and be at the upper level of the inflation target range at 6,0 per cent in 2012.

Table 11 Reuters survey of CPI inflation forecasts: April 2010*

Per cent

| | 2010 | | 2011 | | 2012 | |
|---|---|---|---|---|---|---|
| 1. Mean | (5,5) | 5,3 | (5,8) | 5,8 | (6,0) | 6,0 |
| 2. Median | (5,4) | 5,2 | (5,8) | 5,8 | (5,8) | 5,8 |
| 3. Highest | (6,5) | 6,5 | (7,6) | 6,7 | (7,4) | 6,9 |
| 4. Lowest | (5,0) | 5,0 | (5,2) | 5,2 | (5,0) | 5,3 |
| Number of forecasters | (23) | 21 | (23) | 24 | (17) | 18 |

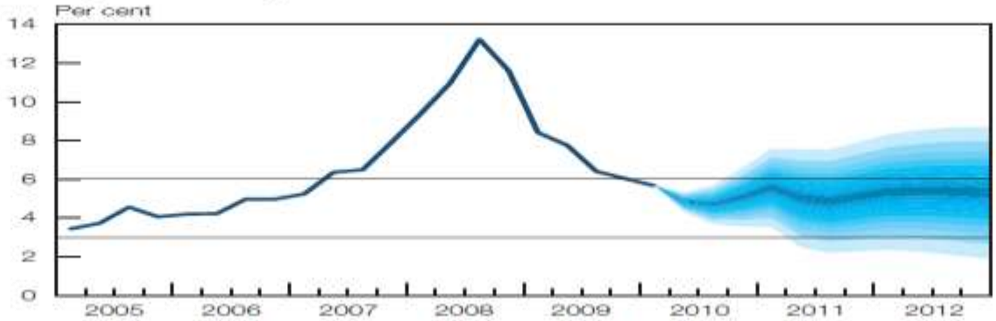
* March 2010 survey results in parentheses

Source: Reuters

### 1.2.3 The South African Reserve Bank inflation forecast

The most recent projections of the Bank's quarterly inflation forecasting model, presented to the MPC meeting on 11–13 May 2010, are reproduced in the form of a fan chart in Figure 26. **According to these projections, the targeted inflation rate is expected to remain within the inflation target range of 3 to 6 per cent until the end of 2012**. The projections for 2010 and 2011 are slightly below those presented in the previous *Monetary Policy Review* in November 2009.

Figure 26 Targeted inflation* forecast




* CPIX for metropolitan and other urban areas until the end of 2008; CPI for all urban areas thereafter

Note: The fan chart uses confidence bands to depict varying degrees of certainty. The darkest band of the fan chart covers the most likely 10 per cent of probable outcomes foreseen for inflation, including the central projection. Each successive band, shaded slightly lighter and added on either side of the central band, adds a further 10 per cent to the probability, until the whole shaded area depicts a 90 per cent confidence interval (see Box 4 "Understanding the fan chart" on p. 27 of the March 2001 *Monetary Policy Review*).

The central projection, conditional on an unchanged repurchase rate, **is for the average quarterly CPI inflation rate to decelerate further to 4,7 per cent in the third quarter of 2010. It will then fluctuate between 4,9 and 5,6 per cent until the end of the forecast period in the final quarter of 2012, when it will be 5,3 per cent.**

This forecast includes an increase of 20 per cent in the electricity price to accommodate the increase approved by the National Electricity Regulator of South Africa (NERSA).

**The main risks to the inflation outlook are from the risks emanating from the global economy and from administered price developments. Outcomes for the exchange rate of the rand, commodity prices or electricity prices that differ from those assumed in the model will impact on the central projection.**

Short overview compiled by

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Sources:

SARB, Monetary Policy Review, May 2010
StatsSA, April 2010 CPI