BIZCOMMUNITY

Inflation at 10.4% as food, fuel prices continue to climb

By Michael Appel

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The usual price increases in food, fuel and power as well as transport have pushed April's Consumer Price Index, excluding interest on mortgage bands (CPIX), to 10.4% year-on-year (y/y).

The latest CPIX figure of 10.4% y/y is 0.3 of a percentage point higher than March's 10.1% y/y reported Statistics South Africa (Stats SA), Wednesday, 28 May 2008.

The main drivers behind increased inflation were price increases in food, fuel and power, transport, household operation, education, medical care and health expenses.

“We can see the usual suspects at play here like food and fuel price increases ... all of which represent a significant deterioration in the inflation outlook for South Africa.

“We expect inflation to peak at about 12% by August 2008, and then will possibly flatten out for the rest of the year and then gradually trend downward in 2009.

“We expect to see the first possible interest rate cuts in mid-2009,” said economist at Econometrix Treasury Management (ETM) George Glynos, speaking to *BuaNews* on Wednesday.

Economists across the board believe it's a done deal that the Reserve Bank's Monetary Policy Committee (MPC) will hike interest rates again when they meet in June and August 2008.

The repo rate jumped to 11.5% after the MPC hiked interest rates by 50 basis points or 0.5% in April this year citing deteriorating inflation expectations.

The prime lending rate set by commercial banks was then raised to a new five-year high of 15% in April 2008.

The MPC has raised interest rates to a cumulative 450 basis points or 4.5% since the inflationary cycle began in June 2006.

March's inflation figure breached the Reserve Bank's inflation targeting band of 3 - 6% for the 12th consecutive time and economists are beginning to question the Bank's inflation targeting framework.

Commenting on the latest Gross Domestic Product (GDP) growth figure of 2.1% for the first quarter of 2008, Glynos said:

“Primarily the markets tend to look at GDP figures as historical figures which the market has already been through.

“So I doubt yesterday's [Tuesday] GDP figure will have much effect on the interest rate decision being made by the MPC in June.

“The GDP figure showed that the mining industry took a hefty knock [contracting by 22%] as a result of load shedding, but power cuts became scheduled which allowed businesses to plan around them so the effects became less.

“There should be a rise in GDP in the second and third quarter GDP figures as the mining industry returned to near full operation by then.”

With regard to the effects of recent attacks on foreign nationals in South Africa on the markets, Glynos said the violence dipped the Rand by a few cents to the Dollar, but did not have such a major effect.

Two reasons, he said, why the markets didn't dip too severely is firstly because international investors look at the violence as something that is likely to pass relatively quickly, and secondly because the majority of perpetrators are unemployed and do not have an effect on economic productivity.

While the markets may not have suffered too much, Glynos believes trade relations with other South African Development Community (SADC) countries as far up as Nigeria has been damaged.

South Africans must also brace themselves for yet another fuel increase of about 50 cents a litre set to come through in the first week of June 2008.

The price of unleaded 93-octane petrol will cost motorists just under R10 level at about R9.95, said Glynos.

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