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Consumer price inflation curbed by education and housing, but it will soon breach 5% due to higher fuel and administered prices

Highlights

- March's year-on-year (y/y) headline consumer price inflation (CPI) rate increased to 3,2% from 2,9% in February.
- Month-on-month (m/m) CPI rose by 0,7% in March, the same as in February.
- Fuel, food, housing and education inflation influenced CPI in March 2020.
- Core CPI increased by 2,5% y/y (2,6% in February), while it rose 0,5% m/m compared to 0,6% in February.
- Headline CPI is expected to breach 5% in the next quarter on the back of higher fuel and administered prices.
- However, as the average headline CPI for 2022 and 2023 is expected around the 4,5% mark targeted by the Monetary Policy Committee (MPC), the repo rate is expected to remain unchanged this year.

CPI affected by fuel, housing, education, car insurance in March

Headline CPI increased from 2,9% y/y in February to 3,2% y/y in March. On a m/m basis CPI increased by 0,7%, the same as in February. The core CPI rate receded to 2,5% y/y from 2,6% y/y in February, showing subdued inflationary pressures outside of food, electricity and fuel.

Table 1 shows the average y/y increases in the prices of goods and services that are likely to affect CPI most this year in the immediate short-term or the second half of the year. A notable increase was fuel prices which increased by 2,3% (from deflation of 3,3% in February) on the back of rising oil prices and a low base. Table 1 also includes y/y changes in the prices of items surveyed in March, namely housing inflation, consisting of rental costs and owners' equivalent rent (OER), which increased by 0,5%. Total education inflation increased by 4% y/y, car and travel insurance by 0,3%.

Table 1: Percentage change in CPI (y/y)

	Mar-20	Feb-21	Mar-21
Bread & Cereals	4,8	4,6	4,9
Meat	4,1	6,7	6,7
Alcohol & tobacco	4,9	4,0	3,7
Housing (Rent & OER)	2,5	1,1	0.5
Water	10,3	10,1	10,1
Electricity	12,0	15,3	6,3
Domestic workers	4,4	3,4	2,1
New vehicles	4,7	4,0	4,4
Fuel	12,7	-3,3	2,3
Primary school fees	7,3	7,3	2,5
Secondary school fees	7,6	7,6	4,3
Tertiary tuition fees	4,7	4,7	5,1
Car & travel insurance	-4.0	-0.2	0,3
Medical insurance	9,6	4,7	4,7
Total	4,6	2,9	3,2

Source: Stats SA, Momentum Investments

Lockdown keeps education and housing inflation low, but fuel and administered prices are rising

Headline CPI for March experienced subdued pricing pressures from the newly surveyed categories. In this respect, housing, education, and vehicle and luggage insurance prices had a muted effect on headline CPI.

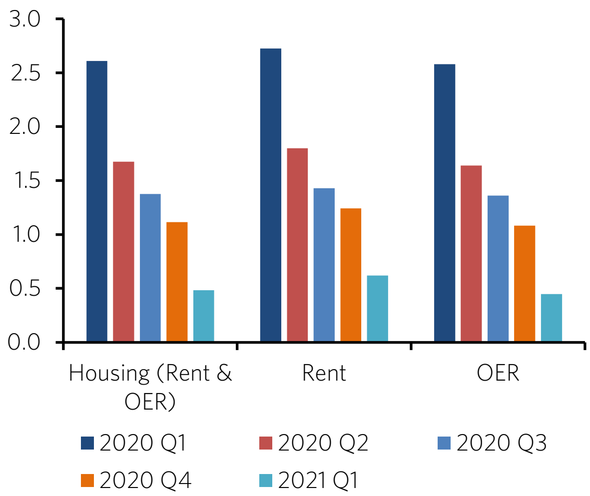
Apart from the effect of the newly surveyed items, headline CPI continued to receive upward pricing pressures from rising fuel prices and food inflation.

Food prices on average increased by 5,9% y/y in March, up from 5,4% in February. Food price increases continue to be dominated by increases in the prices of bread and cereals, and of meat. Bread and cereal prices increased by 4,9%, higher than the 4,6% in February. However, the m/m increase in the prices of bread and cereals are slowing (0,1% in March compared to 0,7% in January). Meat prices are still affected by the drought, which had a negative effect on supply and may continue to increase on a m/m basis. Prices of vegetable oils and fats continued to increase in double digits (13,4% compared to 10,6% in February) due to among others, an international supply shortage in vegetable oil products.

Housing prices, which is surveyed quarterly, carries a large weighting of 16,84% in the CPI basket. Chart 1 shows housing inflation continued to increase at a subdued pace of 0,5% y/y (1,1% in December 2020). The rental component increased by 0,6% y/y (1,2% in December 2020), while OER increased by 0,4% (1,1% in December 2020). The muted increase can be ascribed to the supply of rental units exceeding demand due to the consequences of COVID-19 and lockdowns. The oversupply resulted from low interest rates enticing many households to purchase residential properties rather than renting, while many people lost their jobs or had to take salary cuts, contributing to them having to share a rental unit or living with family and friends. Housing inflation should remain subdued as long as the above trend continues.

Domestic worker inflation subsided to 2,1% y/y from 3,4% in February and remained virtually unchanged m/m. This is despite the hefty increase of 22,61% in the minimum hourly wage of domestic workers. This does not show in the CPI because Stats SA calculates the change in domestic worker wages from data supplied by the Unemployment Insurance Fund. It may be that most employers already pay domestic workers more than the new minimum wage, and as such, the hefty increase did not show in the CPI. It may, however, also be a case of some employers being late with payments.

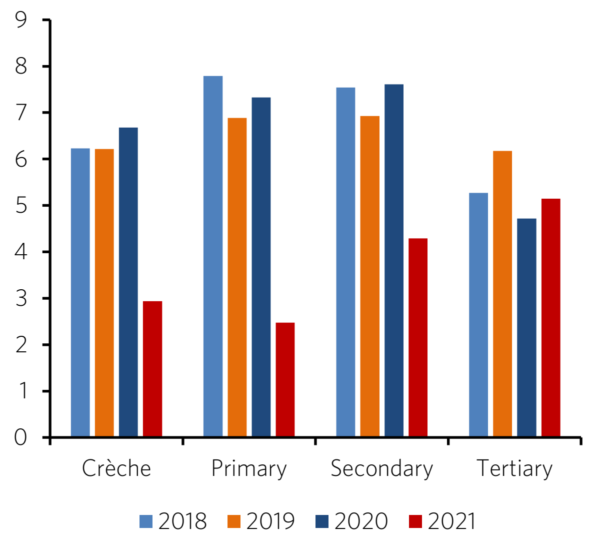
Chart 1: Housing inflation continues to increase at a subdued pace y/y (%)



Source: Stats SA, Momentum Investments

The total education category (including crèche, primary school, secondary school, tertiary tuition and boarding fees) has a weighting of 2,95% in the index, with tertiary and secondary education fees constituting 60% of the education weighting. The total education price index rose by 4% y/y, which is lower than the 6,4% increase of last year (see Chart 2). The lower education inflation rate is the result of smaller increases in primary and secondary school fees for 2021. This can be ascribed to these schools on average accumulating surpluses in 2020 due to smaller than budgeted outlays on, for instance, water and electricity services (due to COVID-19 and lockdown driven school closures), as well as the provision of 'digital education' for an extended period. Costs were also less than budgeted due to the suspension of extramural activities (such as sport and culture). These surpluses made lower fee increases for 2021 possible. However, although primary and secondary school fee inflation was lower compared to previous years, total education inflation still exceeded headline CPI. One of the main causes of above-average school fee inflation is the ongoing steep increases in water and electricity tariffs they have to pay. In addition, fee-based government schools incur additional outlays in the form of the cost (salaries) of additional teachers. However, as learners are back at school and normal activities resume, school CPI for the 2022 year is likely to increase again.

Chart 2: Lockdowns contributed to lower education inflation y/y (%)



Source: Stats SA, Momentum Investments

Vehicle and travel insurance prices decreased last year because of strong competition for clients, as well as lockdowns and curfews, which contributed to less travelling and claims risk. As the economy opens up, this type of insurance may change towards an increasing path. Vehicle and luggage insurance increased by 0,3% y/y in March. However, it was 0,6% lower compared to December 2020, when the previous survey was done.

International oil prices continued its upward trend due to higher demand. In US$-terms, the Brent oil price was at the end of March 2021, almost 190% higher than a year ago. Fortunately, the rand was around 20% stronger than a year ago, preventing even steeper fuel price increases. As it is, though, fuel prices were on average 2,3% higher y/y in March (in February it was still 3,3% lower compared to a year before), contributing a tenth of a percentage point to the headline CPI, whereas it still subtracted from CPI in February (see table 2).

April's CPI will experience further pressure to increase from among other factors fuel prices. In addition, Eskom's 15,63% increase in electricity tariffs to 'direct purchasing' clients entered into force on 1 April. Most households will experience electricity and water tariff increases when municipalities pass it on to them. This increase will show up in July and August's CPI statistics.

Table 2: Contributions of selected items to y/y CPI (percentage points)

	Jan-21	Feb-21	Mar-21
Bread & Cereals	0.11	0.10	0.11
Meat	0.39	0.37	0.37
Oils & Fats	0.05	0.05	0.06
Alcohol & tobacco	0.21	0.23	0.21
Housing	0.19	0.19	0.08
Water	0.11	0.11	0.11
Electricity	0.23	0.23	0.23
Domestic workers	0.08	0.08	0.05
New vehicles	0.25	0.22	0.25
Fuel	-0.39	-0.15	0.11
Primary school fees	0.06	0.06	0.02
Secondary school fees	0.06	0.06	0.03
Tertiary tuition fees	0.05	0.05	0.05
Boarding fees	0.00	0.00	0.00
Crèche fees	0.02	0.02	0.01
Car & travel insurance	0.00	0.00	0.00
Medical insurance	0.72	0.35	0.35
Other	1.02	0.89	1.15
Total	3.16	2.86	3.20

Source: Stats SA, Momentum Investments

Headline CPI should therefore breach the 5% mark in the second quarter of 2021. However, as the MPC is forward-looking and as they are more concerned with the second-round effects of increases in fuel and electricity prices, they will monitor core CPI closely going forward. At this stage headline CPI seems to remain close to the MPC's preferred target of 4,5% over the next two years. We therefore do not expect an increase in the repo rate this year.