momentum investments

in the moment


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Tepid rise in inflation to 4.5% in January 2020

Highlights

- Headline inflation rose marginally to 4.5% in January 2020, but was below the consensus expectation of 4.6%.
- The January 2020 number marked the 14th consecutive month of headline inflation tracking close to the midpoint of the target range.
- Core inflation eased to 3.7% in January 2020 from 3.8% in December 2019 underpinned by a continued slowdown in services inflation.
- Although prices of non-durables (namely food and fuel) rose meaningfully in January 2020, inflation in more than half of the items in the inflation basket recorded comfortably within the 3% to 6% inflation target range.
- Similarly, there were only six items in the inflation basket which printed above the upper 6% limit of the target in January 2020, including administered prices, bank charges and insurance costs.
- Private transport inflation showed a significant uptick in year-on-year (y/y) terms to 11.4%, despite a reduction in month-on-month (m/m) terms given a low base created in January 2019.
- Three out of nine goods in the food inflation basket reported a slowdown of inflation in January 2020.
- Consumer spending remains limited because of high administered prices alongside limited growth and employment opportunities in the economy. Although demand-pull inflation pressures remain muted, administered prices pose an upside threat to the inflation trajectory.

Inflation continued to hover at the midpoint of the target

The January 2020 consumer price inflation (CPI), released by Statistics South Africa (Stats SA), rose 0.1% slower than the consensus expectation to 4.5% y/y, up from 4.0% y/y in December 2019. This is the 14th consecutive month inflation was in line with or below the midpoint of the target range (see chart 1). January is generally a low survey month but a meaningful rise in administered prices, the gradual normalisation in food prices and the low base in the fuel price in January 2019 have modestly lifted the January 2020 inflation number from December levels. Headline inflation reported an unchanged monthly momentum of 0.3% m/m in January 2020. Core inflation eased to a tepid 3.7% y/y in January 2020 from 3.8% y/y in December 2019 underpinned by a 0.1% slowdown in services inflation to 4.0% in January 2020. This was the first time since March 2017 that services inflation dropped below goods inflation to the same extent.

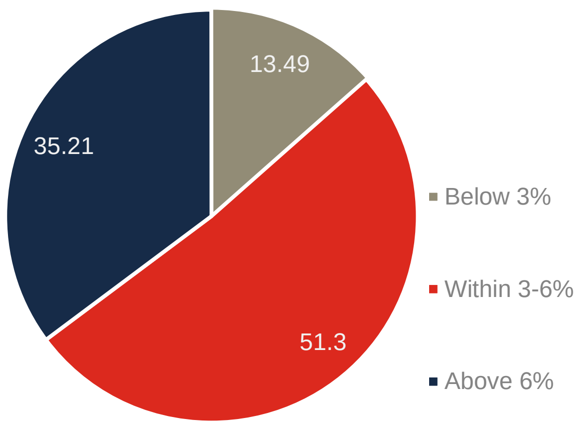
Housing and utilities added 1.2% to the January number and grew by 4.7% y/y, up from 4.6% y/y underpinned by a 0.5% rise in maintenance and repairs. Transport inflation alongside miscellaneous goods and services respectively added 0.9% to the January 2020 number. Food and beverage inflation added 0.6% and grew by 3.7% y/y.

Chart 1: Headline CPI hovering at the midpoint (% y/y)

Source: Stats SA, Momentum Investments

Services inflation slowed to 4.0% y/y in January 2020 from 4.1% y/y in December 2019. Inflation in goods however increased significantly to 4.9% y/y in January 2020, up from 3.9% y/y. The increase was predominantly reflected in inflation of non-durable goods which rose to 6.1% y/y from 4.6% y/y in December 2019. This was the first time in over a year that such a meaningful increase was recorded. Inflation in durable (furniture and cars) and semi-durable (clothing and footwear) goods declined to 2.3% y/y (down from 2.5% y/y) and 1.8% y/y (down from 2.0% y/y) in January 2020. More than half of the items in the consumer basket have however still recorded well within the 3% to 6% inflation target range (see chart 2)

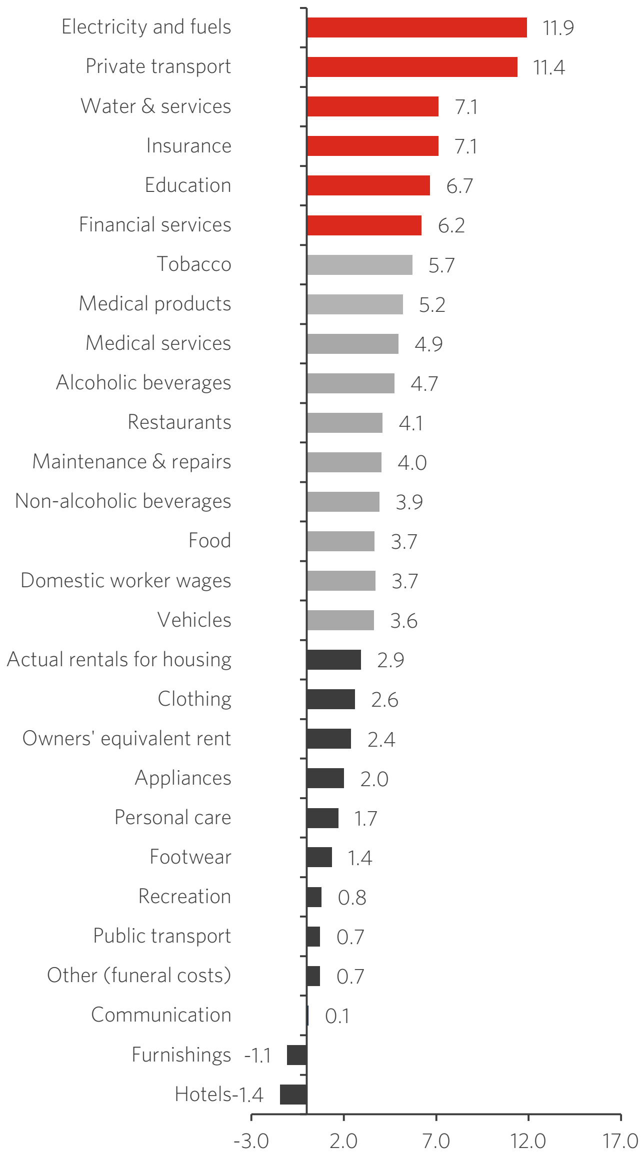
Chart 2: Services and goods inflation within target band (% y/y)



Source: Stats SA, Momentum Investments

Similarly, there were only six items in the inflation basket which printed above the upper 6% limit of the target in January 2020 (see chart 3). A significant portion of the basket falls either within or below the target. Hotels and furnishings reported the largest decline to 1.4% y/y and 1.1% y/y, respectively. Fuel detracted by a significantly large 2.1% y/y, having previously detracted 1.6% y/y.

Chart 3: Inflation skewed within and below target (% y/y)



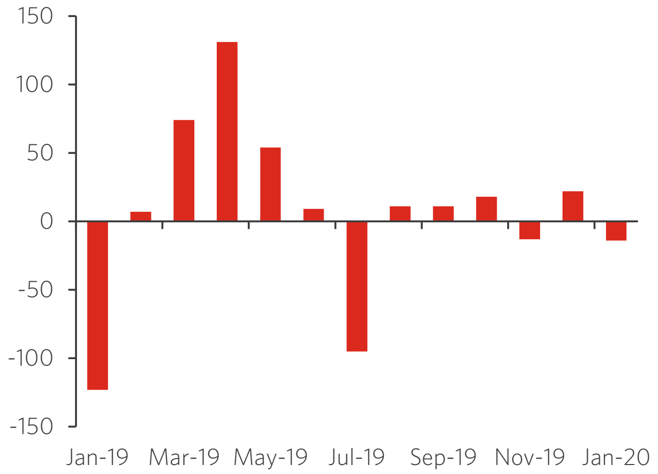
Source: Stats SA, Momentum Investments

Although inflation is expected to continue hovering around the midpoint of the target range administered price inflation remains an upside risk to inflation specifically because of electricity and municipal prices.

Transport inflation up relative to January 2019, but down relative to December 2019

Transport inflation grew by 6.4% y/y in January 2020, up from 3.3% y/y in December 2019. Private transport inflation showed a significant uptick to 11.4% y/y in January 2020, up from 2.7% y/y in December 2019. This was significantly lower than the 1.2% y/y contraction in January 2019. There was a R0.14 c/l petrol price decrease and a R0.9 c/l diesel price increase in January 2020, compared to the R1.23 c/l petrol price and R1.55 c/l diesel price decline in January 2019 (see chart 4).

Chart 4: Petrol price change (95 octane c/l)



Source: Iress, Momentum Investments

Public transport inflation weakened to 0.7% y/y in January 2020 from 3.7% y/y in December 2019. Vehicle inflation fell to 3.6% y/y, from 3.9% y/y in December 2019 underpinned by a continued decline in consumer appetite for big-ticket items such as vehicles.

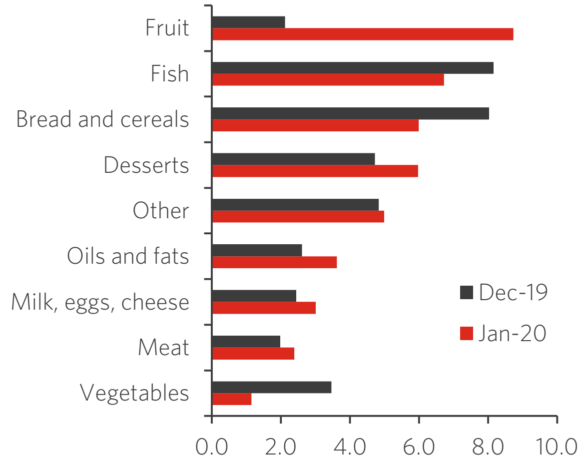
The fuel price declined by R0.13 c/l in February 2020 relative to a R0.7 c/l decline in February 2019 which will help arrest transport inflation in February. Recent rand weakness could limit the reprieve of the current over-recovery of 21 cents for March. The price of Brent crude oil is expected to weaken to US$58/bbl in February 2020 according to Iress estimates, down from US$58/bbl in January 2020.

Food inflation still low but is expected to rise further in the near term

Food and non-alcoholic beverage inflation declined to 3.7% y/y in January 2020 from 3.9% y/y in December 2019 but the monthly momentum rose mildly. Food inflation slowed to 3.7% y/y from 3.8% y/y in December 2019. Three out of nine goods in the food inflation basket reported a slowdown in January 2020 (see chart 5). Bread and cereal inflation reported the most significant reduction in January 2020 to 6.0% y/y from 8.0% y/y. Meat inflation rose marginally to 2.2% y/y, up from 2.0% in December 2019, explained by a gradual normalisation in meat prices.

The longer-than-expected ban on foot-and-mouth disease was lifted in February 2020 which will likely accelerate the normalisation in meat prices going forward.

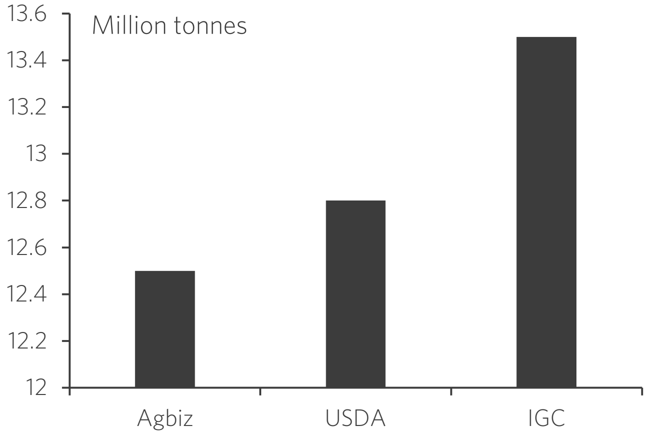
Chart 5: Food inflation by contribution (%)



Source: Stats SA, Momentum Investments

The Agricultural Business Chamber (Agbiz) has a below consensus estimate for the 2019/20 maize harvest underpinned by uncertain weather conditions and the late planting due to late rains (see chart 6). This below-market harvest expectation by Agbiz leads to a high likelihood of SA being a net maize exporter in the 2019/20 marketing year. The SA Weather Service however expects below normal rainfall between February and April 2020 which might limit summer crops but climate change has elevated the uncertainty element in these forecasts which may not materialise.

Chart 6: Maize harvest for 2019/20 marketing year



Source: Agbiz, United States Department of Agriculture (USDA), International Grains Council (IGC), Momentum Investments

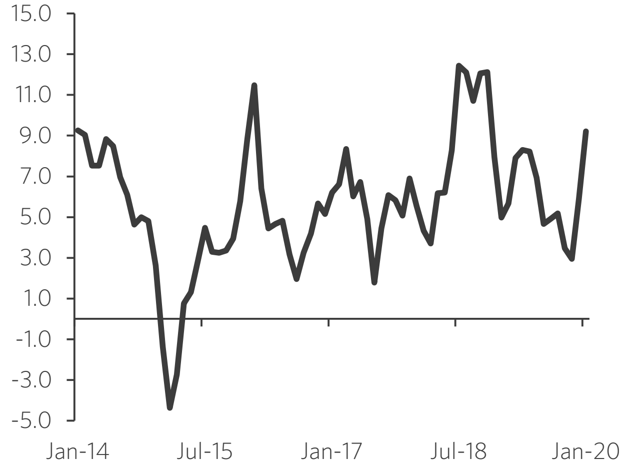
We expect food inflation to continue to rise gradually and reach around 5% in 2020 and peak marginally above 6% in 2021.

Inflation likely to remain close to the midpoint in the near term

Administered prices rose to 9.2% y/y in January 2020, up from 5.9% y/y in December 2019 underpinned by a higher fuel contribution of 3.9% (from 0.7% in December 2019) (see chart 7). Assessment rates, electricity and school fees added 0.1% more to administered prices in January 2020 relative to December 2019.

We expect inflation in 2020 to remain close to the midpoint of the target range, administered prices are however an upside risk to the forecast. Surveyed inflation expectations have a high likelihood of slowing further in the near term given a further drop in services inflation and the historic relationship between the two. Consumer spending remains limited because of high administered prices and limited growth and employment opportunities in the economy. Despite, the electricity supply crisis remaining a high risk to the electricity price trajectory, the lack of inflation pressure elsewhere in the basket suggests space for another interest rate cut.

Chart 7: Administered prices rose significantly in January 2020 (% y/y)



Source: Stats SA, Momentum Investments