

Headline inflation nears upper limit of target range

South Africa's headline CPI inflation rose by 0.2pp to 5.9% year on year in March.



Source: 123RF

This is slightly higher than Absa's forecast of 5.8% but lower than the Thomson Reuters consensus of 6.0%. Core CPI inflation was higher than expected, rising 0.3pp to 3.8% in March against Absa's forecast of 3.6% and consensus of 3.7%.

The rise in core CPI inflation was mainly driven by higher inflation in housing costs and public transport as well as alcohol and tobacco. Food and non-alcoholic beverages showed another strong m/m increase in March, but the y/y inflation in this category eased slightly due to base effects.

Looking ahead, current recovery rates for petrol and diesel suggest broadly-unchanged fuel prices for May, against a previous forecast of a modest decline. With a higher starting point for core CPI inflation, Absa has tweaked its near-term forecast and now expects headline CPI inflation to peak at 6.2% in June.

Rising housing and public-transport costs

The rise in core CPI inflation was driven by housing, public transport as well as "alcohol and tobacco" categories. The quarterly survey of housing costs, namely rentals and owners' equivalent rent - which carry a weight of 16.5% in the total CPI, showed that inflation in this category rose to 2.5% y/y in March from 1.7% in the previous survey.

This was slightly higher than the forecast of 2.3%, but material given the big weight of housing costs in the basket. Another notable contribution to the core inflation increase came from public-transport prices, which increased sharply by 3.5% m/n in March, pushing inflation in this category to a nine-year high of 14.0% y/y in March, from 12.3% in February.

Alcoholic beverages and tobacco prices also jumped markedly, by 2.2% m/m in March, pushing the y/y inflation rate to 5.9% in March from 4.8% in February. However, inflation of other 'core goods' such as 'textiles and clothing', household equipment and vehicle prices was broadly subdued in March. In fact, vehicle-purchase inflation eased to 5.3% in March after hitting 5.7% in February.

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