



finance  
MPUMALANGA PROVINCE  
REPUBLIC OF SOUTH AFRICA



# PROVINCIAL INFLATION BULLETIN DECEMBER 2014

*"Together We Move South Africa Forward"*





**COMPILED BY: THE ECONOMIC ANALYSIS  
DIVISION**

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## 1. INTRODUCTION

The Provincial Inflation Bulletin of Mpumalanga is a monthly publication of the Economic Analysis Division of the Department of Finance. The Bulletin is based on inflation data supplied by Statistics South Africa on a monthly basis. The purpose of the Bulletin is to provide an essential reference to Mpumalanga policy makers by providing the latest inflation data and analysis with specific reference to Mpumalanga.

It is essential to note that policy makers in Mpumalanga cannot directly influence provincial inflation, as it is the mandate of the South African Reserve Bank (SARB). However, as inflation is an impediment to provincial economic development, it is important to understand the inflation scenario in Mpumalanga. Shedding light on inflation in Mpumalanga should strengthen interventions against the triple economic challenges.

## 2. KEY FINDINGS

- The national headline CPI (for all urban areas) annual inflation rate in November 2014 was 5.8 per cent, which was 0.1 of a percentage point lower than the corresponding annual rate of 5.9 per cent in October 2014.
- Mpumalanga (5.5 per cent), recorded the joint lowest annual inflation rate among the nine provinces. It was lower than the national headline inflation rate and lower than the upper limit of the inflation target of 6 per cent for the third consecutive month.
- Witbank/Nelspruit<sup>1</sup> (5.7 per cent), recorded the joint seventh lowest inflation rate among the thirteen major urban areas of South Africa in November 2014.
- The food and non-alcoholic beverages index accounted for 25.6 per cent of the average price increase in Mpumalanga during November 2014, followed by the housing and utilities index with a 22.2 per cent share. These two indices were followed by the miscellaneous goods and services as well as transport indices, with respective contributions of 16.0 per cent and 12.7 per cent.
- When the impacts of the more volatile food and non-alcoholic beverages prices as well as that of petrol and electricity are excluded from the consumer price

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<sup>1</sup> Official description by Statistics South Africa for the combined urban areas of Emalahleni and Mbombela

index, the underlying core inflation in Mpumalanga would have amounted to 5.4 per cent in November 2014.

### **3. NATIONAL INFLATION SCENARIO**

The national average annual inflation rate for 2013 was 5.7 per cent, which was marginally higher than the corresponding average annual inflation rate of 5.6 per cent for 2012. The national headline CPI (for all urban areas) annual inflation rate in November 2014 was 5.8 per cent. This rate was 0.1 of a percentage point lower than the corresponding annual rate of 5.9 per cent in October 2014.

Among the 12 group indices, the annual inflation rate of restaurants and hotels (9.1 per cent), education (8.7 per cent), alcoholic beverages and tobacco (7.8 per cent), food and non-alcoholic beverages (7.6 per cent), miscellaneous goods and services (6.9 per cent), clothing and footwear (6.2 per cent), as well as health (6.1 per cent) were higher than the average national rate of 5.8 per cent. The annual increase of these seven indices was also above the upper limit of the inflation target zone of 6 per cent.

The annual inflation rate of housing and utilities (5.8 per cent), transport (4.2 per cent), recreation and culture (2.8 per cent), household contents and services (2.2 per cent) as well as communication (-0.9 per cent) was equal to or lower than the national rate. The annual increase of these five indices was also below the upper limit of the inflation target zone of 6 per cent.

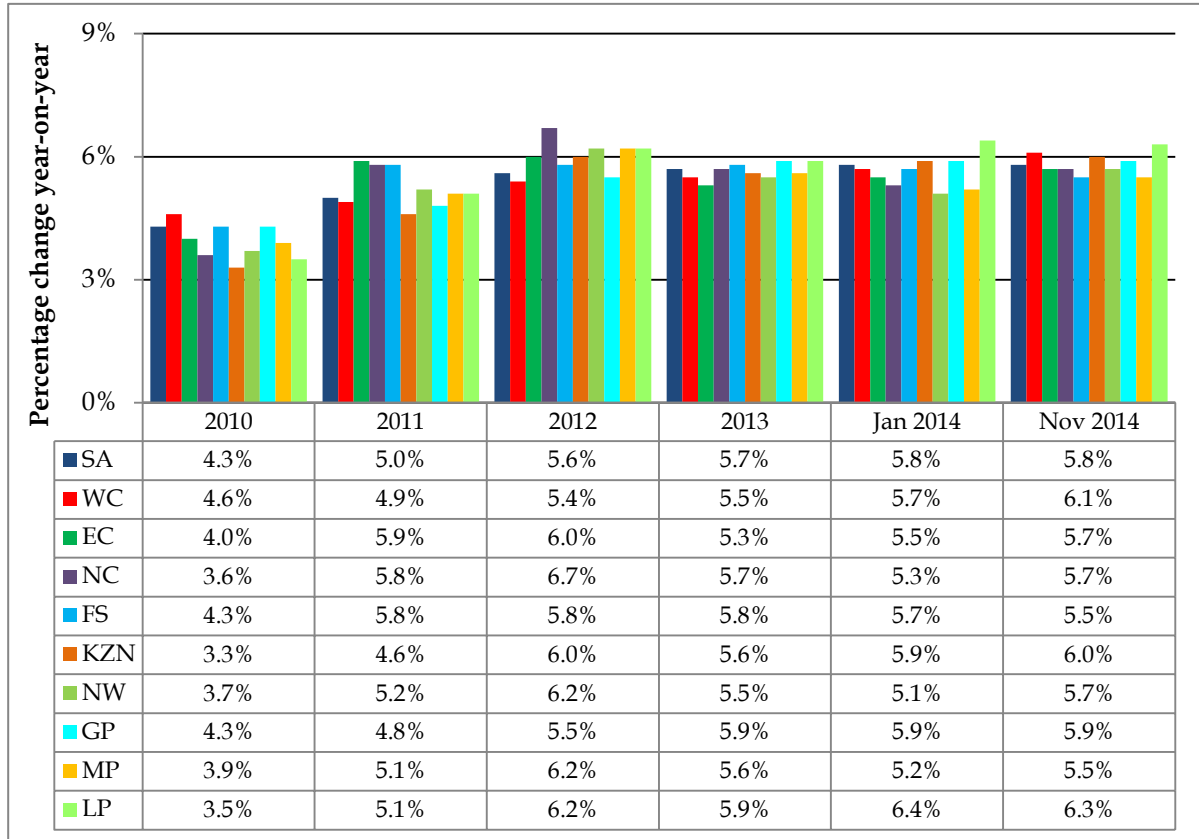
### **4. PROVINCIAL INFLATION COMPARISON**

The comparative year-on-year percentage change in the CPI for South Africa and the nine provinces since 2010, as reported by Statistics South Africa, are displayed in Figure 1. The provinces with an annual inflation rate lower than the national headline inflation in November 2014 were Eastern Cape (5.7 per cent), Northern Cape (5.7 per cent), North West (5.7 per cent), Free State (5.5 per cent) and Mpumalanga (5.5 per cent). The provinces with an annual inflation rate higher than the national headline inflation were Limpopo (6.3 per cent), Western Cape (6.1 per cent), KwaZulu-Natal (6.0 per cent) and Gauteng (5.9 per cent).

The inflation rate in Mpumalanga decreased between October 2014 (5.6 per cent) and November 2014 (5.5 per cent) by 0.1 of a percentage point. Mpumalanga, jointly with Free State, reported the lowest inflation measurement among the nine provinces in November 2014. In November 2014, Mpumalanga's inflation rate was

lower than national the inflation rate and also below the upper limit of the inflation target zone for the third consecutive month.

**Figure 1: Comparative inflation levels for South Africa and provinces, 2010-2014**



**Source: Statistics South Africa - CPI, 2010-2014**

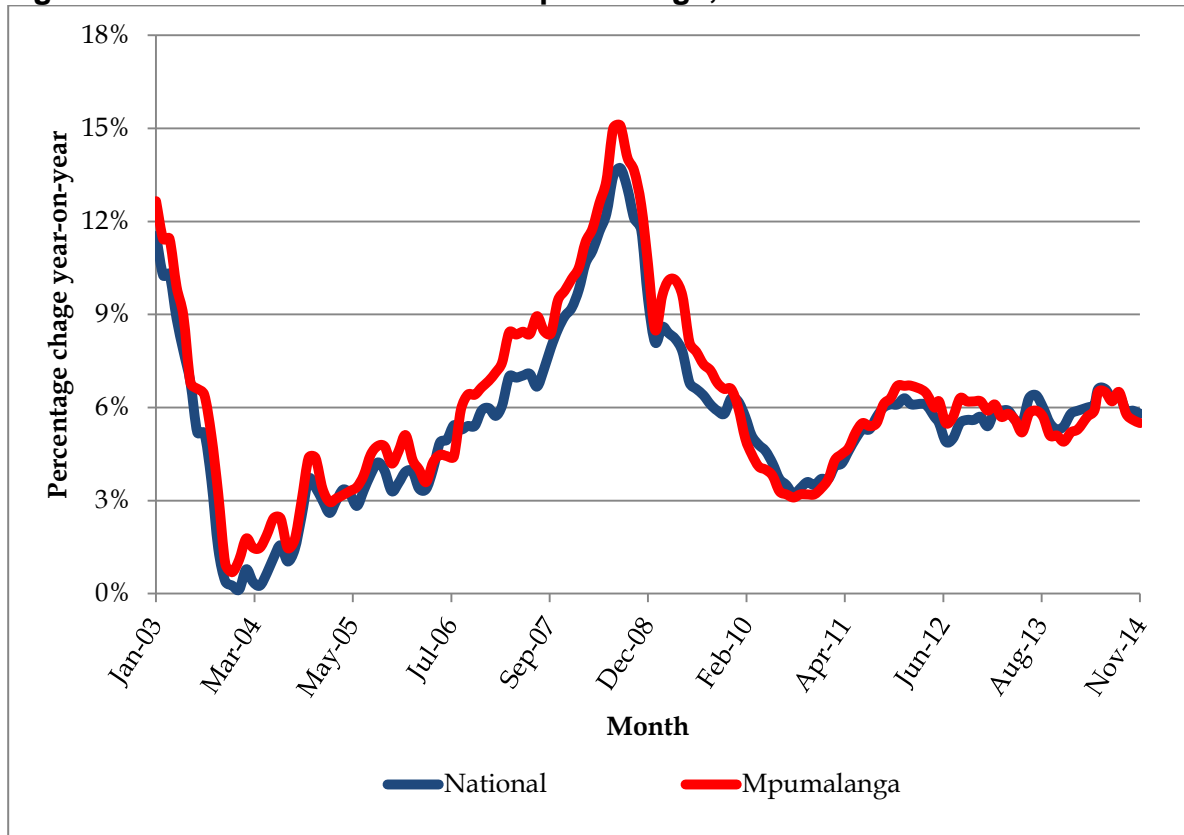
## 5. MPUMALANGA’S INFLATION SCENARIO

Mpumalanga’s average annual inflation rate for 2013 was 5.6 per cent, which was lower than the average for South Africa (5.7 per cent) as well as the joint fourth lowest overall. In November 2014, Mpumalanga, jointly with Free State, recorded the lowest inflation measurement of 5.5 per cent among the provinces. The comparative percentage change in the CPI for South Africa and Mpumalanga from January 2003 to November 2014 is displayed in Figure 2.

The 2013 average annual inflation rate for Witbank/Nelspruit<sup>1</sup> was 4.8 per cent, which was the lowest of the thirteen urban areas. The inflation measurement for Witbank/Nelspruit<sup>1</sup> was 5.7 per cent in November 2014, slightly higher than the October 2014 measurement of 5.6 per cent. It recorded the joint seventh lowest inflation measurement with Polokwane (5.0 per cent) registering the lowest rate.

The Witbank/Nelspruit<sup>1</sup> inflation rate was below the upper limit of the inflation target zone, however, it was higher than Mpumalanga’s inflation rate for November 2014.

**Figure 2: CPI in South Africa and Mpumalanga, 2003–2014**



**Source: Statistics South Africa – CPI, 2003-2014**

Statistics South Africa introduced a new basket and weights for the CPI in its January 2013 publication. The new basket and weights are based on the *2010/11 Income and Expenditure Survey*. The new basket has higher weights than the previous basket for alcoholic beverages and tobacco, clothing and footwear, housing and utilities, health, recreation and culture as well as restaurants and hotels. The weights for food and non-alcoholic beverages (FNAB), household contents and services, transport, communication, education as well as miscellaneous goods and services (MGS) are lower in the new basket.

The main determinants of inflation in Mpumalanga based on their respective weightings, as provided in Table 1, are price changes in FNAB, housing and utilities, transport as well as MGS. These four indices, in terms of the weighting, contribute more than 70 per cent to the level of inflation and inflation movements in Mpumalanga.

It appears from Table 1, that the FNAB index was accountable for 25.6 per cent of the average price increase in Mpumalanga during November 2014, followed by the housing and utilities index with a 22.2 per cent contribution. The MGS and transport indices were accountable for 16.0 per cent and 12.7 per cent of price increases, respectively. Within the FNAB index, price increases in meat as well as bread and cereals provided the most upward momentum. Public transport, owners' equivalent rent as well as insurance costs, respectively drove the transport, housing and utilities and MGS average price levels higher.

**Table 1: Mpumalanga's CPI group indices, weights, percentage change & contribution to inflation, November 2014**

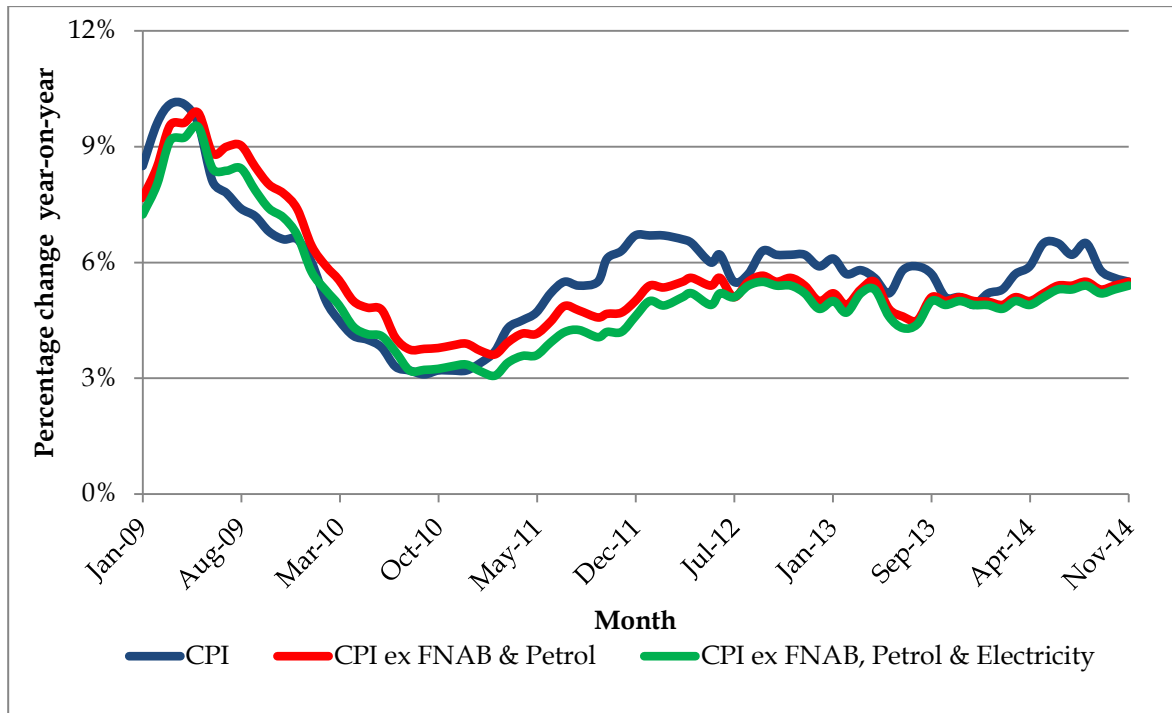
Index description	Weight	Percentage change		Estimated contribution to inflation
		Month-on-month	Year-on-year	
<b>Food &amp; non-alcoholic beverages</b>	20.72	+0.5	+6.8	25.6%
<b>Alcoholic beverages and tobacco</b>	4.81	+0.5	+6.7	5.9%
<b>Clothing and footwear</b>	5.36	+0.5	+9.9	9.7%
<b>Housing and utilities</b>	21.37	+0.1	+5.7	22.2%
<b>Household contents and services</b>	5.75	-0.2	+0.7	0.7%
<b>Health</b>	1.38	+0.2	+8.1	2.0%
<b>Transport</b>	14.88	-1.1	+4.7	12.7%
<b>Communication</b>	2.25	-0.3	-1.6	-0.7%
<b>Recreation and culture</b>	6.20	+0.0	+0.7	0.8%
<b>Education</b>	1.58	+0.0	+6.2	1.8%
<b>Restaurants and hotels</b>	2.56	-0.5	+6.9	3.2%
<b>Miscellaneous goods and services</b>	13.14	+0.0	+6.7	16.0%
<b>All items</b>	<b>100.0</b>	<b>+0.0</b>	<b>+5.5</b>	<b>100.0%</b>

*Source: Statistics South Africa – CPI Additional Tables, 2014*

When the impact of the more volatile FNAB and petrol prices are excluded from the consumer price index as in Figure 3, the underlying annual inflation also amounted to 5.5 per cent in November 2014. If electricity prices are also excluded from the calculation of headline CPI inflation, core inflation would have been at 5.4 per cent in November 2014.

**Figure 3: Measures of underlying inflation in Mpumalanga, 2009–2014**





**Source: Statistics South Africa – CPI, 2009-2014**

## 6. CONCLUSION

Mpumalanga, registered the joint lowest inflation rate of 5.5 per cent in November 2014, which was lower than the national headline inflation rate (5.8 per cent). Mpumalanga’s inflation rate was also lower than the upper limit of the inflation target zone for the third consecutive month.

The expectation is that inflation will likely decline further as global food prices have dropped significantly and global oil prices have fallen below US\$70 a barrel. Therefore, the volatile rand remains the biggest risk to the inflation trajectory for the remainder of 2014 and 2015.

The national inflation forecast of the SARB was revised slightly lower at the Monetary Policy Committee (MPC) meeting in November 2014. The forecast for 2014 was decreased to 6.1 per cent. The forecast for 2015 was also adjusted downward to 5.3 per cent, while the forecast for 2016 was also decreased to 5.5 per cent.

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