



finance
MPUMALANGA PROVINCE
REPUBLIC OF SOUTH AFRICA



PROVINCIAL INFLATION BULLETIN JANUARY 2015

"Together We Move South Africa Forward"





COMPILED BY: ECONOMIC ANALYSIS

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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 headline CPI (for all urban areas) annual inflation rate in December 2014 was 5.3 per cent. This rate was 0.5 of a percentage point lower than the corresponding annual rate of 5.8 per cent in November 2014.
- Mpumalanga (5.1 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 fourth consecutive month.
- Witbank/Nelspruit¹ (5.0 per cent), recorded the joint sixth lowest inflation rate among the thirteen major urban areas of South Africa in December 2014.
- The food and non-alcoholic beverages index accounted for 27.6 per cent of the average price increase in Mpumalanga during December 2014, followed by the housing and utilities index with a 21.8 per cent share. These two indices were followed by the miscellaneous goods and services index as well as the clothing and footwear index with respective contributions of 17.5 per cent and 7.1 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 index, the underlying core inflation in Mpumalanga would have amounted to 5.3 per cent in December 2014.

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

3. NATIONAL INFLATION SCENARIO

The national average annual inflation rate for 2014 was 6.1 per cent. This average annual inflation rate of 6.1 per cent was 0.4 of a percentage point higher than the corresponding average annual inflation rate of 5.7 per cent for the year 2013. The national headline CPI (for all urban areas) annual inflation rate in December 2014 was 5.3 per cent. This rate was 0.5 of a percentage point lower than the corresponding annual rate of 5.8 per cent in November 2014.

Among the 12 group indices, the annual inflation rate of education (8.7 per cent), restaurants and hotels (8.6 per cent), alcoholic beverages and tobacco (7.6 per cent), food and non-alcoholic beverages (7.2 per cent), miscellaneous goods and services (7.1 per cent), clothing and footwear (6.2 per cent), housing and utilities (5.7 per cent) as well as health (5.6 per cent) were higher than the national rate of 5.3 per cent.

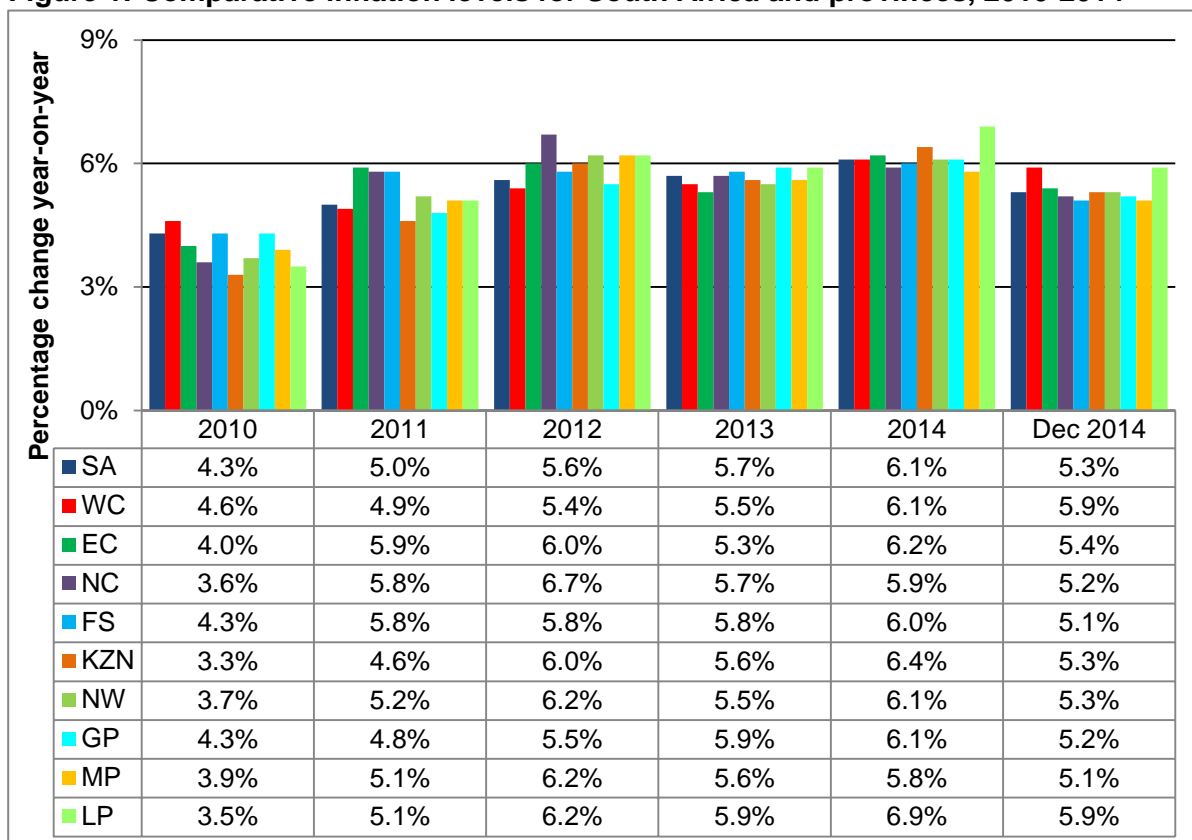
The annual inflation rate of recreation and culture (3.0 per cent), household contents and services (2.2 per cent), transport (1.7 per cent) as well as communication (-1.7 per cent) was lower than the national rate. The annual increase of these four indices was also below the upper limit of the inflation 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 or equal to the headline inflation in December 2014 were KwaZulu-Natal (5.3 per cent), North West (5.3 per cent), Northern Cape (5.2 per cent), Gauteng (5.2 per cent), Free State (5.1 per cent) and Mpumalanga (5.1 per cent). The provinces with an annual inflation rate higher than headline inflation were Western Cape (5.9 per cent), Limpopo (5.9 per cent) and Eastern Cape (5.4 per cent). The inflation rates of all nine provinces were below the upper limit of the inflation target zone.

The inflation rate in Mpumalanga decreased between November 2014 (5.5 per cent) and December 2014 (5.1 per cent) by 0.4 of a percentage point. Mpumalanga, jointly with Free State, reported the lowest inflation measurement among the nine provinces in December 2014. In December 2014, Mpumalanga's inflation rate was lower than the national inflation rate and also below the upper limit of the inflation target zone for the fourth consecutive month.

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



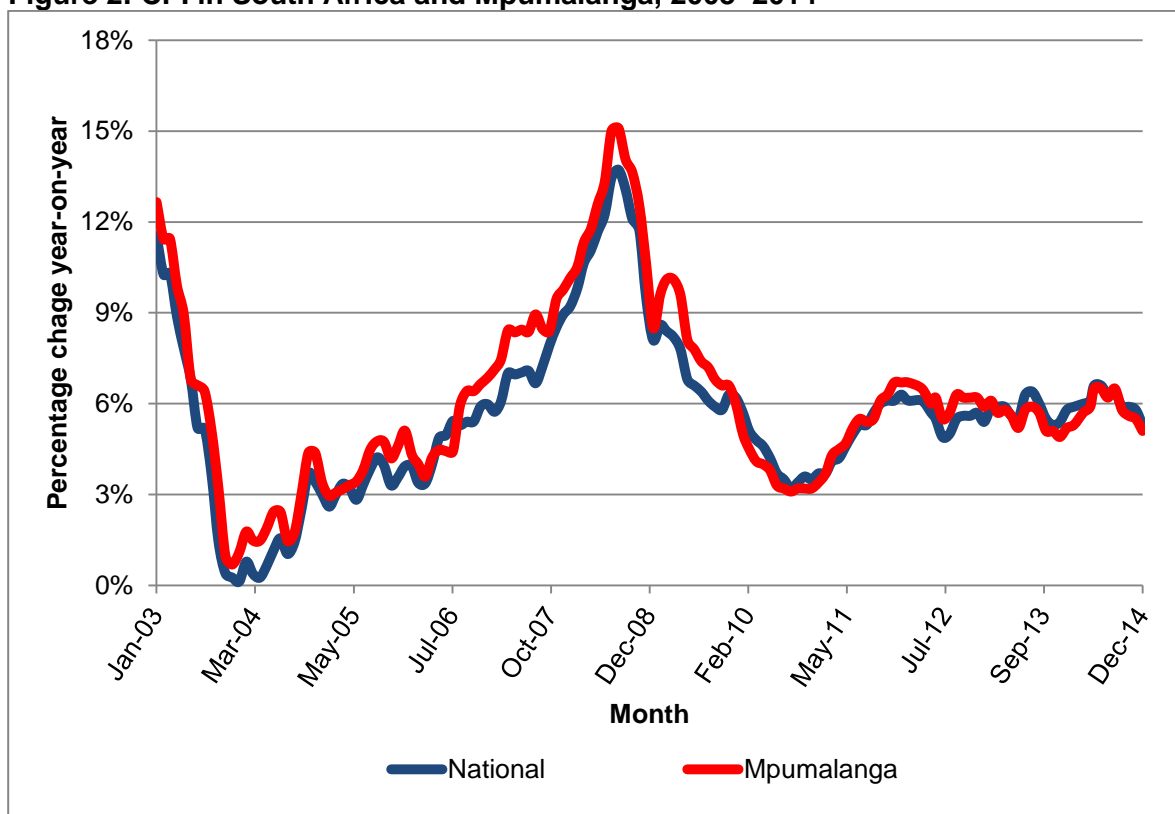
Source: Statistics South Africa - CPI, 2010-2015

5. MPUMALANGA’S INFLATION SCENARIO

Mpumalanga’s average annual inflation rate for 2014 was 5.8 per cent, which was lower than the average for South Africa (6.1 per cent) as well as the lowest overall. In December 2014, Mpumalanga, jointly with Free State, recorded the lowest inflation measurement of 5.1 per cent among the provinces. The comparative percentage change in the CPI for South Africa and Mpumalanga from January 2003 to December 2014 is displayed in Figure 2.

The 2014 average annual inflation rate for Witbank/Nelspruit¹ was 5.4 per cent, which was the lowest of the thirteen urban areas. The inflation measurement for Witbank/Nelspruit¹ was 5.0 per cent in December 2014, considerably lower than the November 2014 measurement of 5.7 per cent. Witbank/Nelspruit, jointly with the City of Tshwane, City of Johannesburg and Durban/Pinetown, recorded the fifth lowest inflation measurement in December 2014. The Witbank/Nelspruit¹ inflation rate was below the upper limit of the inflation target zone, Mpumalanga’s inflation rate as well as the national inflation rate for December 2014.

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



Source: Statistics South Africa – CPI, 2003-2015

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 27.6 per cent of the average price increase in Mpumalanga during December 2014. The housing and utilities as well as the MGS indices were accountable for 21.8 per cent and 17.5 per cent respectively. The transport index was responsible for only 6.1 per cent of the average price increase (compared with its 14.88 per cent weighting), mainly due to a 69c/litre decrease in the price of petrol in early December. Within the FNAB index, price increases

in meat as well as bread and cereals provided the most upward momentum. Owners' equivalent rent as well as insurance costs respectively drove the housing and utilities as well as MGS average price levels higher.

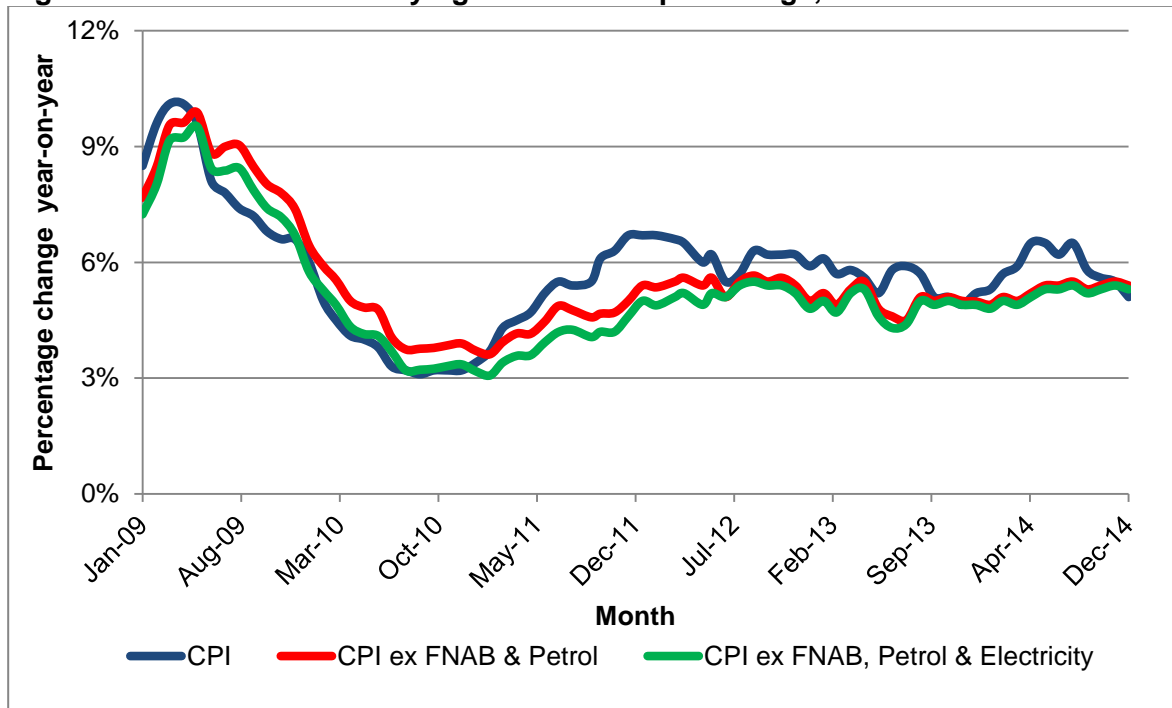
Table 1: Mpumalanga's CPI group indices, weights, percentage change & contribution to inflation, December 2014

Index description	Weight	Percentage change		Estimated contribution to inflation
		Month-on-month	Year-on-year	
Food & non-alcoholic beverages	20.72	-0.2	+6.8	27.6%
Alcoholic beverages and tobacco	4.81	+0.4	+7.5	7.1%
Clothing and footwear	5.36	+0.4	+10.0	10.5%
Housing and utilities	21.37	+0.2	+5.2	21.8%
Household contents and services	5.75	+0.5	+1.7	1.9%
Health	1.38	-0.1	+6.4	1.7%
Transport	14.88	-1.8	+2.1	6.1%
Communication	2.25	-0.9	-2.5	-1.1%
Recreation and culture	6.20	-0.1	+0.7	0.9%
Education	1.58	+0.0	+6.2	1.9%
Restaurants and hotels	2.56	+1.4	+8.1	4.1%
Miscellaneous goods and services	13.14	+0.3	+6.8	17.5%
All items	100.0	-0.2	+5.1	100.0%

Source: Statistics South Africa – CPI Additional Tables, 2015

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 amounted to 5.4 per cent in December 2014. If electricity prices are also excluded from the calculation of headline CPI inflation, core inflation would have been at 5.3 per cent in December 2014.

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



Source: Statistics South Africa – CPI, 2009-2015

6. CONCLUSION

Mpumalanga, registered the joint lowest inflation rate of 5.1 per cent in December 2014, which was lower than the national headline inflation rate (5.3 per cent). Mpumalanga's inflation rate was also lower than the upper limit of the inflation target zone for the fourth consecutive month.

The inflation outlook has improved significantly and is likely to remain relatively contained in the coming months on the back of lower international food prices and lower commodity prices – particularly oil. 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.

The MPC meets next week (27-29 January) and will most probably announce that the SARB's national inflation forecast have been revised lower, mainly as a result of the lower oil price. The MPC will also announce the decision it made with regard to the repurchase rate. Key to this decision will be inflation expectations, the economic growth outlook, the impact of a possible quantitative easing stimulus package by the European Central Bank as well as the impact and timing of interest rate increases in the USA.

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