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PROVINCIAL INFLATION BULLETIN

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MPUMALANGA
THE PLACE OF THE RISING SUN

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 national headline CPI (for all urban areas) annual inflation rate in May 2015 was 4.6 per cent. This rate was 0.1 of a percentage point higher than the corresponding annual rate of 4.5 per cent in April 2015.
- Mpumalanga's inflation rate of 4.2 per cent in May 2015 was 0.1 of a percentage point lower than the corresponding annual rate of 4.3 per cent in April 2015.
- Mpumalanga recorded the third lowest annual inflation rate among the nine provinces. It was also lower than the national headline inflation rate for the third consecutive month.
- The Mpumalanga inflation rate was lower than the upper limit of the inflation target zone of 6 per cent for the ninth consecutive month.
- Witbank/Nelspruit[1] (4.4 per cent), recorded the fifth lowest inflation rate among the thirteen major urban areas of South Africa in May 2015.
- The housing and utilities index accounted for 24.3 per cent of the average price increase in Mpumalanga during May 2015. The FNAB as well as the MGS indices accounted for 21.6 per cent and 21.2 per cent, respectively. The transport index's contribution was a negative 1.4 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 5.0 per cent in May 2015.

[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 May 2015 was 4.6 per cent. This rate was 0.1 of a percentage point higher than the corresponding annual rate of 4.5 per cent in April 2015.

Among the 12 group indices, the annual inflation rate of alcoholic beverages and tobacco (9.7 per cent), education (9.3 per cent), miscellaneous goods and services (7.4 per cent), health (7.0 per cent), restaurants and hotels (6.4 per cent), housing and utilities (5.6 per cent), clothing and footwear (5.4 per cent) as well as food and non-alcoholic beverages (4.7 per cent) were higher than the national rate of 4.6 per cent.

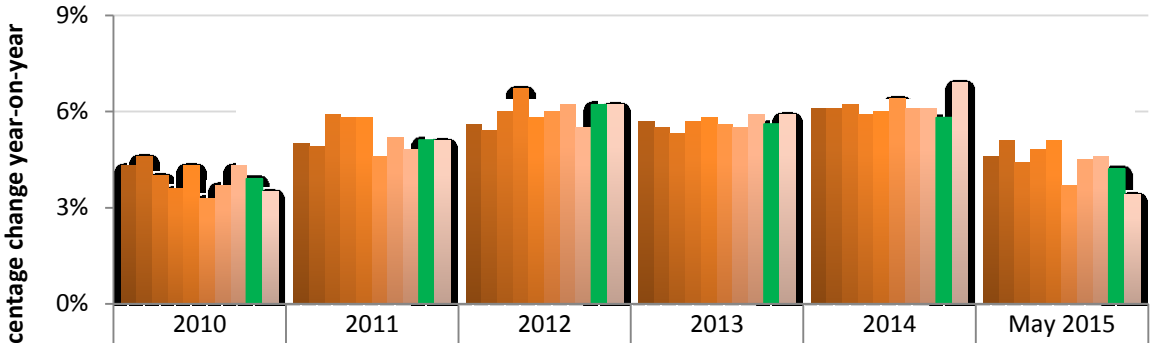
The annual inflation rates of household contents and services (2.6 per cent), recreation and culture (1.8 per cent), communication (-0.4 per cent) as well as transport (-0.7 per cent) were lower than the national rate. The annual increases of these four indices were also below the upper limit of the 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 May 2015 were Gauteng (4.6 per cent), North West (4.5 per cent), Eastern Cape (4.4 per cent), Mpumalanga (4.2 per cent), KwaZulu-Natal (3.7 per cent) and Limpopo (3.4 per cent). The provinces with an annual inflation rate higher than the national headline inflation were Western Cape (5.1 per cent), Free State (5.1 per cent) and Northern Cape (4.8 per cent).

Mpumalanga's inflation rate decreased by 0.1 of a percentage point from 4.3 per cent to 4.2 per cent between April 2015 and May 2015 – one of only three provinces that registered a decline month-on-month. Mpumalanga recorded the third lowest inflation measurement among the nine provinces in May 2015. In May 2015, Mpumalanga's inflation rate was lower than the national inflation rate for the third consecutive month. The Mpumalanga inflation rate was also below the upper limit of the inflation target zone for the ninth consecutive month.

Figure 1: Comparative inflation levels for South Africa and provinces, 2010-2015



	2010	2011	2012	2013	2014	May 2015
SA	4.3%	5.0%	5.6%	5.7%	6.1%	4.6%
WC	4.6%	4.9%	5.4%	5.5%	6.1%	5.1%
EC	4.0%	5.9%	6.0%	5.3%	6.2%	4.4%
NC	3.6%	5.8%	6.7%	5.7%	5.9%	4.8%
FS	4.3%	5.8%	5.8%	5.8%	6.0%	5.1%
KZN	3.3%	4.6%	6.0%	5.6%	6.4%	3.7%
NW	3.7%	5.2%	6.2%	5.5%	6.1%	4.5%
GP	4.3%	4.8%	5.5%	5.9%	6.1%	4.6%
MP	3.9%	5.1%	6.2%	5.6%	5.8%	4.2%
LP	3.5%	5.1%	6.2%	5.9%	6.9%	3.4%

Source: Statistics South Africa - CPI, 2010-2015

5. MPUMALANGA'S INFLATION SCENARIO

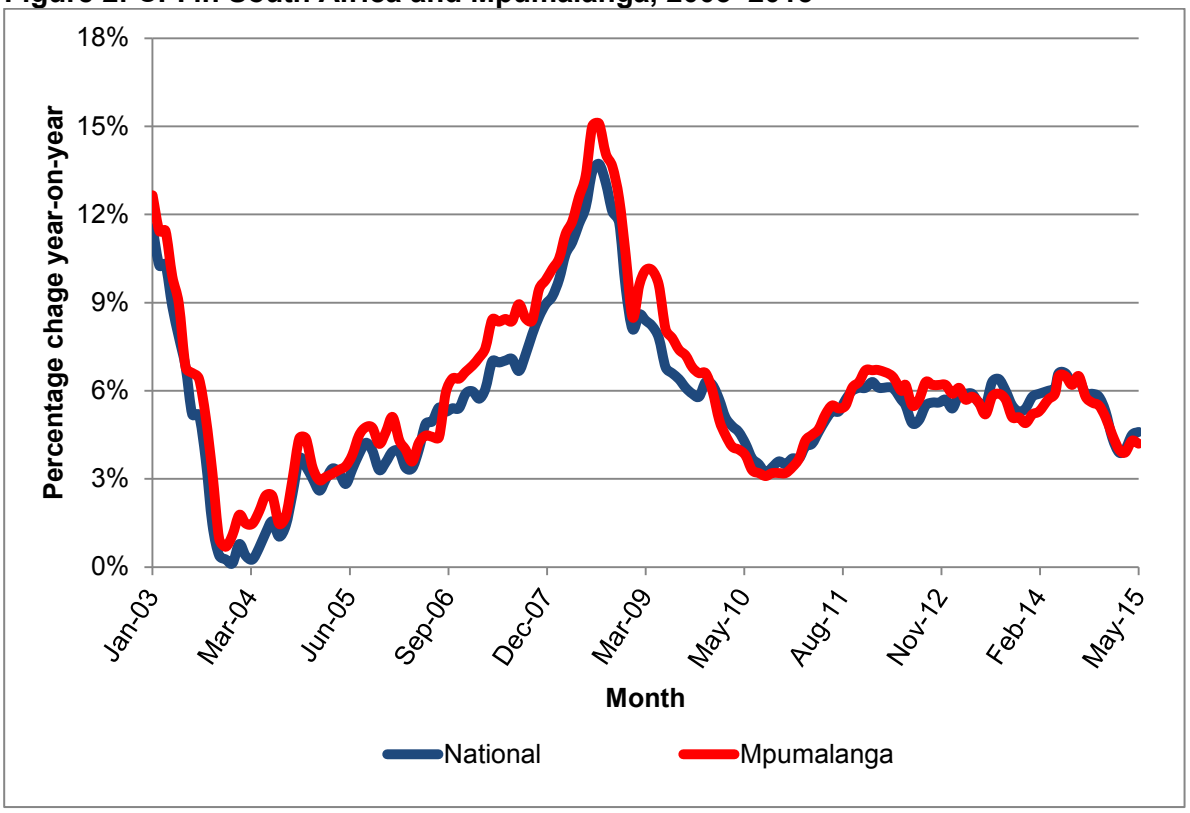
Mpumalanga's average annual inflation rate for 2014 was 5.8 per cent, which was lower than the average for South Africa (6.1 per cent) as well as the lowest overall. In May 2015, Mpumalanga recorded the third lowest inflation measurement of 4.2 per cent among the provinces. The comparative percentage change in the CPI for South Africa and Mpumalanga from January 2003 to May 2015 is displayed in Figure 2.

The 2014 average annual inflation rate for Witbank/Nelspruit[1] was 5.4 per cent, which was the lowest of the thirteen urban areas. The inflation measurement for Witbank/Nelspruit[1] was 4.4 per cent in May 2015, 0.2 of a percentage point lower than the April 2015 measurement of 4.6 per cent. Witbank/Nelspruit[1] recorded the fifth lowest inflation measurement in May 2015, which was lower than the national inflation rate but higher than the provincial inflation rate for May 2015. It was also still below the upper limit of the inflation target zone.

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.

Figure 2: CPI in South Africa and Mpumalanga, 2003–2015



Source: Statistics South Africa – CPI, 2003-2015

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 housing and utilities index was accountable for 24.3 per cent of the average price increase in Mpumalanga during May 2015. The FNAB as well as the MGS indices were accountable for 21.6 per cent and 21.2 per cent, respectively. The transport index's contribution was a negative 1.4 per cent. The alcoholic beverages and tobacco index made a considerable contribution of 12.4 per cent compared with its weighting of 4.8 per cent.

Within the housing and utilities index, price increases in water and electricity provided the most upward momentum. Insurance drove the MGS average price levels higher, while meat as well as bread and cereals increased the FNAB index.

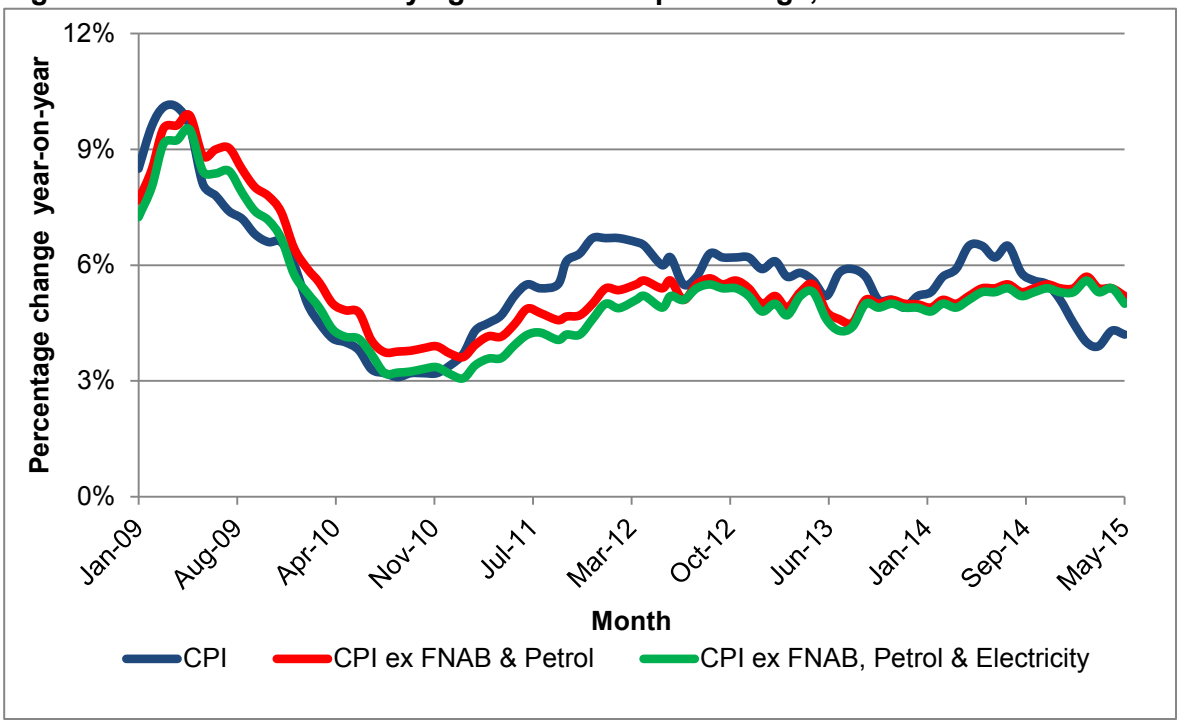
Table 1: Mpumalanga's CPI group indices, weights, percentage change & contribution to inflation, May 2015

Index description	Weight	Percentage change		Estimated contribution to inflation
		Month-on-month	Year-on-year	
Food & non-alcoholic beverages	20.72	+1.4	+4.4	21.6%
Alcoholic beverages and tobacco	4.81	+0.5	+10.9	12.4%
Clothing and footwear	5.36	+0.5	+8.3	10.6%
Housing and utilities	21.37	+0.1	+4.8	24.3%
Household contents and services	5.75	-0.1	+2.7	3.7%
Health	1.38	+0.2	+7.3	2.4%
Transport	14.88	+0.1	-0.4	-1.4%
Communication	2.25	+0.3	-1.3	-0.7%
Recreation and culture	6.20	-0.1	+0.0	0.0%
Education	1.58	+0.0	+8.2	3.1%
Restaurants and hotels	2.56	+0.3	+4.6	2.8%
Miscellaneous goods and services	13.14	+0.2	+6.8	21.2%
All items	**100.0**	**+0.4**	**+4.2**	**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 5.2 per cent in May 2015. If electricity prices are also excluded from the calculation of headline CPI inflation, the resultant core inflation would have been at 5.0 per cent in May 2015.

Figure 3: Measures of underlying inflation in Mpumalanga, 2009–2015



Source: Statistics South Africa – CPI, 2009-2015

6. CONCLUSION

Mpumalanga registered the third lowest inflation rate of 4.2 per cent in May 2015, which was lower than the national headline inflation rate (4.6 per cent). Mpumalanga's inflation

rate was lower than the upper limit of the inflation target zone for the ninth consecutive month.

Inflation reached its low during the first quarter of 2015 and is now on an upward trend due to the weaker rand dollar exchange rate, higher oil prices and rising food prices. The inflation rate in Mpumalanga will probably end the year at or just below the SARB's 6 per cent upper target range.

The Monetary Policy Committee (MPC) announced at the conclusion of its May meeting that the SARB's national inflation forecast have been revised higher due to an expected acceleration in food price inflation and the impact of the higher oil price. The forecast for 2015 was increased to 4.9 per cent, compared with the previous forecast of 4.8 per cent. The forecast for 2016 was increased to 6.1 per cent compared with 5.9 per cent previously.

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