



finance
MPUMALANGA PROVINCE
REPUBLIC OF SOUTH AFRICA



**PROVINCIAL INFLATION
BULLETIN
MARCH 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 national headline CPI (for all urban areas) annual inflation rate in February 2015 was 3.9 per cent. This rate was 0.5 of a percentage point lower than the corresponding annual rate of 4.4 per cent in January 2015.
- Mpumalanga (4.0 per cent), recorded the joint fifth lowest annual inflation rate among the nine provinces. It was higher than the national headline inflation rate for the second consecutive month.
- The Mpumalanga inflation rate was also lower than the upper limit of the inflation target zone of 6 per cent for the sixth consecutive month.
- This is the lowest Mpumalanga's inflation rate has been since February 2011.
- Witbank/Nelspruit¹ (4.0 per cent), recorded the eighth lowest/sixth highest inflation rate among the thirteen major urban areas of South Africa in February 2015.
- The food and non-alcoholic beverages index accounted for 29.8 per cent of the average price increase in Mpumalanga during February 2015, followed by the housing and utilities index with a 28.0 per cent share. These two indices were followed by the miscellaneous goods and services index as well as the alcoholic beverages and tobacco index with respective contributions of 25.2 per cent and 12.4 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 5.6 per cent in February 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 February 2015 was 3.9 per cent. This rate was 0.5 of a percentage point lower than the corresponding annual rate of 4.4 per cent in January 2015. This is the lowest the national inflation rate has been since February 2011.

Among the 12 group indices, the annual inflation rate of education (8.7 per cent), alcoholic beverages and tobacco (8.2 per cent), miscellaneous goods and services (7.8 per cent), restaurants and hotels (7.0 per cent), food and non-alcoholic beverages (6.4 per cent), health (5.9 per cent), clothing and footwear (5.8 per cent) as well as housing and utilities (5.6 per cent) were higher than the national rate of 3.9 per cent.

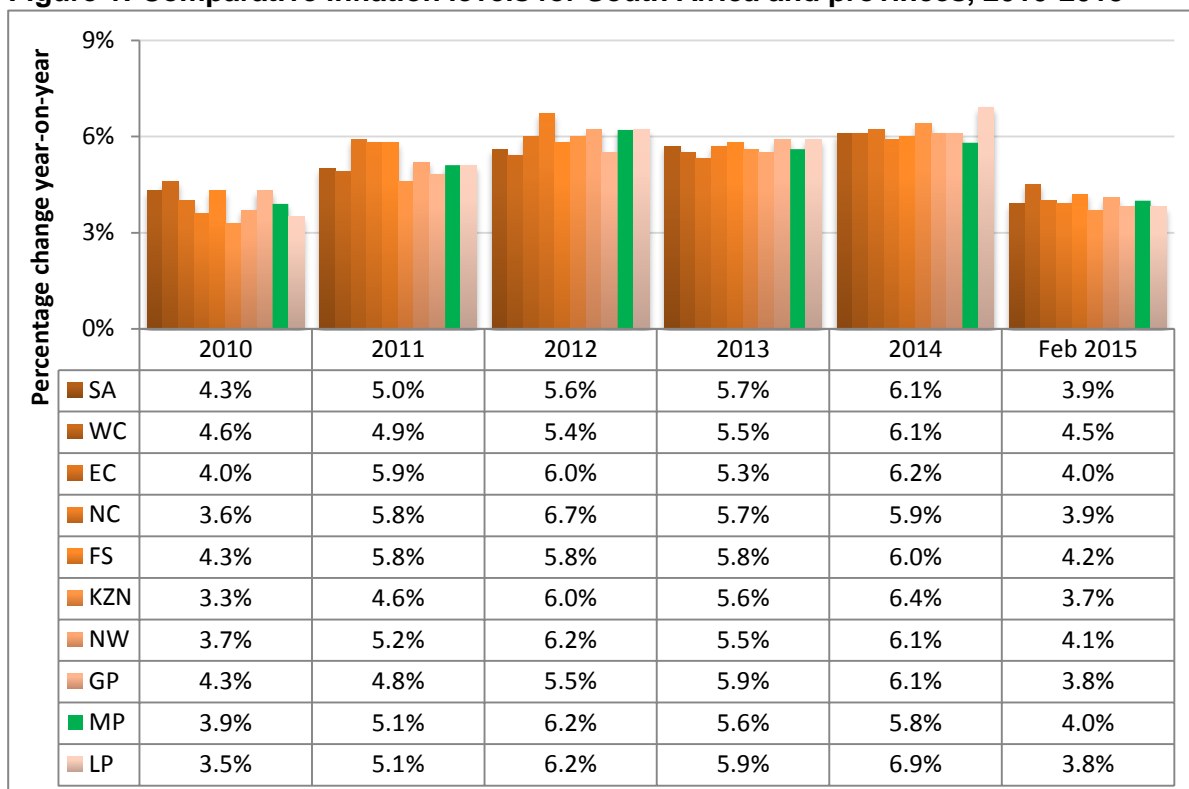
The annual inflation rates of recreation and culture (2.9 per cent), household contents and services (2.3 per cent), communication (-1.7 per cent) as well as transport (-6.3 per cent) were lower than the national rate. The annual increases of these four indices were also below the upper limit of the 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 February 2015 were Northern Cape (3.9 per cent), Gauteng (3.8 per cent), Limpopo (3.8 per cent) and KwaZulu-Natal (3.7 per cent). The provinces with an annual inflation rate higher than the headline inflation were Western Cape (4.5 per cent), Free State (4.2 per cent), North West (4.1 per cent), Eastern Cape (4.0 per cent) and Mpumalanga (4.0 per cent).

The inflation rate in Mpumalanga decreased between January 2015 (4.5 per cent) and February 2015 (4.0 per cent) by 0.5 of a percentage point. Mpumalanga, jointly with Eastern Cape, recorded the fifth lowest inflation measurement among the nine provinces in February 2015. In February 2015, Mpumalanga's inflation rate was higher than the national inflation rate for the second consecutive month. The Mpumalanga inflation rate was below the upper limit of the inflation target zone for the sixth consecutive month.

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



Source: Statistics South Africa - CPI, 2010-2015

5. MPUMALANGA'S INFLATION SCENARIO

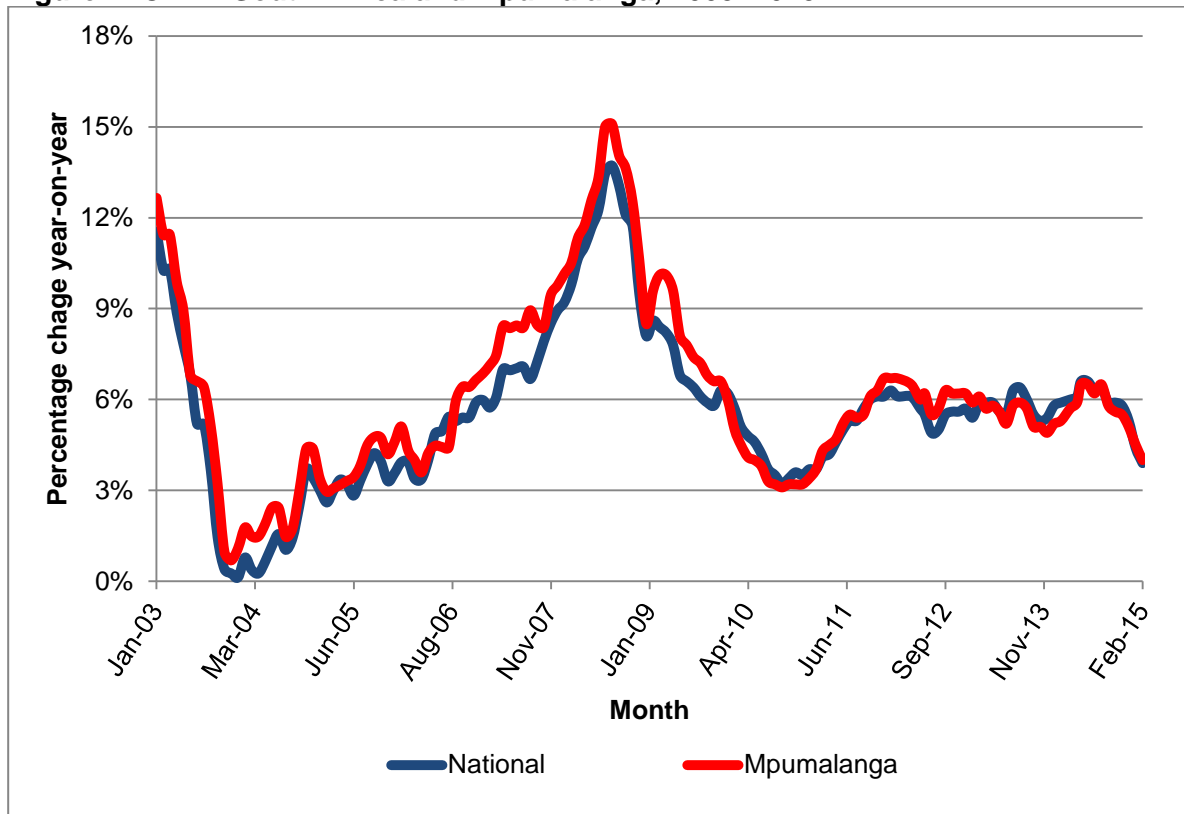
Mpumalanga's average annual inflation rate for 2014 was 5.8 per cent, which was lower than the average for South Africa (6.1 per cent) as well as the lowest overall. In February 2015, Mpumalanga, jointly with Eastern Cape, recorded the fifth highest/lowest inflation measurement of 4.0 per cent among the provinces. This is the lowest Mpumalanga's inflation rate has been since February 2011. The comparative percentage change in the CPI for South Africa and Mpumalanga from January 2003 to February 2015 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 4.0 per cent in February 2015, considerably lower than the January 2015 measurement of 4.5 per cent. Witbank/Nelspruit, together with City of Tshwane, recorded the eighth lowest/sixth highest inflation measurement in February 2015. The Witbank/Nelspruit¹ inflation rate was equal to Mpumalanga's inflation rate and also higher than the national inflation rate for February 2015. It was, however, 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 FNAB index was accountable for 29.8 per cent of the average price increase in Mpumalanga during February 2015. The housing and utilities as well as the MGS indices were accountable for 28.0 per cent and 25.2 per cent respectively. The transport index’s contribution was a negative 18.8 per cent due to a 93c/litre decrease in the price of petrol. The alcoholic beverages and tobacco index made a considerable contribution of 12.4 per cent compared with its weighting of 4.81 per cent.

Within the FNAB index, price increases in meat as well as milk, eggs and cheese provided

the most upward momentum. Owners' equivalent rent as well as electricity and other fuels costs increased the housing and utilities index, while, insurance drove the MGS average price levels higher.

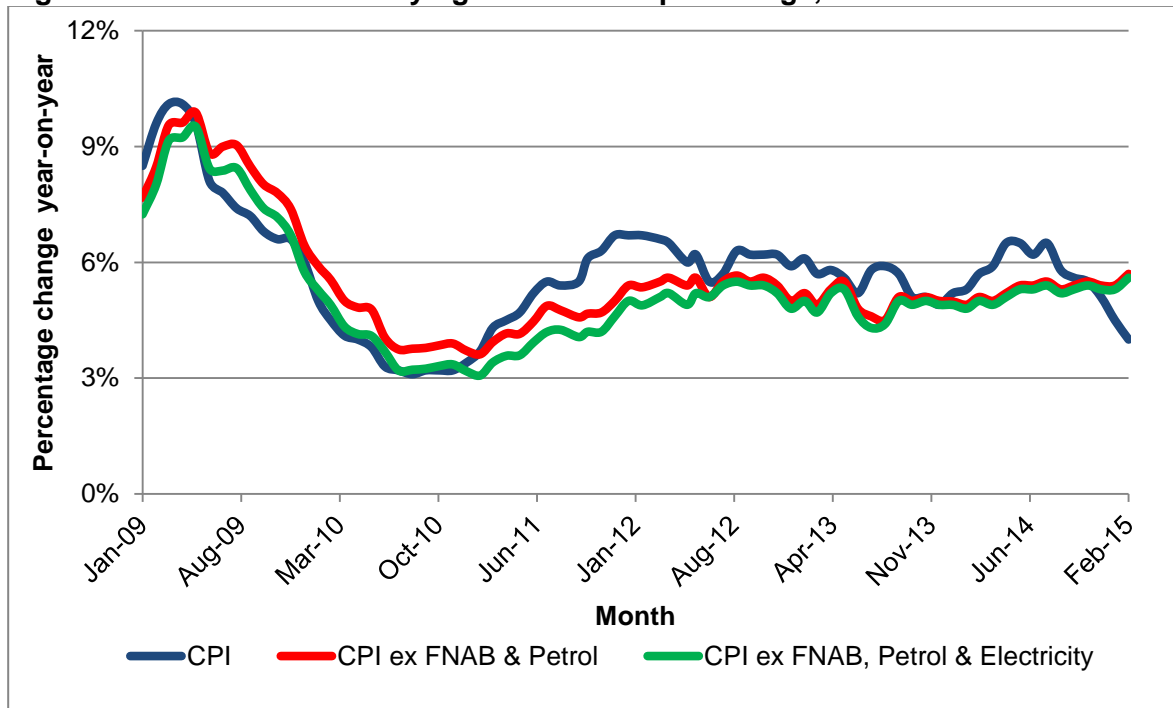
Table 1: Mpumalanga's CPI group indices, weights, percentage change & contribution to inflation, February 2015

Index description	Weight	Percentage change		Estimated contribution to inflation
		Month-on-month	Year-on-year	
Food & non-alcoholic beverages	20.72	+0.2	+5.7	29.8%
Alcoholic beverages and tobacco	4.81	+1.9	+10.2	12.4%
Clothing and footwear	5.36	+0.4	+9.0	12.2%
Housing and utilities	21.37	+0.0	+5.2	28.0%
Household contents and services	5.75	+0.7	+1.8	2.6%
Health	1.38	+3.5	+7.5	2.6%
Transport	14.88	-2.4	-5.0	-18.8%
Communication	2.25	-0.1	-2.6	-1.5%
Recreation and culture	6.20	+0.2	+0.4	0.6%
Education	1.58	+0.0	+6.2	2.5%
Restaurants and hotels	2.56	+1.9	+6.8	4.4%
Miscellaneous goods and services	13.14	+4.9	+7.6	25.2%
All items	100.0	+0.6	+4.0	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 5.7 per cent in February 2015. If electricity prices are also excluded from the calculation of headline CPI inflation, core inflation would have been at 5.6 per cent in February 2015.

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



Source: Statistics South Africa – CPI, 2009-2015

6. CONCLUSION

Mpumalanga registered the joint fifth lowest inflation rate of 4.0 per cent in February 2015 which was marginally higher than the national headline inflation rate (3.9 per cent). Mpumalanga's inflation rate was lower than the upper limit of the inflation target zone for the sixth consecutive month.

Although the inflation outlook has improved from six months ago it is likely to have reached its low point for the year in February. Due to the weaker rand dollar exchange rate, rising oil prices and higher food prices as a result of the poor maize crop, inflation should start rising from March onwards.

The Monetary Policy Committee (MPC) announced at the conclusion of its January meeting that the SARB's national inflation forecast have been revised lower, mainly as a result of the lower oil price. The forecast for 2015 was decreased to 3.8 per cent, compared with the previous forecast of 5.3 per cent. The steep decline in 2015, however, produces a strong base effect in 2016, and, when combined with a higher oil price assumption and a depreciated exchange rate of the rand, results in an average inflation forecast of 5.4 per cent for the year.

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