

A report compiled by Citadel Investment Strategists

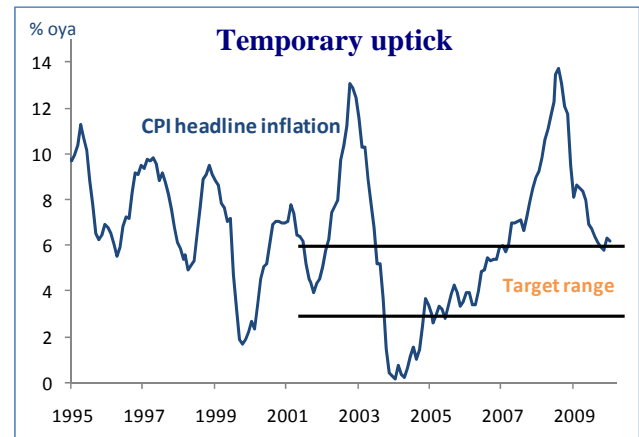
Inflation above 6%, but outlook positive

South Africa's headline CPI advanced 6.2% in the year to January 2010, slightly lower than December's 6.3%. The increase in the inflation rate to above 6% during the past two months was expected because of petrol price changes a year ago. Headline inflation is expected to fall back into the target range during 2010 as price pressures are contained by the lagged impact of the severe local recession. With inflation back into the target range, the SARB has the scope to cut the repo rate if the local economic recovery falters.

Food inflation declined sharply from 16% a year ago to 1.6% in January 2010. Falling food inflation was one of the main reasons for the moderation in headline CPI over the past year. Food price inflation can be volatile, but should not put upward pressure on inflation in the coming year. The other major components of the index also remain well within the target. Owners' equivalent rent and actual rental inflation (16% of the total index) remain muted as the property market slowly recovers. Another significant component, new vehicle prices with a weight of 11% in the index, is only 1.7% higher than a year ago and prices fell in January.

The outlook for headline inflation in 2010 remains positive. Local demand that is still weak and ample spare capacity should also keep a lid on price increases. In the absence of unforeseen movements in volatile prices like oil, food and the rand exchange rate, inflation should be within the 3% to 6% target range in 2010.

The announcement of the 24.8% increase in electricity tariffs was at the lower end of expectations and the direct impact on inflation will be minimal as current electricity inflation already stands at 24%. The second round effects are more uncertain, but there will be little scope for business to increase prices while demand remains weak.



- CPI headline inflation (for all urban areas) was 6.2% in the year to January 2010, down from 6.3% in December. The index was up 0.3% higher in the month.
- CPI, excluding food, increased 7.0% in the year to January while CPI excluding housing rose 6.0% during the past year.
- The 3% to 6% inflation target range was confirmed in the recent national budget speech.

	January 2010			December 2009		
	% oya	% mom	3m ann	% oya	% mom	3m ann
All items (Headline)	6.2%	0.3%	2.2%	6.3%	0.3%	1.1%
CPI ex food	7.0%	0.2%	2.2%	6.8%	0.4%	0.7%
CPI ex housing	6.0%	0.4%	2.2%	6.1%	0.2%	0.4%
Food	1.6%	0.8%	1.8%	2.7%	-0.3%	1.5%

Source: Statistics SA

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