

A report compiled by Citadel Investment Strategists

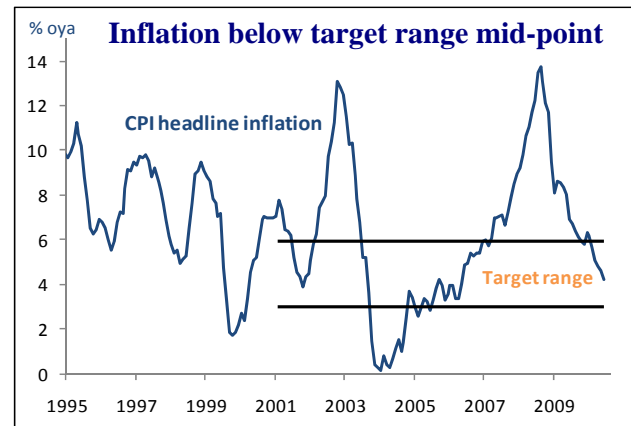
## Inflation keeps falling

Headline CPI rose 4.2% in the 12 months to June. The rate is now just below the mid-point of the 3% to 6% inflation target of the Reserve Bank. Currently there is a lack of inflationary pressures and inflation should decline further in coming months. Interest rates are likely to remain unchanged, but if the global or domestic recovery stalls, another cut could materialise.

Upward pressure on the index in June came from housing, restaurant and hotels while food and transport indices were lower in the month. Although the quarterly surveys on owner's equivalent rent and actual rentals pushed up the index in June; increases were lower than a year ago. During the month, Stats SA undertook their normal survey on hotels, restaurants, and airfares; items whose prices could show the impact of the Soccer World Cup. Of the three, only hotels showed a significant increase of 17.6% year-on-year. Restaurant prices, on average, increased a modest 0.3% year-on-year. The food price index was 0.5% lower in the month with both processed and unprocessed food prices declining. Annual food inflation is currently zero, largely because of falling international prices and the positive impact of the strong rand. The petrol price declined 27c/litre in June while new vehicle prices (with a weight of more than 11% in the index) declined 0.2% in June.

Goods inflation declined further to 2.6% in June as the commodity price increases from earlier in the year faded. Services inflation increased 0.5% in the month but eased from May's 6.4% to 6.1% in June.

The outlook for headline inflation remains positive and the inflation rate is expected to stay in the target band of 3% to 6% during 2010 and into 2011. Local demand growth remains moderate and there is ample spare capacity to satisfy increased demand. The strength of the rand should also keep a lid on price increases, while global inflation remains low. However, above-inflation wage increases remain the major risk to lower inflation.



- CPI headline inflation (for all urban areas) was 4.2% in the year to June 2010, down from 4.6% in May. The index was unchanged in the month.
- CPI excluding food prices, increased 5.0% in the year to June while CPI excluding housing rose 3.6% during the past year.
- Headline inflation is below the midpoint of the 3% to 6% official inflation target range and is expected to remain comfortably within the target range for the rest of the year.

	June 2010			May 2010		
	% oya	% mom	3m ann	% oya	% mom	3m ann
<b>All items (Headline)</b>	4.2%	0.0%	1.4%	4.6%	0.2%	4.8%
<b>CPI ex food</b>	5.0%	0.1%	1.4%	5.4%	0.1%	5.6%
<b>CPI ex housing</b>	3.6%	-0.2%	0.7%	3.9%	0.2%	5.6%
<b>Food</b>	-0.5%	0.0%	0.4%	0.1%	0.4%	1.5%

Source: Statistics SA

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