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Economics

A new and improved inflation basket

The effect of the new consumer price index (CPI) basket of goods and services, which was rebased, reweighted and updated in January this year, was released by StatsSA this week. Contrary to most market analysts' forecasts, the rate of increase of inflation slowed to 5.4% y/y in January, after an increase of 5.7% in December. Between the two months, prices increased on average by only 0.3%.

The prices of food and non-alcoholic beverages (which has a lower weighting in the new basket) increased by 6.2% y/y in January compared with December's 6.9% y/y. The housing and utilities index increased at an annual rate of 6.0% y/y, unchanged from the previous month. (Note in the table below the significant jump in the new weighting of this category). The transport index also showed a slower annual increase during January (5.1%) than December (5.5%), partly reflecting the first month's 13 cents a litre drop in the price of petrol. Despite the much lower weighting awarded to this category in the new basket, the miscellaneous goods and services index rose by a moderate 4.9% y/y in January after an annual rise of 5.6% in December,

The following table illustrates the weighting of the CPI basket for all urban areas:

Category	New basket weighting %	Previous basket weighting %	Inflation for Jan 2013 %
Food and non-alcoholic beverages	15.4	15.7	6.2
Alcohol and tobacco	5.4	5.6	7.1
Clothing and footwear	4.0	4.1	3.2
Housing and utilities	24.5	22.6	6.0
Household contents and services	4.8	5.9	3.2
Health	1.5	1.5	5.5
Transport	16.4	18.8	5.1
Communication	2.6	3.2	0.0
Recreation and hotels	4.1	4.2	3.0
Education	3.0	2.2	8.9
Restaurants and hotels	3.5	2.8	7.3
Miscellaneous goods and services	14.7	13.6	4.9
Total basket	100.0	100.0	**5.4**

Source: StatsSA
*Note: Totals do not add up to 100%, due to rounding

It may be premature to get too excited about the possibility of lower than previously anticipated inflation this year. That said, slightly lower inflation for the year (we now expect an average of 5.6%) is unlikely to motivate the Reserve Bank to cut interest rates again; even less so if global central banks continue to prop up economies with their respective stimuli. This is a view that will be reconsidered at various stages throughout the year as new information becomes available. While the inflation level of the adjusted basket might be a touch lower than originally estimated, the weak rand/dollar exchange rate and continued upward pressure on several price categories (such as international food prices, electricity and petrol) still provide upside risk to our medium-term inflation outlook.

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