EFFICIENT GROUP

ECONOMIC COMMENTARY

- Francois Stofberg

Newsletter

29 April 2019

PRICES, PANASONIC AND POOR PERFORMANCE

Consumer prices increased only slightly to 4.5% during March 2019 but remained well within the South African Reserve Bank (SARB)'s 3-6% target range. The increase from February's 4.1% was caused by two sub-baskets namely, transport, and alcoholic beverages and tobacco getting a bit more expensive. As always, a depressed rand and higher international oil prices increased fuel prices which represents 32% of the transport sub-basket. We doubt we'll see much more of these increases throughout 2019. The rand should strengthen after the May elections and oil prices should remain around current levels.

On an annual basis (comparing March 2019 prices to prices in March 2018), public transport saw the greatest increase in the transport sub-basket, increasing by 10.1%. Public transport was also one of the items that increased by the greatest annual amount. Other substantial annual increases were recorded among water and other household services, as well as non-alcoholic beverages, increasing by 11.0% and 10.2%, respectively. Higher increases in basic goods and services imply that some poor households felt the pinch. The poorest households experienced inflation of 4.8% in March. Richer households buy relatively more services (that tend to see greater annual price increases) and buy proportionally less VAT-exempt items. Richer households also don't receive as much free assistance from government. The result is that richer households often experience the greatest inflationary pressures. In March, these households experienced 4.9% inflation. The middle class only experienced price increases of around 4.0%.

In a recent interview about the SARB's monetary policy review, the governor of the SARB, Lesetja Kganyago, explained that their quarterly projection model forecasted that the repurchase (repo) rate would increase to 7% by the end of 2021. He went on to explain that the current rate of 6.75% might therefore, be viewed as slightly expansionary. We agree with this view and considering South Africa (SA)'s current economic environment, caution any outright shift in monetary policy. SA seems to have moved into a stable price environment, mostly because of the structurally constrained nature of our economy. A constrained economy also implies that changing rates wouldn't do much to impact demand-side inflation. However, it is better to keep rates a bit more expansionary to ward against draining momentum from the economy. The reason a slight uptick in interest rates is probable is because of global competitiveness. Lower rates aren't good for investors; to attract global monetary flows it is important to maintain competitive interest rates. To summarise, the slow-and-steady approach the SARB is taking before changing interest rates is commendable. Having interest rates too low hurts investors and our competitiveness, and in SA's case doesn't do too much to support demand. But, increasing interest rates too much reduces momentum.

A quick look at what happened globally. Tesla and Panasonic are finally ending their relationship, much to the relief of Panasonic and their investors. The Japanese battery maker has grown weary of the production shortcomings at Tesla. Panasonic, the world's largest producer of batteries (like those that go into electric cars), has its eyes on a less volatile partner, like Toyota (another leading global company from Japan). Holding company Facebook, saw a third down-time occur among its group of companies, fuelling speculation about the company's ability to protect the data of its customers, fight against hate speech and keep fake news from spreading. In the latest occurrence, Facebook itself was down and no reasonable explanation has been provided by the holding company.

81 Dely Road, Hazelwood, Pretoria, 0081 | +27 (0)87 944 7999 | info@efgroup.co.za | www.efgroup.co.za