

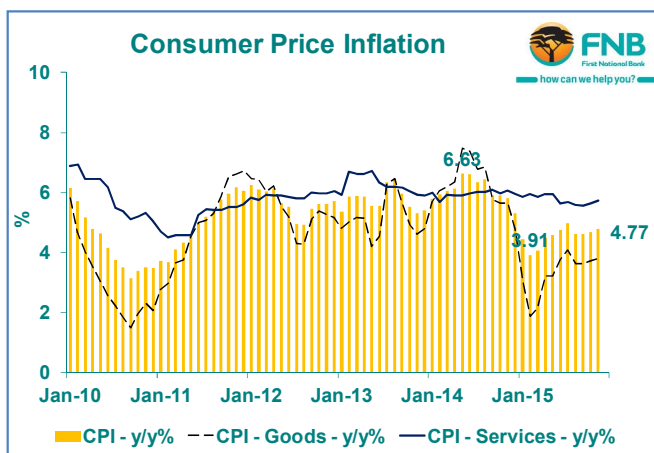
# PROPERTY BAROMETER – NOVEMBER CPI INFLATION

*The Transport price deflation rate has subsided, exerting slight upward pressure on CPI inflation in November. But a potential concern going forward could be some renewed acceleration in food price inflation*

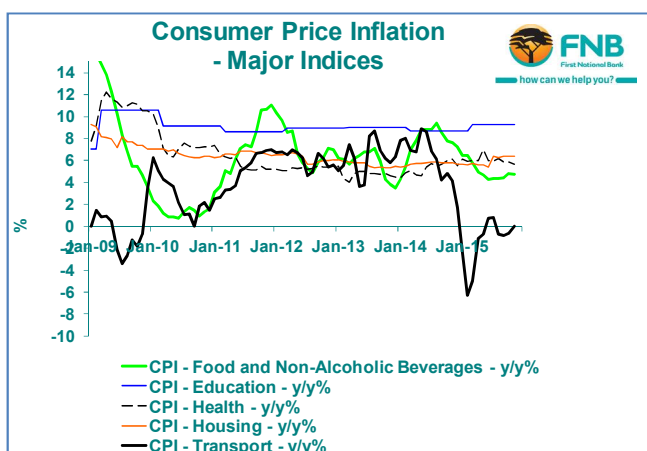
9 December 2015

## THE HEADLINE NUMBERS

The November CPI (Consumer Price Index) inflation rate edged slightly higher, from 4.7% year-on-year in the previous month to 4.8%.



Of the main sub-indices in the CPI, there was virtually no change in the Food and Non-Alcoholic Beverage inflation rate, remaining at 4.8% year-on-year in November. The big change was in the Transport Sub-Index, whose deflation rate diminished from -0.6% to 0%. This has much to do with diminished petrol price deflation, and was the key contributor to the slightly higher November CPI inflation rate.



The Education Sub-Index remains the one with the highest inflation rate of the major sub-indices, at 9.3%

year-on-year, but was not surveyed in November, and so remained unchanged. The Housing CPI is arguably the most troublesome one because of its far bigger weight in the CPI, and with an inflation rate of 6.4% year-on-year influenced strongly by high inflation rates in Municipal Rates and Utilities Tariffs. Not many of the Housing CPI's components were surveyed in November, however, so its 6.4% inflation rate is also unchanged from October.

Of the 4.8% total CPI inflation rate, the Housing CPI is the biggest contributor to the tune of 1.6 percentage points, followed by the other big ticket item, namely Food and Non-Alcoholic Beverages (0.7 of a percentage point)..

## IMPLICATIONS FOR INTEREST RATES

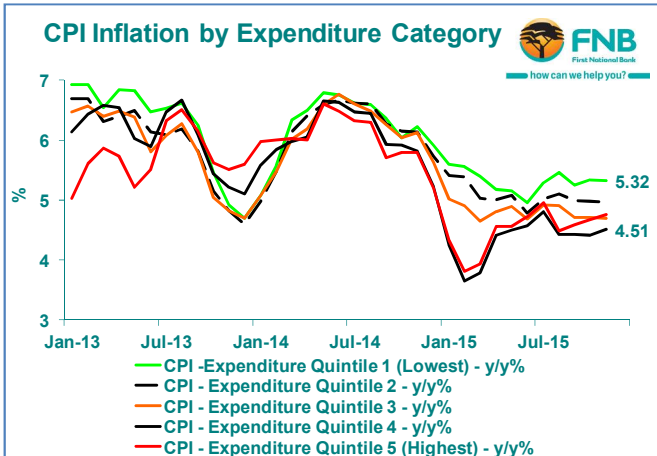
The gradual rise in CPI inflation offers little in the way of immediate pressures for the Reserve Bank's Monetary Policy Committee.

We remain of the expectation that the bank will continue with its "upward normalization" in interest rates in 2016. However, the benign inflation situation is expected to allow it to continue to do this at a very slow pace which would not cause an undue "shock" to the consumer.

## CPI INFLATION STILL TILTED AGAINST THE POOR

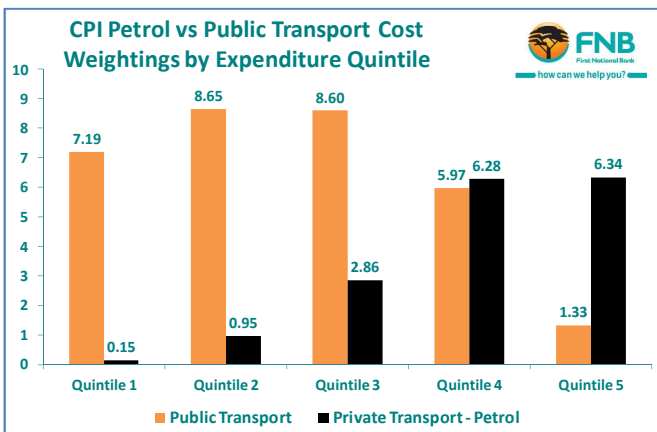
Examining the CPI Indices by "Expenditure Quintile", Expenditure Quintile 1, i.e. the lowest spending level group, which more-or-less correlates to the lowest income group, continues to have the highest CPI inflation rate of 5.3%. The next quintile up, i.e. Quintile 2, had a slightly lower rate of 5%.

At the lowest end of the inflation spectrum is Quintile 4, the 2<sup>nd</sup> highest Expenditure Quintile, with a 4.5% inflation rate, while Quintiles 3 and 5 both have slightly worse inflation rates of 4.7% and 4.8% respectively.

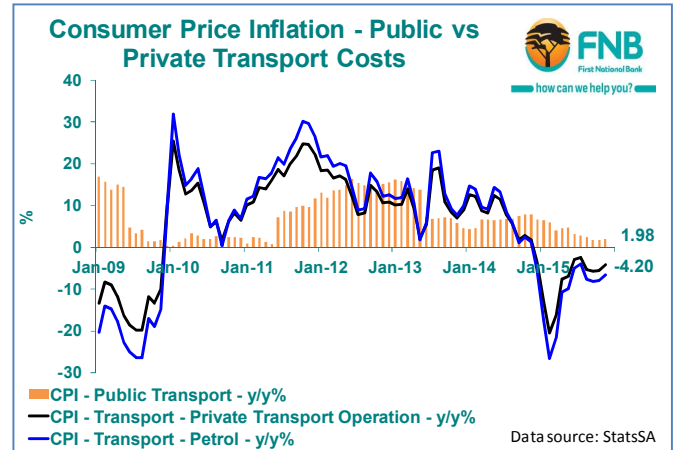


Why do the lowest Expenditure groups have the highest CPI inflation rates? Often, it can be the large weighting that the lower groups have for food in their expenditure basket. However, with Food Price inflation at 4.8% currently, in line with the overall CPI inflation rate, this can't be seen as a key source of upward pressure.

A key apparent reason at present thus appears to be the high Public Transport Weighting in the expenditure basket of the lower income groups, along with their low Private Transport weighting.



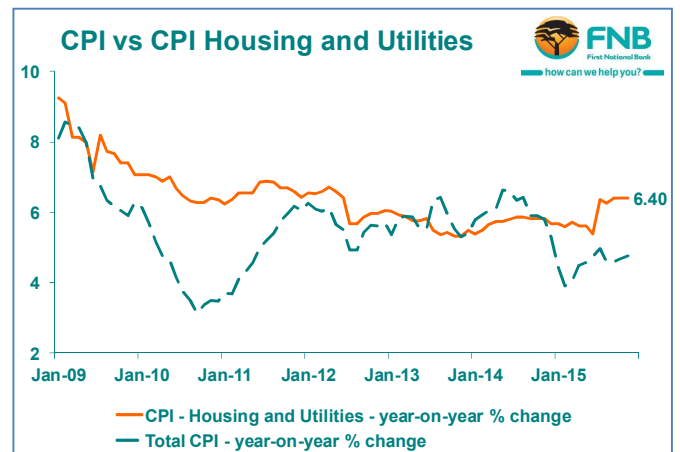
This difference in weightings becomes important when one considers the difference between the inflation rate for the CPI – Private Transport, which deflated year-on-year by -4.2% in November, versus the CPI for Public Transport, which inflated by 1.98%. The heavier dependence by the lower expenditure groups on public transport, and less in private transport, means that they have benefited far less from the major petrol price deflation that has happened during 2015.



In short, the high income groups benefited far more from the petrol price deflation earlier in the year.

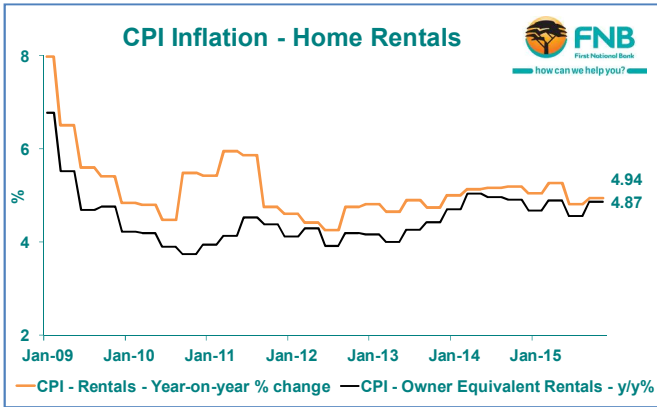
### HOUSING CPI REMAINS TROUBLESOME

While little was surveyed in the Big Ticket Housing CPI in November, this sub-index remains the troublesome component of the overall CPI, with a year-on-year inflation rate of 6.4% in November.

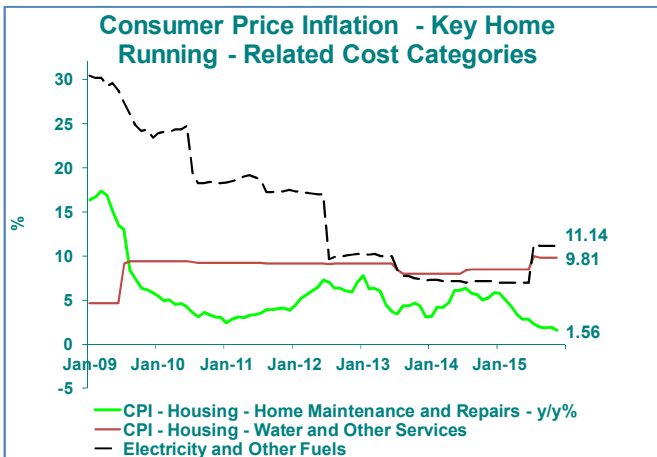


Certainly, the Rental Market doesn't play the major role in this. Actual Rental inflation is 4.94%, while Owner Equivalent Rental inflation is 4.87%.

As these rates are slightly higher than the overall CPI inflation rate they do exert some slight upward pressure on it. But these inflation rates remain far below the crucial 6% upper target limit of the SARB.



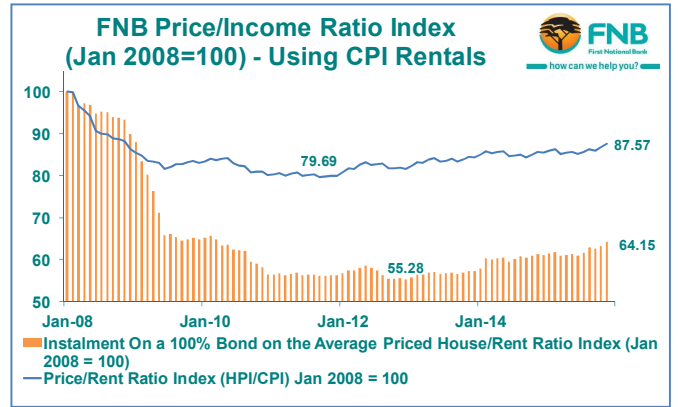
The key sources of upward pressure, however, are in the area of Municipal Rates and Utilities' tariffs. The Electricity CPI is currently inflating at 11.1% on the back of the next round of Eskom tariff hikes, while the "Water and Other Services CPI (which includes municipal rates) is not far behind at 9.8%.



Working partly against these big housing-related cost increases is a very benign inflation rate in the CPI for Home maintenance and Repairs, which had declined to a mere 1.56% year-on-year by November.

### RENTALS AND THE HOUSE PRICE-RENT RATIO

The CPI for Rentals was not surveyed in November, only being surveyed every 3 months. But based on the September CPI Rental Index (whose value is used in the November CPI), there was a further rise in the Residential Average Price-Rental Ratio Index in November. Whereas the year-on-year Actual Rental Inflation rate was 4.9%, the Average House Price Inflation Rate in the FNB House Price Index was considerably higher at 7.2%.



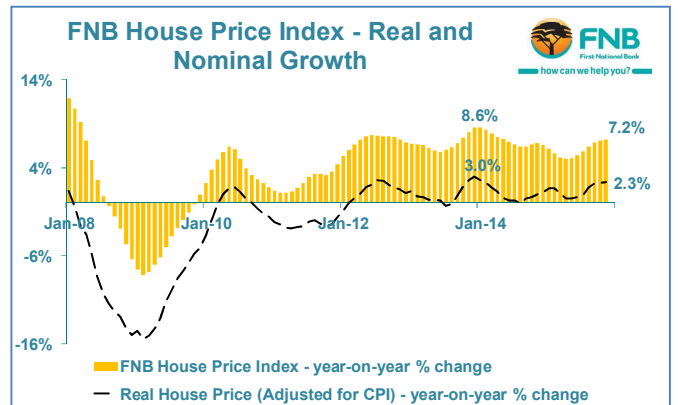
Therefore, the most recent CPI Rental figures continue to show the residential rental option becoming more attractive compared to the relatively expensive home buying option. At an index level of 87.67 (Jan 2008 = 100), the Residential Price-Rent Ratio in November was a mere 12.33% below the January 2008 level, and the January 2008 level is believed to have been at or near to the all time high. The Price-Rent Ratio therefore remains high, and this index has risen by 9.8% on its October 2011 Post-Recession low point.

What keeps time home buyer numbers high at this stage then? A relatively low prevailing interest rate level, which translates into a far lower level in the Instalment Repayment on the Average Priced Home/Rent Index. In November, this index was 35.84% lower than the level at January 2008, having been driven sharply down by big interest rate cuts around 2009.

However, this Index has also risen, by 14.4% since a low at September 2011, thus also making the home buying option gradually less attractive relative to the rental option.

### REAL HOUSE PRICES

The CPI inflation rate of 4.8% year-on-year in November, coupled with our FNB House Price Index inflation rate of 7.2%, implies that house prices continued to rise in real terms (when adjusted for CPI inflation), last month to the tune of 2.3% year-on-year.



## **IMPLICATIONS AND OUTLOOK**

The November CPI inflation rate, which was only marginally up from the previous month and still very much in the middle of the SARB 3-6% target range, does little to change our expectation of interest rates continuing to be nudged higher at a very slow pace in 2016.

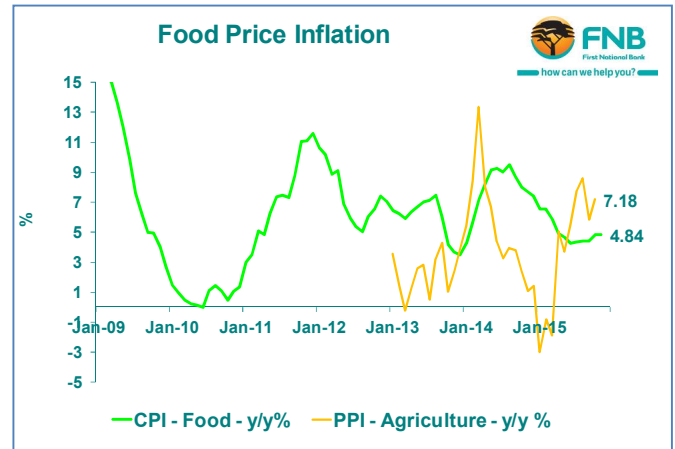
The potential impact on near term housing demand growth, therefore, is likely to be limited. However, we remain expectant that housing demand growth will slow, but more due to a multi-year stagnation in economic growth which started back in 2012. Inflation at present is less of a concern that possibly recessionary conditions looming.

The CPI inflation rate is likely to rise only gradually in the near term. There are two key possible sources of upward pressure. Firstly, although global oil prices remain depressed, high base effects from 2014, which caused huge year-on-year petrol price deflation this year, will subside as time goes by.

But of more concern is the current drought, and the possible upward pressure that this could exert on certain foodstuffs in the near term

While food price inflation has yet to become troublesome in the most recent CPI numbers, the Producer Price Inflation (PPI) rate for Agriculture

already hovers above 7% year-on-year as at October, suggesting some upward pressure on the Food CPI to come.



Any renewed food price inflation surge would be a key concern due to its potential upward pressure on the inflation rate for the lower income groups. This is undesirable at a time when social tensions are running high and at risk of manifesting themselves in activity that can be disruptive to the economy (aggressive strike action, service delivery protests and the like)

**JOHN LOOS:**

**HOUSEHOLD AND PROPERTY SECTOR STRATEGIST**

**MARKET ANALYTICS AND SCENARIO FORECASTING UNIT: FNB HOME LOANS**

**Tel: 087-328 0151**

**John.loos@fnb.co.za**

The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by Firstrand Group Limited and / or the authors of the material.

First National Bank – a division of FirstRand Bank Limited. An Authorised Financial Services provider. Reg No. 1929/001225/06

## Consumer Inflation - Key Components

	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
<b>Key CPI Inflation Measures</b>						
<b>CPI - All Urban Areas</b>	<b>114.9</b>	<b>116.1</b>	<b>116.1</b>	<b>116.1</b>	<b>116.4</b>	<b>116.5</b>
<i>Y-o-Y % Change</i>	<b>4.7</b>	<b>5.0</b>	<b>4.6</b>	<b>4.6</b>	<b>4.7</b>	<b>4.8</b>
CPI - All Goods	113.3	114.8	114.9	114.3	114.7	114.8
<i>Y-o-Y % Change</i>	3.8	4.1	3.6	3.6	3.7	3.8
CPI - All Services	116.5	117.3	117.3	117.9	118.0	118.2
<i>Y-o-Y % Change</i>	5.6	5.7	5.6	5.6	5.6	5.7
CPI - Very low expenditure group	114.4	115.4	115.9	116.1	116.4	116.8
<i>Y-o-Y % Change</i>	5.0	5.3	5.5	5.3	5.3	5.3
CPI - Low expenditure group	114.0	115.0	115.4	115.6	115.9	116.2
<i>Y-o-Y % Change</i>	4.8	5.0	5.1	5.0	5.0	5.0
CPI - Middle expenditure group	114.0	115.1	115.4	115.5	115.7	116.0
<i>Y-o-Y % Change</i>	4.7	4.9	4.9	4.7	4.7	4.7
CPI - High expenditure group	114.3	115.6	115.6	115.6	115.8	115.9
<i>Y-o-Y % Change</i>	4.6	4.8	4.4	4.4	4.4	4.5
CPI - Very High expenditure group	115.2	116.4	116.3	116.3	116.6	116.7
<i>Y-o-Y % Change</i>	4.7	5.0	4.5	4.6	4.7	4.8

## Consumer Inflation - Housing - Related Components

	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
<b>Key CPI Housing and Related Measures</b>						
CPI - Housing and Utilities	113.5	117.0	117.0	118.0	118.0	118.0
<i>Y-o-Y % Change</i>	5.4	6.4	6.3	6.4	6.4	6.4
CPI - Actual housing rentals	113.2	113.2	113.2	114.7	114.7	114.7
<i>Y-o-Y % Change</i>	4.8	4.8	4.8	4.9	4.9	4.9
- Houses	112.1	112.1	112.1	113.6	113.6	113.6
<i>Y-o-Y % Change</i>	4.4	4.4	4.4	4.6	4.6	4.6
- Townhouses	114.1	114.1	114.1	115.7	115.7	115.7
<i>Y-o-Y % Change</i>	4.8	4.8	4.8	5.3	5.3	5.3
- Flats	114.8	114.8	114.8	116.5	116.5	116.5
<i>Y-o-Y % Change</i>	5.6	5.6	5.6	5.5	5.5	5.5
CPI - Owner occupied housing rentals	112.5	112.5	112.5	114.1	114.1	114.1
<i>Y-o-Y % Change</i>	4.6	4.6	4.6	4.9	4.9	4.9
- Houses	112.3	112.3	112.3	113.9	113.9	113.9
<i>Y-o-Y % Change</i>	4.6	4.6	4.6	4.8	4.8	4.8
- Townhouses	114.4	114.4	114.4	116.1	116.1	116.1
<i>Y-o-Y % Change</i>	4.8	4.8	4.8	5.4	5.4	5.4
- Flats	115.0	115.0	115.0	116.3	116.3	116.3
<i>Y-o-Y % Change</i>	5.2	5.2	5.2	5.1	5.1	5.1
CPI - Home Maintenance and Repairs	111.3	110.9	110.8	111.1	110.8	110.7
<i>Y-o-Y % Change</i>	2.9	2.3	1.9	1.8	1.9	1.6
CPI - Housing - Water and other services	117.2	128.7	128.7	128.7	128.7	128.7
<i>Y-o-Y % Change</i>	8.5	10.0	9.8	9.8	9.8	9.8
CPI - Housing - Electricity and other fuels	114.8	127.7	127.7	127.7	127.7	127.7
<i>Y-o-Y % Change</i>	7.0	11.3	11.1	11.1	11.1	11.1

## Consumer Inflation - Key Product and Service Categories

	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
<b>Key CPI Product and Service Categories</b>						
CPI - Housing and Utilities	113.5	117.0	117.0	118.0	118.0	118.0
<i>Y-o-Y % Change</i>	5.4	6.4	6.3	6.4	6.4	6.4
CPI - Food and Non-Alcoholic Beverages	114.4	114.5	115.4	115.5	116.1	116.8
<i>Y-o-Y % Change</i>	4.3	4.4	4.3	4.4	4.8	4.8
CPI - Alcoholic Beverages and Tobacco	122.3	122.6	122.8	122.9	123.1	123.3
<i>Y-o-Y % Change</i>	9.7	8.9	8.8	8.7	7.4	7.0
CPI - Clothing and Footwear	112.2	112.6	113.2	113.6	113.9	114.4
<i>Y-o-Y % Change</i>	5.6	5.6	5.3	5.0	4.6	4.5
CPI - Household Contents and Equipment	108.2	108.1	108.4	108.8	108.9	108.9
<i>Y-o-Y % Change</i>	2.3	2.3	2.7	2.7	3.0	3.1
CPI - Health	116.4	116.7	116.7	116.8	117.4	117.2
<i>Y-o-Y % Change</i>	6.0	5.9	6.2	5.9	5.9	5.7
CPI - Transport	112.0	113.1	111.8	110.0	110.5	109.9
<i>Y-o-Y % Change</i>	0.7	0.8	-0.7	-0.8	-0.6	0.0
CPI - Communication	99.9	99.6	99.7	99.7	99.6	99.6
<i>Y-o-Y % Change</i>	-0.4	-0.7	-0.8	-0.7	-0.7	-0.7
CPI - Recreation and Culture	107.2	107.7	108.1	108.0	108.7	109.2
<i>Y-o-Y % Change</i>	2.0	2.2	2.4	2.3	2.9	3.1
CPI - Education	129.5	129.5	129.5	129.5	129.5	129.5
<i>Y-o-Y % Change</i>	9.3	9.3	9.3	9.3	9.3	9.3
CPI - Restaurants and Hotels	118.9	119.0	119.6	120.1	120.8	122.1
<i>Y-o-Y % Change</i>	6.1	5.9	5.5	5.0	5.2	5.2
CPI - Miscellaneous	122.0	122.3	122.4	122.3	122.4	122.3
<i>Y-o-Y % Change</i>	7.2	7.0	7.0	7.0	7.0	6.8