Stats SA defends current inflation figure

By Michael Appel

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Statistics South Africa (Stats SA) has defended itself from recent allegations that miscalculations it could have made, have led to an overestimated inflation figure.

“There is no error in Stats SA's calculation of the official inflation rate, which is the best measure currently available of changes in consumer prices.

“The reweighting and rebasing of the CPI is taking place according to a clearly planned schedule and the process has not been delayed,” said Stats SA, Wednesday, 16 July 2008.

Alleged error

Recent press reports based on an analysis of consumer price inflation by Investec Asset Management suggest an error in the calculation of the CPI, resulting in an overstatement of the annual inflation rate.

Stats SA said the difference between their official inflation rate and Investec's estimates arises from the reweighting and rebasing of the CPI to be implemented in 2009.

New CPI weights

On 1 July 2008 Stats SA announced the new weights for the Consumer Price Index. The new weights are based on a one-year, comprehensive survey of household expenditure (Income and Expenditure Survey) and other data sources.

The new weights will be implemented with effect from the January 2009 CPI release, together with several methodological improvements, the statistical body said.

Potential effects

Speaking to *BuaNews* on Wednesday, head of fixed income at Investec Asset Management André Roux, said the alleged miscalculation made by Stats SA effects processes such as wage negotiations, price increases across the board and the MPC's decisions.

“We'll find that you can't sign off on a wage agreement of 12%, because inflation is much lower than that ... so it changes how people think about prices all together.

“It is unrealistic and uncharted territory [to expect the MPC to cut the interest rate when they meet again in August 2008],” Roux said.

Inflation higher than necessary?

Calculations by Investec Asset Management found that Stats SA's inflation figure was in fact 1 or 2% higher than real inflation; a mistake that could have been avoided had Stats SA rebased and reweighted the consumer price basket in 2007.

The 2005/06 income expenditure survey conducted by Stats SA was to be used for the rebasing and reweighting of the consumer basket in 2007 but was delayed for reasons of analysis and verification.

Stats SA in May 2008 reported the CPI excluding interest rates on mortgage bonds (CPIX) at 10.9%, when Roux believes the actual figure is 8.7%.

Don't expect a rate cut

“The MPC will make their decision, bearing in my mind the new numbers or not, but it is unrealistic to expect an interest rate cut.

“It is more likely that we will see rate cuts by late this year or early next year [bearing in mind the current inflationary environment].

“I have no problem with monetary policy as practiced by [Reserve Bank Governor] Tito Mboweni, and he's used a lot of good judgement in the past, but his decisions should have been based on different figures,” Roux said.

"There is no error"

Responding to Investec's estimates, Stats SA said: The difference between Stats SA's official inflation rate and Investec's estimates arises from the reweighting and rebasing of the CPI to be implemented in 2009. It is important to note that there is no error in Stats SA's CPI calculations.

“Any difference in the rate of inflation given the old and new weights is not the result of errors but of a careful and logical process of keeping up with current changes in the economy as far as practically possible.”

Econometrix Treasury Management (ETM) economist Russell Lamberti told *BuaNews* on Wednesday it is difficult to predict whether the MPC would have raised or left rates unchanged had the numbers been different.

“Would the Reserve Bank have done what they've done based on the new numbers anyway?” Lamberti questioned.

Rates on hold?

Bearing in mind the effect the new numbers will have on the MPC's decision, Lamberti highlighted that there is a possibility rates could be placed on hold, but that a rate cut was unlikely before 2009.

According to a document released by ETM on Wednesday, “Whether a lower inflation trajectory would have resulted in looser monetary policy is not a given.

“It brings into question whether the SARB would focus on the absolute inflation number or whether they would focus on the underlying inflation trend. A lower inflation number does not necessarily mean a less threatening upward inflation trend.”

CPIX expected to peak

With the new numbers, CPIX inflation is expected to peak at 11% in the next two or three months, and with the current numbers ETM predicts a peak of over 13% in the same period, Lamberti told *BuaNews*.

South Africa is still suffering under high inflationary pressures and the MPC - whether inflation is within or outside the inflation target band - bases its decisions on the inflation outlook.

Riding inflation trends

Lamberti said, if for example, inflation was trending downwards rapidly, the MPC would consider lowering interest rates even if inflation was well above the target band.

Also, if inflation was within the target band but was trending upwards, the MPC would consider raising interest rates, adding it was all about where the MPC expected inflation to go, rather than just where it currently is that informed their decisions

The SARB has increased interest rates by a cumulative 500 basis points or 5% since the inflationary cycle began in June 2006, and has this year raised interest rates by 1 percent raising the prime lending rate to 15.5%.

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