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Highlights

MPC delivers on earlier warnings with a 25bps repo rate hike

The Monetary Policy Committee (MPC) of the SA Reserve Bank (SARB) followed through on hawkish comments at the March and May interest rate meetings by hiking the repo policy interest rate by 25bps to 6%. This will increase the prime lending rate from 9.25% to 9.5%. The MPC has now resumed the interest rate tightening cycle that started with a 50bps increase back in January 2014, followed by a 25bps hike in July last year. The rate hike was justified by a further deterioration in the inflation risk factors highlighted by MPC in the recent past. Since the previous MPC meeting, the rand weakened by 3.5% against a basket of currencies of SA's major trading partners. The SARB's move has brought it "ahead of the curve" with regards to expected rate rises in the US and potentially also the UK.

Consumer inflation continues to rise

Statistics South Africa (Stats SA) revealed that headline CPI inflation edged up to 4.7% year-on-year (y-o-y) in June, from 4.6% in May. This was below market expectations of a 5.0% rise. The lower than expected uptick can partly be explained by a slowdown in the prices of food and non-alcoholic beverages. Food price inflation slowed to 4.3% y-o-y, from 4.7% in the previous month. The annual moderation was helped by a month-on-month (m-o-m) decline of 0.3%. However, it is expected that the dip will be temporary, as higher maize prices and the weaker rand are likely to boost prices going forward. On a monthly basis, CPI inflation accelerated to 0.4%, from 0.3% in May. Meanwhile, core CPI inflation, which excludes prices of food, non-alcoholic beverages, petrol and energy, eased to 5.5% y-o-y, from 5.7%.

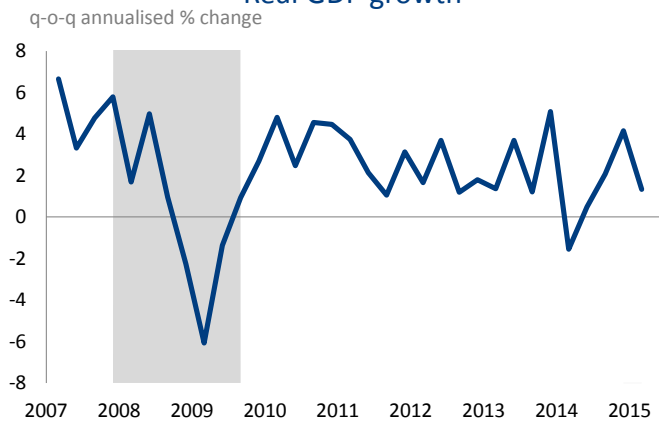
Domestic trade growth slows down

The growth in **retail trade** sales slowed to 2.4% y-o-y in May, down from 3.4% in April. The main contributors to the annual growth rate were general dealers, contributing 0.9 percentage points (% pts), and retailers in hardware, paint and glass (0.6% pts). The disappointing retail sales data is in line with the FNB/BER Consumer Confidence Index that fell to a 14.5-year low in 2015Q2.

Wholesale trade sales declined by 0.8% y-o-y in May. This marked the second consecutive month of declining sales. However, it should be pointed out that May's figure was a significant improvement from the 5.7% contraction recorded in April.

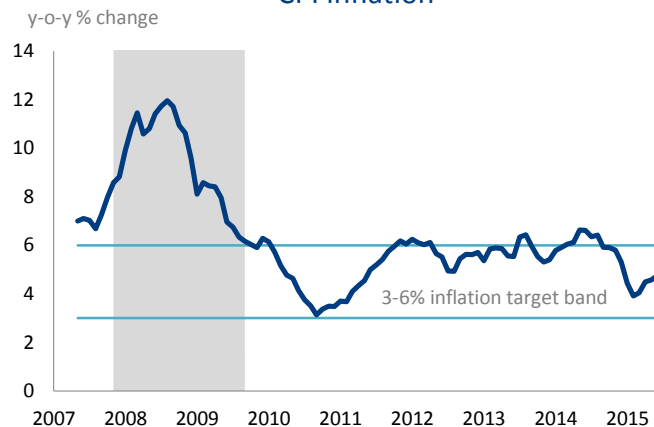
Core indicators

Real GDP growth



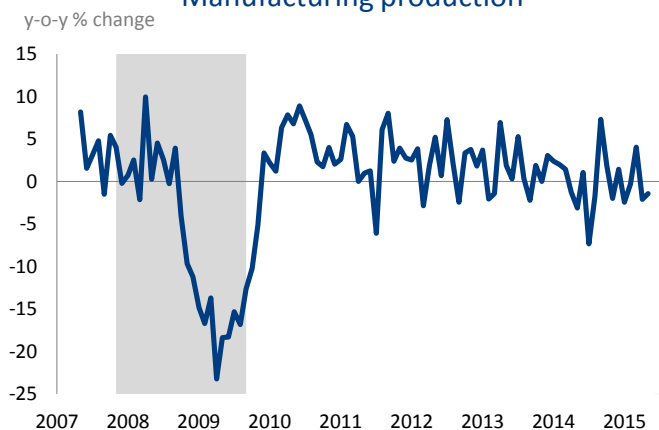
Source: SARB

CPI inflation



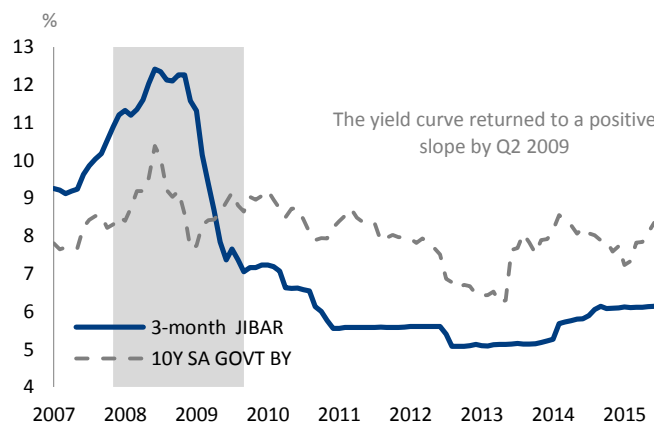
Source: StatsSA

Manufacturing production



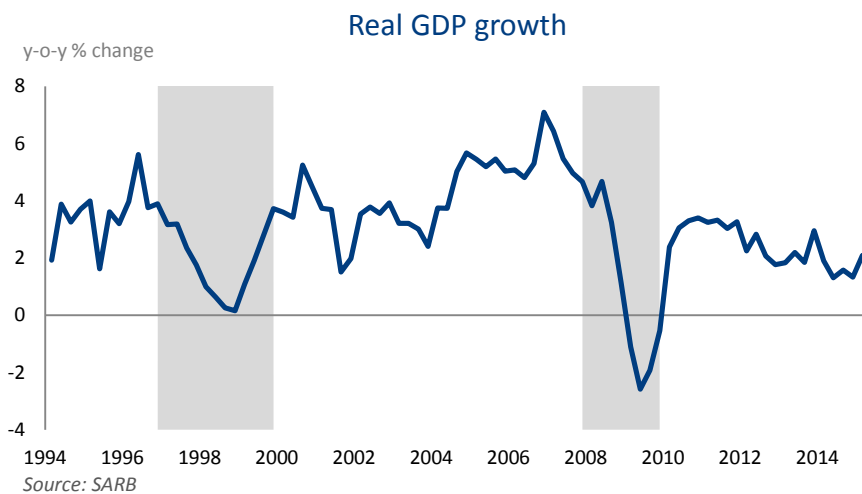
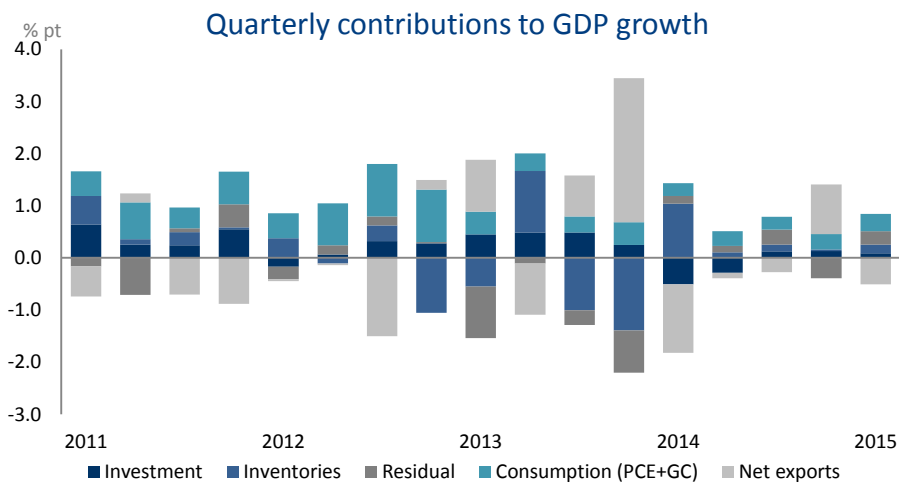
Source: StatsSA

Interest rates



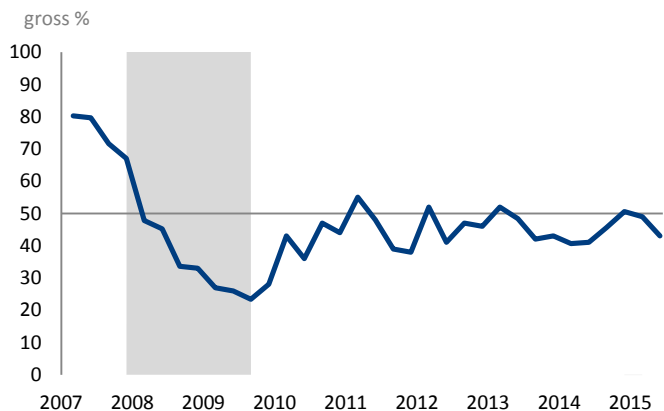
Source: Thomson Reuters

GDP Growth



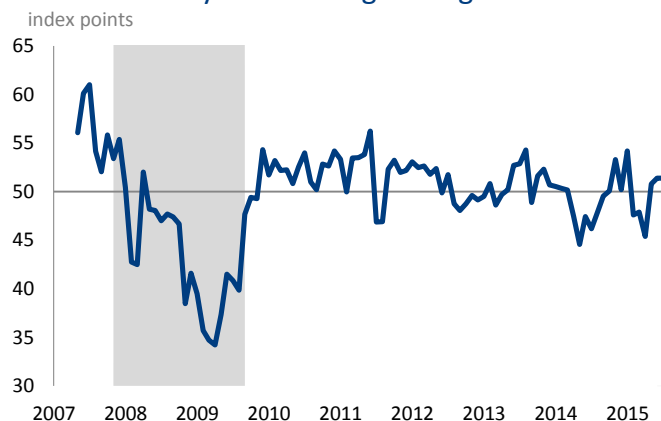
Business Environment

RMB/BER Business Confidence Index



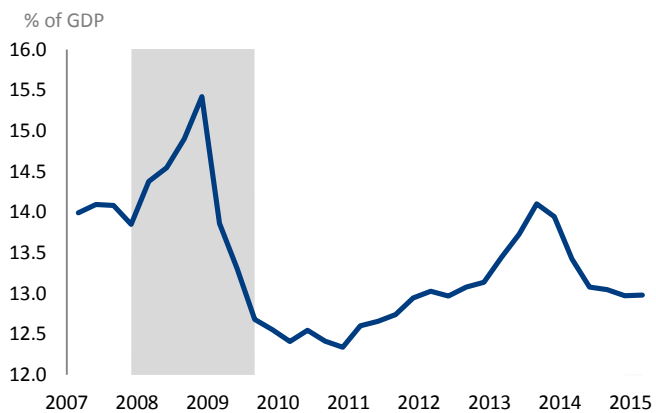
Source: BER

Barclays Purchasing Managers Index



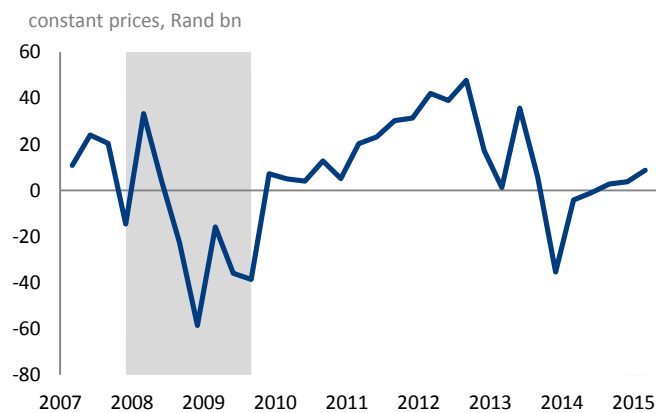
Source: BER

Private fixed investment



Source: SARB

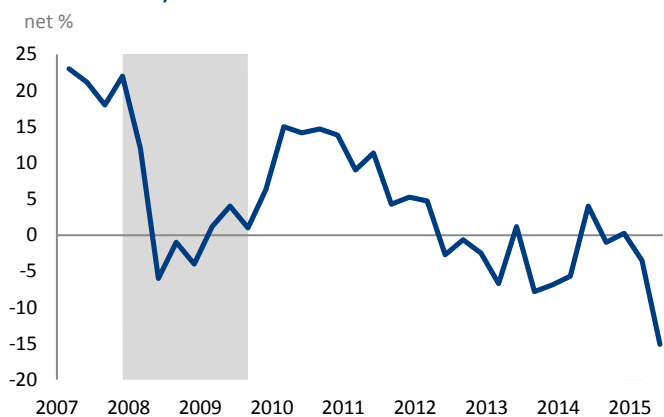
Changes in inventories



Source: SARB

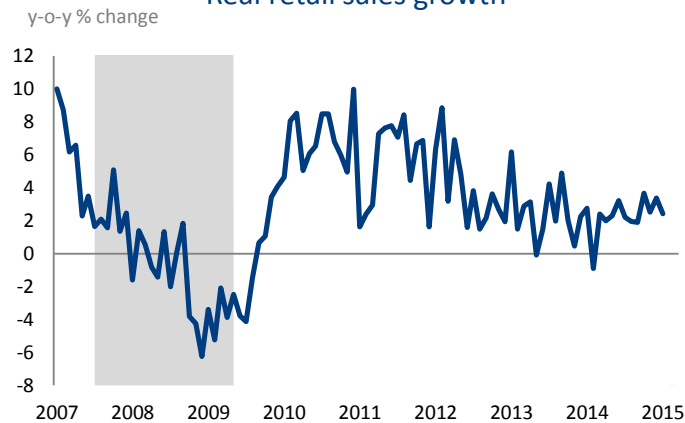
Household consumption

FNB/BER Consumer confidence index



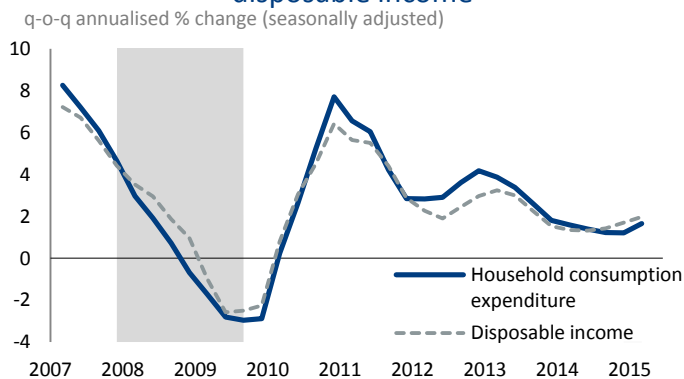
Source: BER

Real retail sales growth



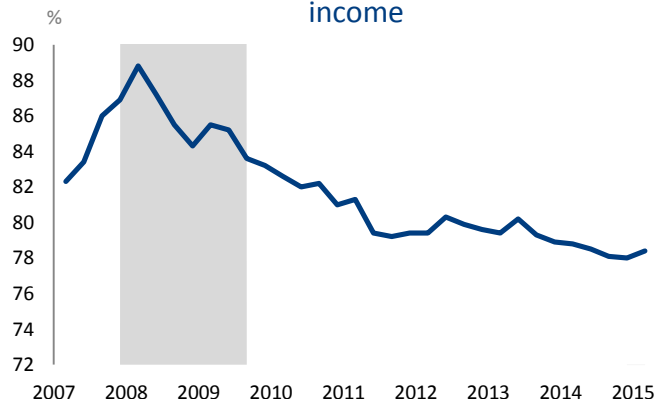
Source: StatsSA

Household consumption and real disposable income



Source: SARB

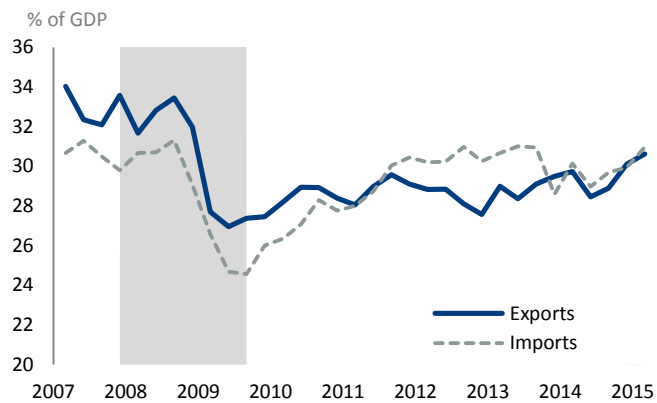
Ratio of household debt to disposable income



Source: SARB

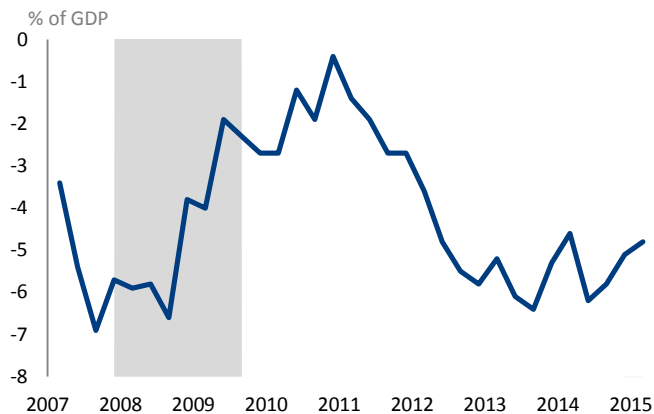
International trade

Imports and exports



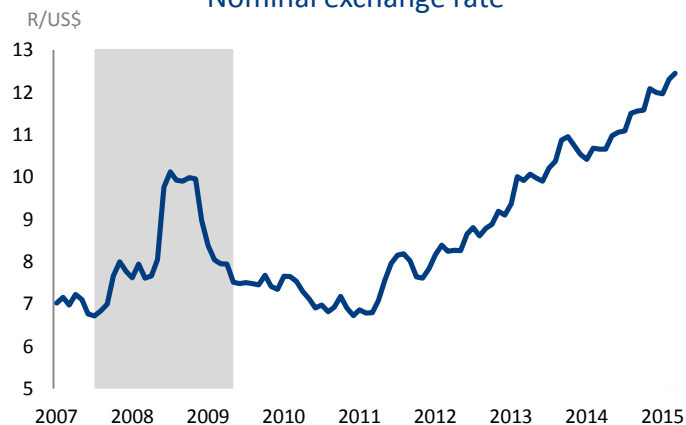
Source: SARB

Current account balance



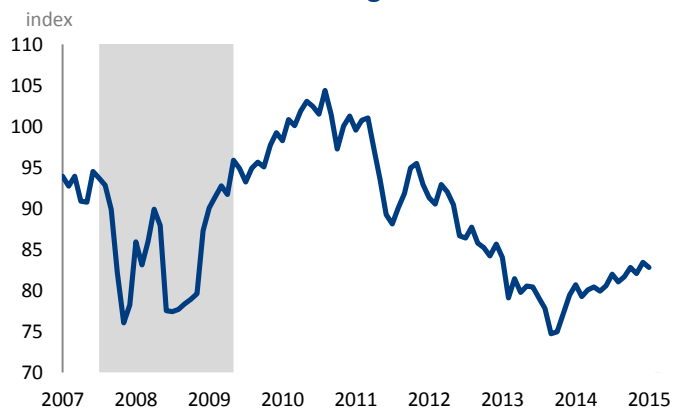
Source: SARB

Nominal exchange rate



Source: Thomson Reuters

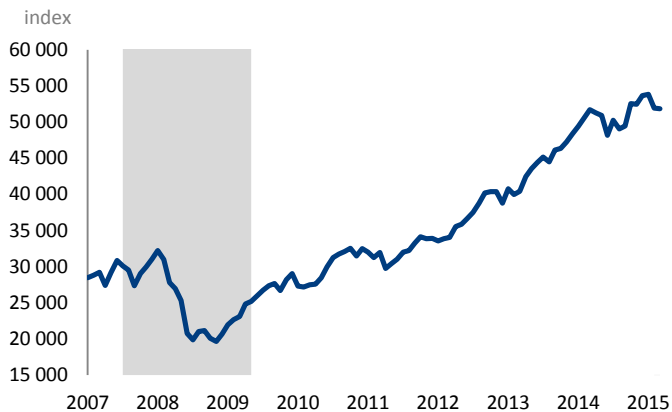
Real effective exchange rate of the Rand



Source: SARB

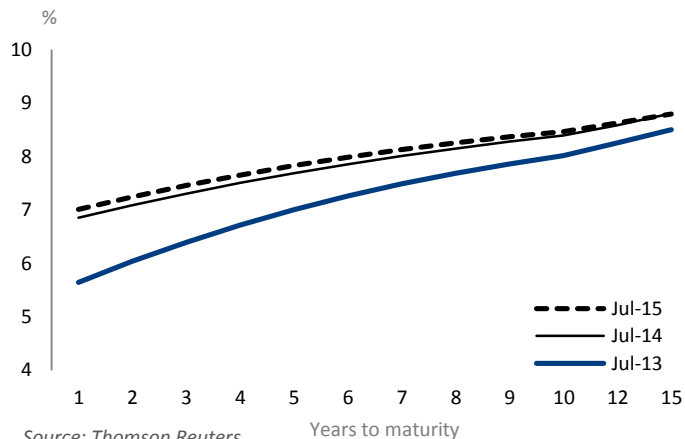
Financial markets

JSE all share index



Source: Thomson Reuters

Yield curve comparisons



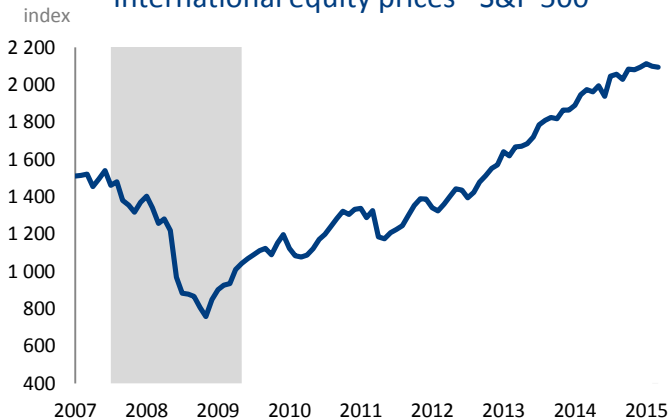
Source: Thomson Reuters

Economist all commodities index



Source: Economist

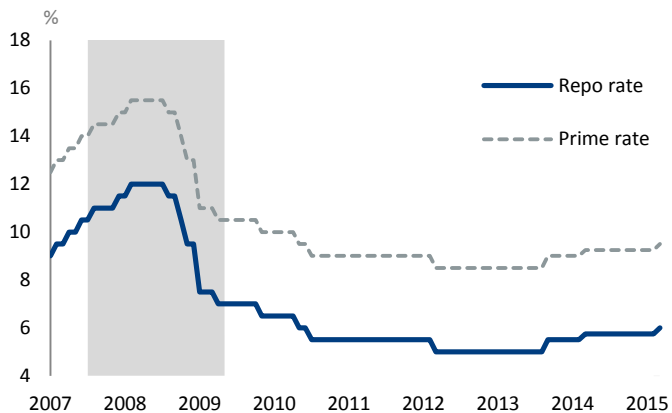
International equity prices - S&P 500



Source: Thomson Reuters

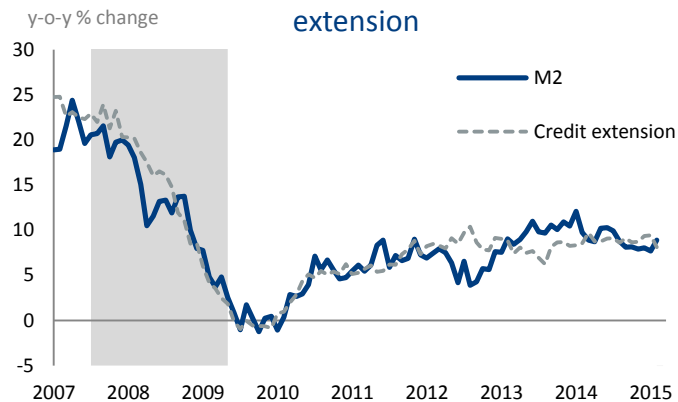
Money and prices

Repo and prime interest rate



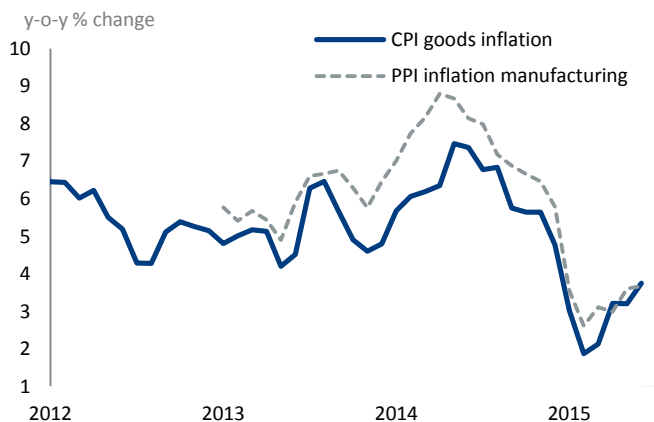
Source: SARB

M2 monetary aggregates and credit extension



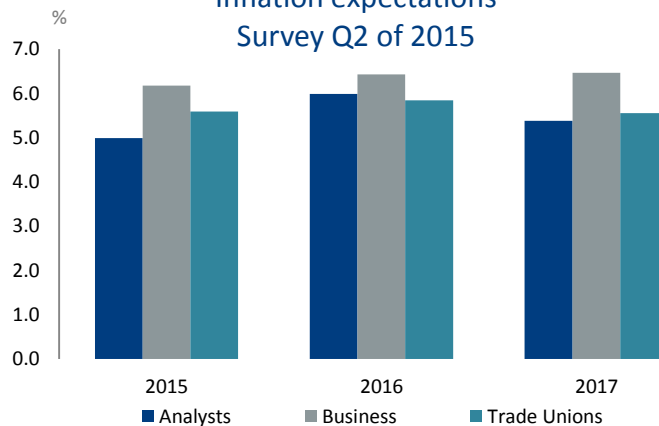
Source: SARB

Consumer and producer prices



Source: StatsSA

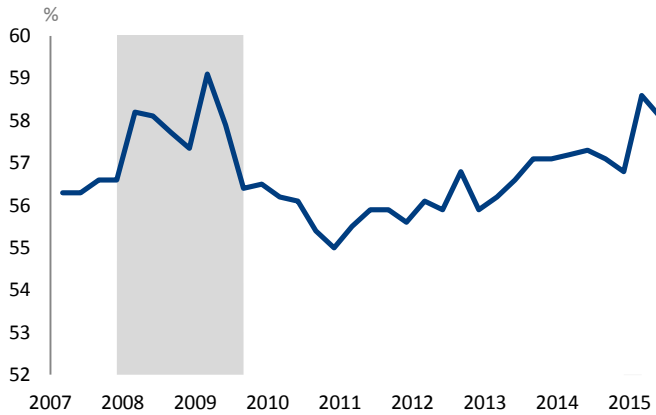
Inflation expectations Survey Q2 of 2015



Source: BER

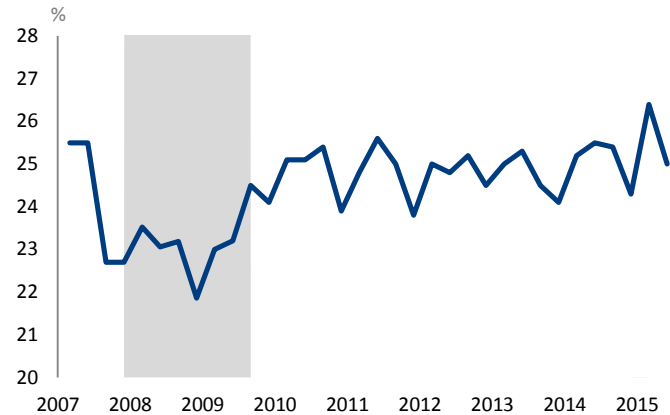
Labour

Labour force participation



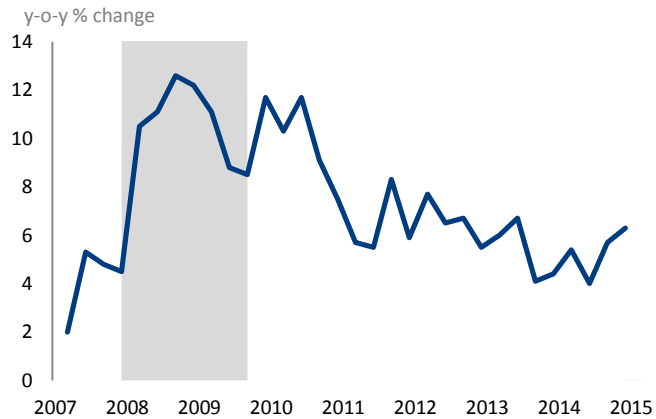
Source: StatsSA

Unemployment rate



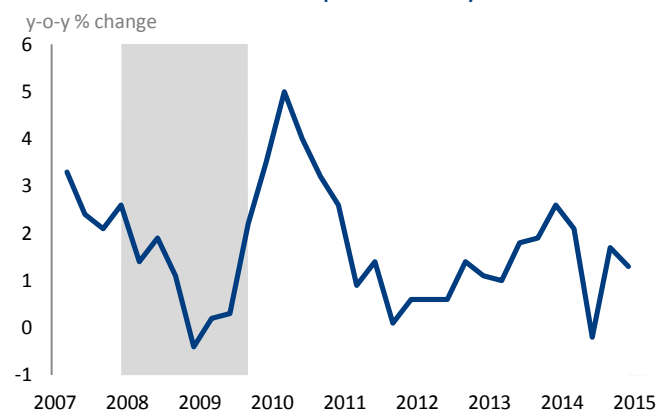
Source: StatsSA

Unit labour cost



Source: SARB

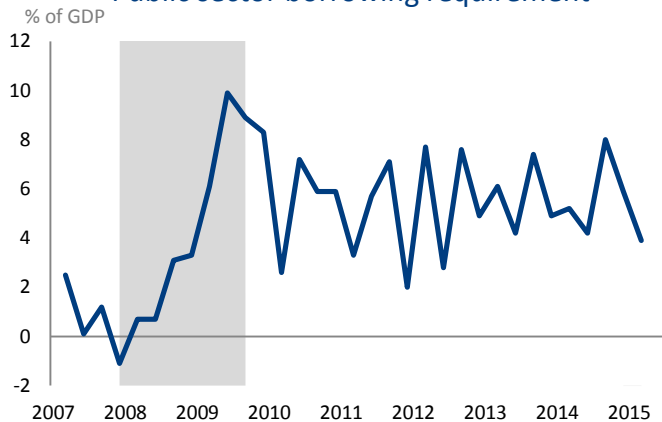
Labour productivity



Source: SARB

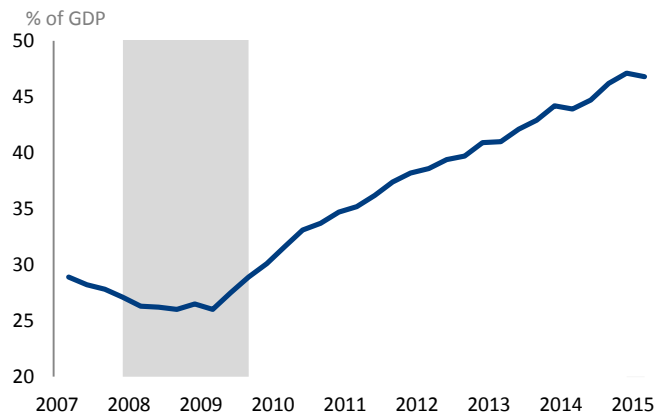
Government

Public sector borrowing requirement



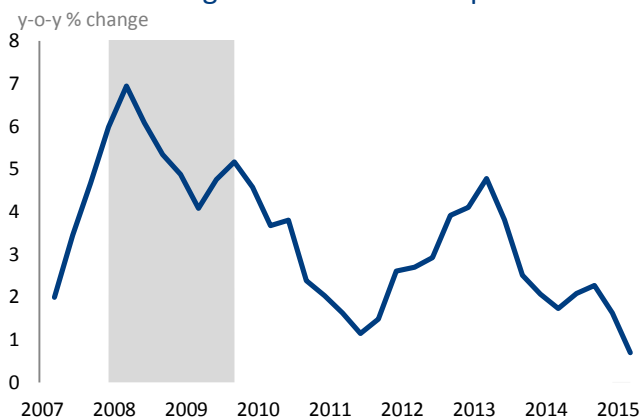
Source: SARB

Government debt



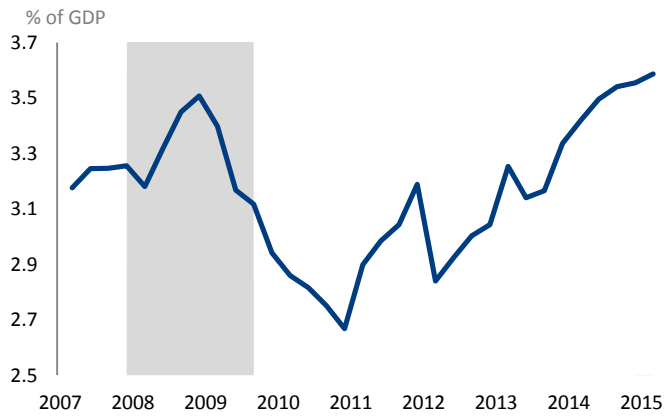
Source: SARB

Real government consumption



Source: SARB

Government fixed investment



Source: SARB

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