

Inflation may return to positive pattern

BUSINESS WRITER

FALLING commodity prices, a stronger rand and easing production costs are promising for curbing inflation in coming months, according to Mark le Roux, head of Fixed Income at Coronation Fund Managers.

Inflation has repeatedly disappointed analysts this year, raising the spectre that prices may not decline as rapidly as expected.

That view was lent credence last month when the Reserve Bank left interest rates unchanged. Inflation has ebbed to about 8 percent from last year's record high of close to 14 percent.

But the consumer price index (CPI) has failed to return to the Reserve Bank's 3 to 6 percent target range.

Inflation's intransigence, with other worrying factors like rising oil prices, has even sparked speculation that the Reserve Bank may start raising interest rates again. That may not necessarily be the case, Le Roux said.

He cited a 30 percent annual drop in wheat and maize prices, and the rand's gains of nearly 30 percent between early March and the end of June.

The 11 percent gap between producer and consumer inflation was also a positive sign.

"There are reasons to believe that the 'sticky' pace of decline is unlikely to continue and that the inflation story will be tilted back on a positive path. CPI should be back within its target range of 3-6 percent by early 2010," he said.

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