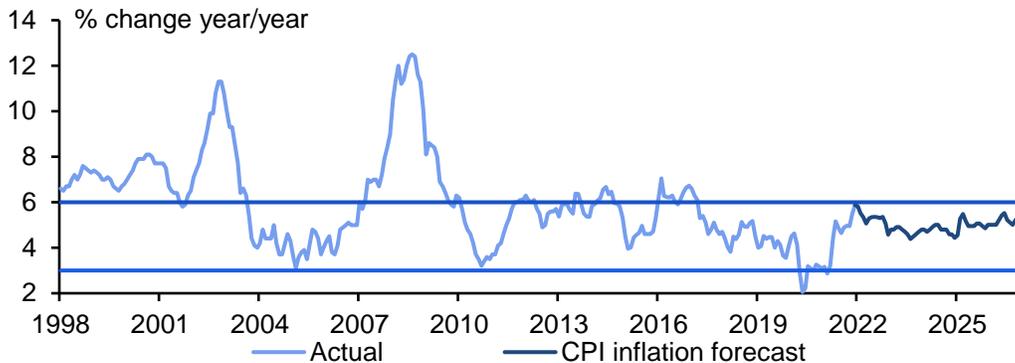




CPI update: inflation jumped up to 5.9% y/y in December (November 5.5%), as price pressures became more broad based

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Figure 1: SA Consumer Inflation: history and Forecasts



Sources: Stats SA, Investec

- December's CPI inflation came out at 5.9% y/y (0.6% m/m) today, with a jump from 5.5% y/y in November, chiefly driven by higher transport costs, with some inflationary pressure from the rental, food and residual components of CPI. Food price inflation rose by 0.5% m/m and transport costs accelerated by 1.9% m/m.
- Looking forward, food price inflation is expected to climb higher as the above normal rainfall experienced has caused crop damage as well as delayed planting for 2022. Widespread heavy rains mean crop yields could be lowered in a number of provinces, including sunflower seeds, maize, sorghum, soybeans and other dry beans and ground(pea)nuts (Grain South Africa producer survey, Agbiz). This will place upwards pressure on the largest component of the CPI, food and non-alcoholic beverages price inflation.
- The current La Nina phenomenon causes extreme rainfall, versus with the excessively dry conditions of le Nino. The La Nina weather pattern is here for the summer of 2022 into Autumn, and typically lasts nine to twelve months, with a transition to neutral currently expected only in the April to June period.
- December is also a measurement month for rentals which continued to register quicker rates of growth this year at survey periods, reflective of the less subdued, but not booming, property market overall.
- Transport inflation rose from 15.0% y/y in November to 16.8% y/y in December, as petrol prices rose by 75c/litre. While there was a 68c/litre cut in January, a huge increase in the fuel price is building for February, currently close to R1.30/litre for petrol. The Brent crude oil price has reached US\$87.5/bbl from closer to US\$73.5/bbl a month ago and is the main driver of the looming February fuel price hikes.
- CPI inflation averaged 4.5% y/y in 2021 versus 3.3% y/y in 2020, as fuel prices climbed to a historic high. Accelerating inflation also came from the clothing and footwear, housing and utilities in owners equivalent rent and electricity, restaurants and hotels, personal care and financial services sections. Many businesses took the opportunity to pass through accelerated price increases in the 2021 as the economy recovered ground after the devastating impact of 2020 on businesses and households.
- We now expect CPI inflation to average closer to 5.3% y/y for 2022, as the December figure established a higher base from which the 2022 CPI figures begin, and so gives the year ahead a statistical boost.

Figure 2: Contribution of different groups to the monthly change, m/m in the CPI

	Nov 2021	Dec 2021
Food and non-alcoholic beverages	0.0	0.1
Housing and utilities	0.0	0.1
Transport	0.4	0.3
Residual	0.1	0.1
All items	0.5	0.6

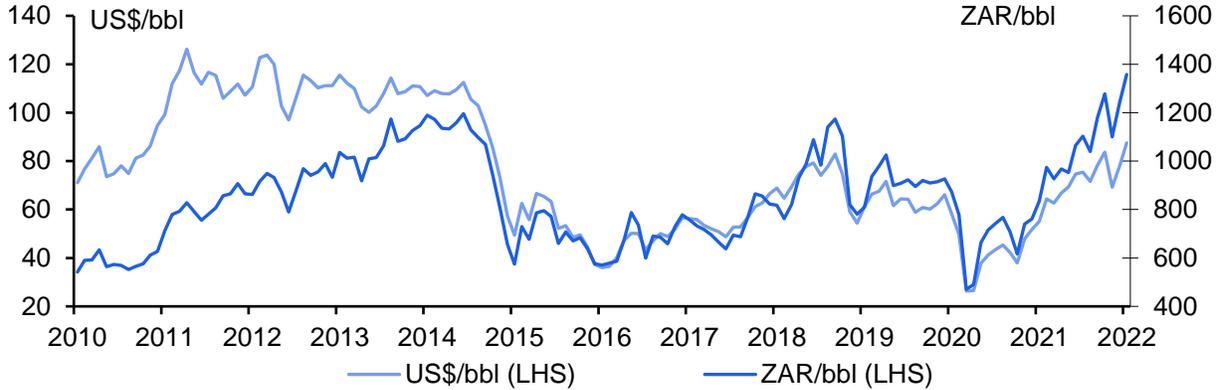
Source: Stats SA



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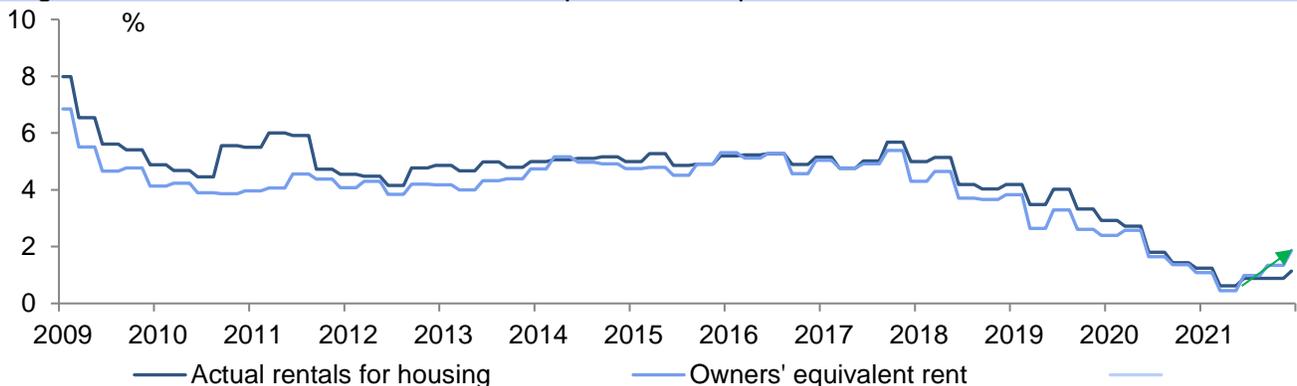
Figure 3: Oil price: Rand vs USD



Source: Iress

- Core CPI inflation (which excludes food and non-alcoholic beverages, fuel and energy prices from the CPI) lifted slightly to 3.4% in December from 3.3% y/y in November, with both goods and services inflation rates rising 8.5% y/y and 3.3% y/y, from 7.9% y/y and 3.1% y/y respectively.
- The lift in goods price inflation came through mainly in the food and fuel categories, with price pressures accelerating in the clothing and footwear, household contents costs such as furnishings, supplies etc. as well. On the services side, a large monthly jump in domestic workers remuneration of 0.7% m/m occurred.
- The rental components in the CPI include actual rentals for housing, along with equivalent rent for owners.
- House price inflation was subdued overall at 3.5% y/y in December, compared to the CPI inflation rate of 5.9% y/y. However, house price inflation rose from an eleven year low of a 1.3% y/y annual increase in April 2020 to an annual increase of 5.1% y/y by April 2021 (FNB house price index), but subsequently dropped to an annual increase of 3.4% y/y in Q4.21, 3.5% y/y in December.
- Food price inflation remains a risk for 2022, as do oil prices, while a number of businesses may push through price increases as the economy recovers further to make from 2020. December's CPI inflation rate came out above market expectations of 5.7% y/y and will likely increase interest rate expectations.
- The upwards pressure December's CPI will give to inflation overall in 2022 will likely give impetus to the SARB's hawkish tone, after its 25bp lift in November in the repo rate. The SARB targets inflation in a six to twenty-four month period and may now look to deliver a January 25bp hike instead of only by March.

Figure 4: CPI: Actual rentals vs Owners' equivalent rent price inflation



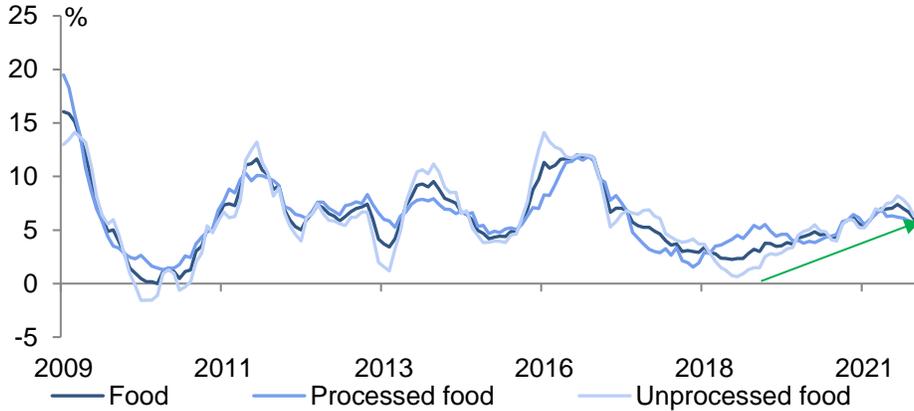
Source: Stats SA



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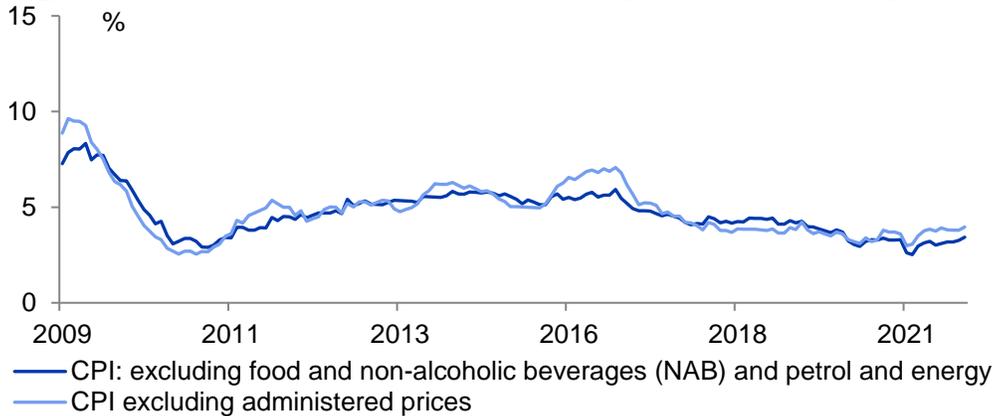
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Figure 5: SA CPI: Food vs processed and unprocessed price inflation



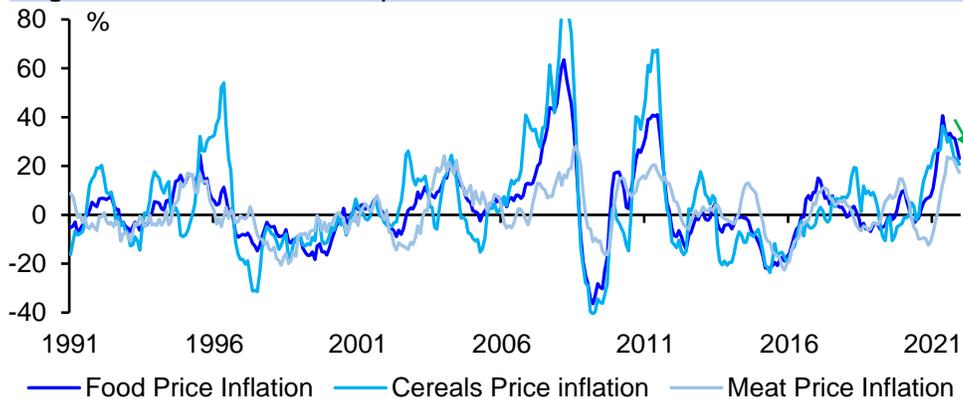
Source: Stats SA

Figure 6: South African CPI inflation excl. food, petrol, administered prices



Source: Stats SA

Figure 7: International food price inflation



Source: UN

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